

Talanoa Dialogue submission – Inter-American Development Bank

INTRODUCTION

The Inter-American Development Bank welcomes the opportunity to contribute inputs to the Talanoa Dialogue regarding the three guiding questions: (i) Where are we?, (ii) Where do we want to go?, and (iii) How do we get there? This submission draws from the experience of the IDB on supporting climate change action in the Latin American and Caribbean (LAC) region in response to the Paris Agreement (PA).

Besides this submission, the IDB has funded and actively participated in events in the LAC region in support of the Talanoa Dialogue and from which the outcomes of the conversation have been presented as submissions from different Parties and non-Parties in this process.

WHERE ARE WE?

Long-term economic growth and the reduction of poverty and inequality in LAC depend on development that is economically, financially, environmentally, socially, and institutionally sustainable. Climate change is a critical challenge for sustainable development in the region. The Paris Agreement and the Sustainable Development Goals (SDGs) marked a turning point in the international commitment to deliver sustainable development.

In April 2016, in response to the SDGs and Paris Agreement on climate change, the Inter-American Development Bank (IDB) and Inter-American Investment Corporation (IDB Invest) Boards of Governors endorsed “the goal of increasing the financing of climate change related projects in LAC to 30 percent of the IDB’s and IDB Invest’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.” Governors also welcomed “Management’s objective to improve the evaluation of climate risk and to identify opportunities for resilience and adaptation measures at the project concept stage.”¹ Subsequently, Management approved the IDB Group Climate Change Action Plan for achieving the 30 percent climate finance goal and systematically mainstreaming climate change into operations.

As a complement to the Governors’ endorsement of the financing goal (Bahamas Resolution)¹, we also announced the creation of a **new Climate Change and Sustainability Department** in March 2016, which is responsible for IDB’s work and projects related to cities, rural development, tourism, environment and natural disasters, and also coordinates the climate change and sustainability agenda for the IDB.

¹ Climate Change Goal of the IDB and the IDB Invest (AB-3067) or Bahamas Resolution.

Since 2011, we've been **tracking and reporting climate finance** of projects and activities that mitigate and support adaptation to climate change²². At the IDB Group we approved a total amount of US\$16.5 billion in climate finance from 2011 to 2017. This total includes internal and external resources channeled through and managed by the Bank. At the end of 2017 the IDBG increased the volume of climate-related financing of the IDBG's approvals to 28.5%.

As part of this agenda in response to the Paris Agreement and the SDGs, we have kickstarted several ongoing streams of work to provide support to countries in LAC, including those presented below.

1. **NDC Invest Platform**

Our Governor's commitment reflected the likely increase in demand from countries seeking financing for implementation of their Nationally Determine Contributions (NDCs), prepared for COP21 in 2015. As a result of this commitment, we launched **NDC Invest Platform**, a one-stop shop to transform the Paris pledges into investment plans for LAC. It offers a comprehensive package of technical and financial assistance that is delivered through its four operational components:

- i) *NDC Programmer*, that provides technical assistance to public entities to improve decision making, identify barriers, design climate-smart development policies and strategies, and translate NDCs into investments and actions for the transition to low carbon and resilient economies;
- ii) *NDC Pipeline Accelerator*, that provides technical assistance to public and private entities on pre-investments activities to accelerate the planning and designing of bankable investments aligned with the countries NDCs. It can also cover the additional costs associated with ensuring that projects are planned, designed and executed to be sustainable;
- iii) *NDC Market Booster*, that provides financial and non-financial solutions for corporate, financial intermediaries and projects sponsors to address market barriers, develop new markets and carry-out the related investments aligning them with countries' NDCs.
- iv) *NDC Finance Mobilizer*, that mobilizes funding from internal and external sources to support public and private sector investments that are aligned with countries' NDCs. It also helps member countries to access climate finance and concessional resources to finance innovative and transformational projects.

Over the last two years NDC Invest has