DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK GROUP

TECHNICAL GUIDANCE FOR ALIGNING IDB GROUP'S OPERATIONS TO THE PARIS AGREEMENT

INTERMEDIATED FINANCE THROUGH FINANCIAL INSTITUTIONS

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ABBREVIATIONS

BB	Building Block
CC	Climate Change
CCAP	IDB Group Climate Change Action Plan
COP	Conference of the Parties
CO2	Carbon Dioxide
GHG	Greenhouse Gases
ESPF	Environmental and Social Policy Framework
ESSP	Environmental and Social Sustainability Policy
IDB Group	Inter-American Development Bank Group
IDFC	International Development Finance Club
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
FI	Partner Financial Institution
GDP	Gross Domestic Product
LAC	Latin America and the Caribbean
LTS	Long-Term Strategy
MDB	Multilateral Development Bank
NDC	Nationally Determined Contribution
NGFS	Central Banks and Supervisors Network for Greening the Financial System
PAA	Paris Agreement Alignment
PBL	Policy-Based Loan
TCFD	Task Force on Climate Related Financial Disclosures
UNFCCC	United Nations Framework Convention on Climate Change

I. Introduction

1.1 This document is a preliminary technical complement to the Paris Agreement Alignment Implementation Approach (PAIA). The PAIA has been developed by the IDB Group (IDB, IDB Invest, and IDB Lab), as a methodological tool to pursue the objective of aligning to the Paris Agreement (PA) new operations and projects that have been reformulated. Both the PAIA and this technical guidance are based on the Joint Framework for the assessment of PA alignment in direct investment operations, developed by Multilateral Development Banks (MDB).[1]

1.2 The PAIA outlines IDB Group's strategy to assess the alignment of operations to the PA with the objective of informing decisions on project activities to be financed and ongoing country dialogue. To do so, it establishes a set of principles to guide the consistent and equitable interpretation of the Joint MDB framework when performing the assessment; and it lays out a series of methodical steps to be followed along the preparation cycle of projects.

1.3 The PAIA builds upon IDB's Environmental and Social Policy Framework (ESPF) and IDB Invest's Environmental and Social Sustainability Policy (ESSP). All operations covered by the ESPF and the ESSP must *comply* with these policies during the preparation, execution, and closing of projects. In contrast, PA alignment assessment is meant to *inform* project preparation and its design before approval, using the information and tools at the disposal of the IDB Group at the time it is made.

1.4 This document contains technical guidance that complements the PAIA for the case of assessing financial flows that involve indirect funding through financial institutions eligible to borrow from the IDBG (OP-301; OP-601). It provides IDB Group personnel with additional criteria to interpret the Joint MDB Framework, with specific considerations that are relevant to operations and tools at the IDB Group.[2]

1.5 The objective of this guidance is to help IDB Group personnel design and assess operations aligned to the mitigation and adaptation goals of the PA; ensuring they present the necessary information to assess this alignment.

1.6 This document will be revisited by Management within a year of its approval and updated as necessary to reflect the lessons learned by the IDB Group and other institutions as they work towards aligning operations and other financial flows with the goals of the PA. Updates will respond to possible adjustments in the MDB Joint Framework, as well as to the need to incorporate the experience during its implementation, consider technological and knowledge advancements in the region, among others.

1.7 **Precedents of this guidance, and relation to other IDB Group documents**. In 2017, the IDB Group prepared the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-5). This document emphasizes the Bank's commitment to promote institutional capacity-building and support to countries in the region in addressing the risks arising from climate change. It highlights the role of Public Development Banks (PDBs) and other FIs

[1] Technical Note BB1 and BB2: Joint Framework of the MDBs for the Assessment of Alignment with the Paris Agreement of Direct Investment Operations. (November 2021 working document).

[2] In case this document presents discrepancies with the Joint MDB Framework, the second prevails except in cases explicitly justified in this guidance.

in the design of programs that encourage the adoption of more energy-efficient and clean technologies and financial instruments to adapt to the impacts of climate change, such as agricultural insurances against climate risks. In 2020, an IDB Group Climate Change Action Plan 2021-2025 (CCAP, GN-2848-9) was agreed. The CCAP establishes the core elements for achieving low-carbon and climate-resilient development, including aligning operations with the PA.[3]

A. Context and Background

1.8 **The effects of climate change and disasters triggered by natural hazards pose a significant threat to sustainable development in the Latin America and the Caribbean (LAC) region**. The region is among the most vulnerable to the impacts of a changing climate. Estimated losses and damages from climate-related disasters may cost the region US$100 billion annually by 2050 when climate change is considered (IDB and IDB Invest, 2018).

1.9 **The Paris Agreement is a legally binding international treaty on climate change for the signatory parties.** To date, all members countries of the IDB Group have ratified the Paris Agreement and submitted their National Determined Contributions. This Agreement was adopted at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

1.10 **At the 2019 UN Secretary-General's Climate Summit, the IDB Group joined all multilateral development banks (MDBs) in reconfirming in a joint statement the commitment to helping clients deliver on the goals of the Paris Agreement** and align their lending and advisory activities with these goals (MDB Group, 2019). As a result of this commitment, the MDBs developed an approach made by six building blocks (BB): alignment of operations with the mitigation goal of the PA (BB1), alignment of operations with the adaptation and climate-resilient goal of the PA (BB2), accelerated contribution to the transition through climate finance (BB3), engagement and policy development support (BB4), reporting (BB5), and alignment of internal activities (BB6).

1.11 (IDB, 2021) (IDB, 2020)**MDBs created an ad-hoc working group that has developed reference principles for the alignment of intermediated operations to both mitigation and adaptation goals**,[4] recognizing the particularities and specificities of MDBs investment operations when intermediated by financial counterparties, alongside the work of the six building blocks. This guidance borrows these principles and the joint framework developed by MDBs working groups and provides a specific reference for IDB Group operations intermediated by Financial Institutions.

1.12 **Parties to the Paris Agreement have agreed to periodically submit Nationally Determined Contributions (NDCs)** and strive to formulate and communicate long-term low Greenhouse Gas (GHG) emission development strategies (LTSs). Existing NDCs and LTS are not yet aligned with the long-term goals of the PA (UNFCCC, 2021). NDCs and LTSs should be aligned with both climate change goals and national development goals in each sector and should be complemented

[3] IDB Group Climate Change Action Plan 2021-2025. IDB Group (2021).
[4] MDB Climate Change Working Group (2022):"Joint MDB Methodological Approach for Assessment of PA Alignment."

with sector plans and investment plans to make them operational (Jaramillo & Saavedra, 2021).

1.13 **There is growing consensus between governments, regulators, investors and market players on the opportunity to "green" the financial market, so that investments and capital flows are aligned with a low carbon and climate resilient development.** The effective implementation of NDCs requires public and private investments, and coordinated action between governments, central banks and supervisors,[5] and financial institutions[6]. Achieving the PA goals will require redirecting 7 to 19% of GDP worth of spending, up US$1.3 trillion, every year in the region (Galindo Paliza, Hoffmann, & Vogt-Schilb, 2022). Both private companies and FIs are increasingly interested in preparing climate transition plans for reaching net-zero emissions, but many face skill gaps, among others, for doing so.

1.14 **Supra-national standard-setters are establishing new global baselines for measuring sustainability, and climate-related risks.** Climate-related risks can have idiosyncratic and systemic effects and might represent a threat to financial markets6 stability, hence pertain to financial regulators' mandates (NGFS, 2019). To that extent, supra-national standard-setters have been working intensively to deliver global financial regulation and supervision baselines for properly addressing them. In this order, several actions have been taken: (i) the *Basel Committee on Banking Supervision* has published principles for effectively managing and supervising climate-related financial risks. These principles seek to address climate-related financial risks at the global banking system, and improve banks' risk management and supervisors' practices in this area; (ii) the *International Sustainability Standards Board (ISSB) i*ssued a consultation on Standards for sustainability and climate-related disclosures to facilitate reporting from issuers and provide investors with transparent, fair and comparable information on sustainability and climate-related risks. The former are aligned with the framework set by the Task Force for Climate Related Disclosure (TCFD) and the established industry-based standards from the Sustainability Accounting Standards Board (SASB); (iii) the *International Organization of Securities Commissions (IOSCO)* has issued Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management.

1.15 **Financial authorities (central banks and financial supervisors) are working on the integration of sustainability and climate-related risks in their actions to identify their impact on the financial sector stability and at the markets level.** At the local level, to further assess financial stability threats, financial authorities in some jurisdictions have introduced scenario analysis and climate-related stress testing (BoE, 2022). At the same time, to facilitate sustainable markets growth while preventing market abuse and greenwashing, some regulators have introduced *Sustainable Finance Taxonomies* (EU, China, Colombia) aim to clarify which investments can be considered sustainable and aligned with scientific evidence so to reduce transaction costs and prevent misrepresentation (Ehlers, Gao, & Packer, 2021). Also, as a staple for global regulators, the Securities and Exchanges Commission, based in the United States

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[5] The Central Banks and Supervisors Network supports and coordinates action on climate change issues for 121 financial regulators across the world.

[6] More than 550 companies and financial institutions have joined the Glasgow Financial Alliance for Net Zero (GFANZ).

of America, issued ESG Misconduct Enforcement to protect investors from misrepresenting sustainability features by companies, financial intermediaries, and market entities (SEC, 2021).

1.16 **Financial authorities in Latin America and the Caribbean have addressed the integration of sustainability, and climate-related risks, and sustainable finance with a heterogenous combination of regulatory, supervisory and voluntary practices that highlights significant differences across the countries.** Only a handful of countries in the region have established financial public policy that addresses climate change, as either risk or opportunity. For instance, disclosure regulations have been issued in Chile, Colombia, and Paraguay; Brazil has issued regulations for disclosing contributions toward the SDGs and is in the path of building its taxonomy joining Chile and Mexico in this topic, among others. Many policy actions are being focused on supervision, market education and training (Mexico, Costa Rica, Panama, among others) (Frisari, Gallardo, Monnin, Nakano, & Cardenas, 2019). Nevertheless, progress in many countries has started and often advanced with FIs' initiatives of self-regulation, such as the Green Protocols in Brazil and Colombia, the Public-Private Sustainable Finance Roundtable in Argentina, Chile and Panama, the Sustainable Committees for banks and capital markets in Mexico, among others (Frisari, Gallardo, Monnin, Nakano, & Cardenas, 2019).

1.17 **Commercial and development banks show very differentiated levels of readiness and capacities on climate finance, with only a handful of FIs committed to Net Zero strategies to deliver direct results over the Paris Agreement goals**. As an example, in 2018 the Latin American Federation of Banks (FELABAN) reported 546 banks in Latin America, out of that total, eleven banks are signatories of the Net Zero Banking Alliance until June 2022, this is 2% of banks in the region (FELABAN, 2018). It is imperative that FIs from the region accelerate their design, development and implementation of their Net Zero strategies to contribute delivering results over Paris Agreement´s goals. The IDB Group has an important role to play to support commercial and development banks in this task by ensuring that all IDB operations in partnership with FIs are aligned to the Paris Agreement (IDB, 2022).

B. Scope of the document

1.18 **This guidance presents the guidance through which the entities of the IDB Group ("IDB Group") - the IDB the IDB Invest and IDB Lab – will assess the alignment of all operations intermediated by partner financial institutions ("FIs") to the Paris Agreement. It also guides in providing support to FIs in progressively work overtime to procure their own Paris alignment.** Partner FIs include, for the purpose of this document, public and private banks, credit unions and cooperatives, microfinance institutions and investment funds (OP-301; OP-601).

1.19 **In this guidance document "operations intermediated by financial partner institutions" refers to investment lending instruments in which IDB Group funding is extended to counterparty financial institutions than in turn extend it to real economy actors such as MSMEs, corporates, subnational entities,**

among others[7]. Such instruments include global credit programs (PR-203), loans based on results (PR-209), conditional credit lines for investment projects (GN-2246-13), guarantees on financial instruments issued by financial institutions (GN-2729-4), credit lines for specific sectorial or segment approaches, trade finance guarantees or credits, thematic bonds, subordinated debt, equity investments.

1.20 **This guidance will be continuously updated based on lessons learned by IDB Group and by other bilateral and multilateral development banks**,[8] as the IDB Group strives towards aligning all operations to the Paris Agreement through a continuous and open dialogue within the Group, with FI counterparties as well as other development finance institutions. The elements of this guidance and the implementation process will be revised on a regular basis in order to increase the efficiency of the IDB Group support in fulfilling the mandate of the Group while meeting the needs of FI clients and reducing unnecessary transaction costs considering also best practices in this operationalization.

1.21 **The implementation of this guidance will occur in accordance with the Paris Alignment Implementation Approach (PAIA) Document and the sectoral technical guidance (annexed to the PAIA) designed for IDB and IDB Invest processes and integrated into their existing project cycles. Hence, in this sense, this guidance provides a common framework for IDB Group** while the implementation of the PA alignment assessment will be differentiated between sovereign guaranteed operations primarily channeled by the IDB through national development banks and public sector financial entities, and non-sovereign guaranteed operations executed by IDB Lab and IDB Invest mostly with commercial banks and private sector financial entities. Importantly, the implementation in specific operations will take into account regulatory frameworks in FI jurisdictions as well as market practices in their national contexts.

II. A TWO-PILLARS APPROACH: TRANSACTION-BASED AND COUNTERPARTY-BASED

2.1 Consistent with the Joint MDB Framework Assessment of Paris Alignment of Intermediated Financing (forthcoming) – this guidance establishes a parallel route to assess the alignment of the operations with financial intermediaries in LAC based on two pillars:

i. **Transaction-based alignment**: where the alignment of an operation is based on a *Use of Proceeds* assessment focused on the contractual commitments by the FI on the end-use of the IDB Group funds channeled through their lending activities, either directly (1st tier lending) or indirectly through other financial intermediaries (2nd tier lending).

ii. **Counterparty-based alignment**: where the alignment of an operation is based on the assessment of the FI *Institutional commitment* to low carbon and climate-resilient development, through the analysis of its *capacities and processes* to manage climate risks and promote green and climate finance

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7 During the initial implementation of the PAIA, the principles of the transactional approach included in this guidance note may be applied by project teams to assess Paris Alignment in operations with non-financial institutions where the use of proceeds may become known through eligibility lists.

8 The IDB Group is part of the MDBs ad-hoc working group on this topic as mentioned in section 1 of this document.

opportunities, *engagement* with sustainable finance markets, and *transparency* on its sustainability performance.

2.2 **Starting from January 2023, the IDB Group will assess if for all newly approved operations the financing done by FIs while channeling funds originated by any of the entities within the IDB Group, can be considered aligned to the Paris Agreement, through a contractual commitment of the counterparty on the use of the proceeds of the operation (*Transaction-based alignment)*.** Alongside this commitment, over time the IDB Group will support partner FIs in their own pathway to become aligned to the Paris Agreement in their overall operations (Counterparty-based or *Institutional Alignment)*. To this end, as part of a long-term strategy, the IDB Group has been developing innovative technical assistance programs that will be made available to partner FIs, depending on their level of readiness and capacities to progressively, over time, become Paris Agreement aligned[9].

2.3 **Scope of the transaction-based approach.** For all operations using the transaction-based PA alignment approach described in section 2.i, it is important to underscore that the assessment is based on the best available information regarding the expected use of proceeds as described in preparatory documents presented before approval. Such an assessment is not expected to imply any judgement on the counterparty's level of ambition, strategies, or priorities on climate change, nor in regards to investments by the FI that are unrelated to IDB Group finance.

2.4 **For a limited number of operations where a contractual commitment on the specific use of the funds provided by the IDB Group is not applicable, the Counterparty-based approach will have to be implemented.** This could occur for example for equity investments in the capital structure of FIs, for participating in/or financing certain investment funds, in such instances, the possibility for the counterpart to agree on a specific list of eligible assets classes ex-ante can be very limited or even damaging for the performance of the operation itself as it would limit severely the counterpart's ability to adjust its investments to evolving markets.

A. Transaction Approach: Alignment of activities with the PA mitigation goal

2.5 Consistent with the Joint MDB Framework for Paris Alignment (MDB Group, 2021), IDB Group transactions will have a dual alignment to the PA: to its mitigation and adaptation goals.

2.6 **The IDB Group will assess if operations with financial intermediaries promote the financing of activities that are consistent with the long-term low-GHG emission pathways of the Paris Agreement**, that have a negligible impact on countries' ability to transition and do not lead to lock-in of carbon-intensive patterns.

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9 The requirements of the contractual arrangements will take into account the institutional and implementation capabilities of the FI. Furthermore, in instances where counterparties may have insufficient capabilities or where requirements from a transaction-based alignment may be deemed disproportionally onerous, as may be the case of Venture Capital Funds, a counterparty-based approach may be used.

2.7 **The Transaction-Based Alignment will assess whether proceeds are not directed towards activities inconsistent with IDB Group commitment to address climate change and promote environmental sustainability**, such as thermal coal mining or coal-fired power generation and associated facilities, upstream oil exploration and development projects, upstream gas exploration and development projects - activities included in the IDB Group list of excluded activities, as per IDB Environmental and Social Policy Framework (IDB, 2020) and IDB Invest Environmental and Social Sustainability Policy (IDB Invest, 2020).

2.8 **The assessment will determine if proceeds are directed towards activities aligned with the Building Block 1 of the Joint MDB Framework for Paris Alignment** (MDB Group, 2021)**.** These activities would aim directly to support assets with a positive climate impact (for example the activities included in the Common Principles For Climate Mitigation Finance Tracking (MDB Group - IDFC, 2021)), and/or are characterized by limited carbon intensity and carbon lock-in risk due to: 1) their focus in sector with limited/no significant emissions, or 2) their negligible material impact due to limited financing volume (i.e. diversified lending to MSMEs[10] and mortgages[11]), 3) and/or limited tenor of the financing (i.e. trade finance and very short term lending)

2.9 For those operations with significant concentration of investments within a sector characterized by non-negligible emissions or risk of carbon lock-in, the Transaction-based Alignment Assessment will be informed and supported by specific considerations of national contexts,[12] as well by the relevant IDB Group Paris Alignment Sector Guidance.[13] In these cases, the IDB Group will support intermediating Fis with analysis and tools to assess that activities financed through the operation are not characterized by high carbon intensity, or significantly rely on the direct utilization of fossil fuels, or whose economic feasibility depends on existing fossil fuel subsidies.

B. Transaction Approach: Alignment of activities with the PA adaptation goal

2.10 **The IDB Group will assess that operations with financial intermediaries will promote the financing of activities that are consistent with a climate-resilient development** pathway of the region and support an enabling' approach towards physical climate risk management, engaging with counterparties to help build readiness and capacity for physical climate risk management where appropriate (IDB, 2021).

2.11 **The Transaction-based alignment with the adaptation goal will assess whether proceeds are directed towards activities aligned with Building Block 2 of the Joint MDB Framework for Paris Alignment.** These activities are not expected to reach sectors and locations that may be materially exposed to physical climate risks. Under the IDB Group Environmental and Social Risk Policies (IDB,

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[10] Micro, Small, and Medium Enterprises as defined, case by case, by national legislation, client and/or IDB Group policies.

[11] Housing/mortgages transactions are included in the positive list in case of green buildings with limited emissions or in case of limited financing volume due to the small amount of the operation.

[12] Including, but not limited to certifications, practices and low carbon and climate resilient technologies available in the context of the operation.

[13] To date, these include: Technical Guidance for Aligning IDB Group's Operations to the Paris Agreement: Energy Sector, Transportation Sector; Water and Sanitation Sector; and Agri-Food Sector. Guidance on heavy industry, buildings and information and communication technologies is forthcoming.

2020) and IDB Invest Environmental and Social Sustainability Policy (IDB Invest, 2020), an assessment of operations' will be designed and progressively implemented.

2.12 **Operations identified as low climate risk will be considered aligned with the adaptation goal** and include (but not limited to) all those activities dispersed across a broad range of sectors, industries, or locations (such as diversified MSME financing, diversified housing finance, among others) and/or activities with negligible exposure due to short-term financing and/or immateriality of the assets (trade finance, intangible or mobile assets).

2.13 **For those operations where climate risk is considered moderate or high, the alignment will focus on the ability of the counterpart to manage the climate-related risks identified case by case, to assess that the investments financed by the IDB Group's transaction are adapted to climate change and resilient to its impact.** This assessment will be carried out considering FI's process and procedures in place, the available national legislation and the regulatory frameworks under which FIs operate.[14] To this end, the IDB Group will be providing support to FIs as part of its long-standing technical assistance activities, in the development of climate risk management instruments and processes[15] in line with international standards and best practices,[16] as well as national regulation, and consistently with the availability of information and data. At the same time, the IDBG will continue to support governments, regulators and financial supervisors in creating the appropriate enabling environment for FIs to successfully manage climate-related financial risks.

C. Counterparty Approach: Supporting financial institutions' transition to PA

2.14 **Alongside the assessment based on the transaction proceeds, the IDB Group will continue to support FIs clients to build their capacities to align – over time and according to local context and available resources – their overall operations to the goals of the Paris Agreement.** As financial markets evolve globally and in the region towards a more integrated approach of sustainability and climate issues, as well as towards increased transparency on the financial impacts of climate issues, this institutional support will better prepare partner FIs to face incoming regulatory and supervisory changes, strengthen their ability to develop effective risk management systems that account for physical and transition risks; and to comply with increased transparency requirements by publicly disclose climate-related information.

2.15 **The counterparty approach will take the form of a medium-to-long term transition towards sustainable finance processes that will have to be customized to the specific needs and intentions of the partner FIs and developed consistently with the regulatory framework and the market practices in which the FI operate**. This institutional alignment could often involve changes and revisions to FI's institutional structures, processes, policies, and

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[14] Consistently with Environmental and Social Policy Framework (ESPF) 4 under IDB ESP and IDB Invest Environmental and Social Sustainability Policy (ESSP).

[15] Including, but not limited to, climate risk heatmaps, climate scenario analysis, climate vulnerability disclosures, among others.

[16] For example, the recommendations from the Task Force for Climate-related Disclosures (TCFD), and the emerging framework from the International Sustainability Standards Board (ISSB).

systems, among others, hence possibly requiring FI clients the commitment of institutional resources[17] over long-time frames to such transition.

2.16 **To implement the Counterparty Approach, and depending on the availability of technical cooperation resources and the client's needs and strategy, the IDB Group will strive to support FI clients alongside this process**, and has been developing an advisory program structured around four main elements:

i. **FIs Sustainable Finance Assessment** to have a clear understanding of the counterparty current practices towards, among others, integration of climate finance in the investment activities and management of climate risks; portfolio segmentation and readiness with regards to Paris Alignment. This assessment will allow to identify the baseline, current capabilities, strengths, and gaps to support the counterparties in their roadmap to increase climate finance, decarbonization of portfolios and hence promoting its Paris Alignment.

ii. **Development of sustainable finance instruments and institutional practices** for the identification of financing opportunities aligned with low carbon and climate resilient development (green lists, portfolio segmentation, tracking of use of proceeds, etc.), the identification and management of climate related risks, and thematic capital market instruments.

iii. **Development of measurement systems, metrics and indicators** on decarbonization, climate risks disclosures and opportunities to support internal communication and, eventually, reporting and disclose to external stakeholders consistently with best practices and emerging regulations.

iv. **Elaboration of fully fledged Paris Aligned sustainable finance strategies**, including institutional commitments, revision of governance arrangements, strategy, target setting for portfolio decarbonization and monitoring.

[17] In kind and/or cash.

III. Public-Private synergies: Greening the financial sector of Latin America and the Caribbean

3.1 **The ability of financial intermediaries to align to the Paris Agreement greatly depends on their enabling environment**, that is on the integration of climate and sustainability concerns in the regulatory framework and market practices of the financial systems in which they operate. Consequently, the IDB Group efforts to support alignment of FIs clients are not limited to advisory services and technical assistance directed to individual FIs but also involve support to industry associations, market institutions (eg stock exchanges), regulators and supervisors.

3.2 **The IDB Group has been supporting this enabling environment in the region through a wide range of activities** that could be summarized in three main groups:

i. Public-Private Dialogues on Sustainable Finance: these include efforts to convene ministries of finance, regulators, industry associations and FIs to create common awareness on sustainable finance opportunities and risks, promote national and regional dialogues, introduce international best practices. Oftentimes, such dialogues have resulted in firm commitments from both public and private actors – as for the Green Agreement in Chile; or provided a space for piloting and testing of innovative approaches, as in the Financial Innovation Laboratory of Brazil; the Sustainable finance protocol in El Salvador; the Sustainable Finance Council in Guatemala and the Technical Table on Sustainable Finance in Argentina.

ii. Technical Assistance to Governments, Regulators, and Industry Associations for the development of assessments and instruments that could benefit national FIs and promote innovative practices in the market, such as the development of the Sustainable Finance Taxonomy in Chile and the TCFD Self-Assessment developed with the Banking Association in Mexico in 2019, and the current support to develop the Sustainable Finance Protocol in Guatemala and the one developed in Argentina.

iii. Instruments for Market Development that the IDB Group supports at the regional level aimed at facilitating the integration of sustainable finance into the governance and operativity of the institutions, and at supporting their ability to create financial instruments and measure and report their impact on sustainability. Such initiatives take the form of regional networks for sustainable finance, like The Network of Regulators for Sustainable Development (REDES) launched in 2020 in collaboration with the Association of Banking Supervisors of the Americas (ASBA), or regional platforms such as the Green Bond Transparency Platform.

APPENDIX: GLOSSARY OF KEY TERMS

Adaptation: Adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities(UNFCCC).

Carbon lock-in: In case of investment on GHG-intensive assets, a sector-specific carbon lock-in analysis should answer whether the asset will continue to operate in an emissions-intensive way even when expected changes in the market would allow lower GHG options to replace it (Joint MDB Assessment Framework).

Climate finance: Refers to local, national, or transnational financing—drawn from public, private, and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change (UNFCCC, 2020).

Climate-related risks: TCFD divided climate-related risks into two major categories: (a) Risks related to the transition to a lower-carbon economy; and (b) Risks related to the physical impacts of climate change.

a. **Transition Risks**: Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations.
b. **Physical Risks**: Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Organizations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organizations' premises, operations, supply chain, transport needs, and employee safety. (TCFD, 2017)

Conference of the Parties (COP): The supreme body of the Convention. It currently meets once a year to review the Convention's progress. The word "conference" is not used here in the sense of "meeting" but rather of "association". The "Conference" meets in sessional periods, for example, the "fourth session of the Conference of the Parties." (UNFCCC)

Greenhouse gases (GHGs): The atmospheric gases responsible for causing global warming and climate change. The major GHGs are carbon dioxide (CO2), methane (CH4) and nitrous oxide (N20). Less prevalent --but very powerful -- greenhouse gases are hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and Sulphur hexafluoride (SF6) (UNFCCC).

Mitigation: In the context of climate change, a human intervention to reduce the sources or enhance the sinks of greenhouse gases. Examples include using fossil fuels more efficiently for industrial processes or electricity generation, switching to solar energy or wind power, improving the insulation of buildings, and expanding forests and other "sinks" to remove greater amounts of carbon dioxide from the atmosphere(UNFCCC).

National Determined Contributions (NDC): At the heart of the Paris Agreement and the achievement of these long-term goals, NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. The Paris Agreement (Article 4, paragraph 2) requires each Party to prepare, communicate and maintain successive NDCs that it intends to achieve. Parties shall pursue domestic mitigation measures, with the aim of achieving the objectives of such contributions (UNFCCC).

Net Zero: Net zero emissions are achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon). (IPCC, 2018)

Resilience: The ability of a social or ecological system to absorb disturbances while retaining the same basic structure and ways of functioning, the capacity for self-organization and the capacity to adapt to stress and change (IPCC AR4, 2007).

Risk management: Plans, actions, strategies or policies to reduce the likelihood and/or consequences of risks or to respond to consequences (IPCC, 2018).

Sustainable development: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (UNFCCC).

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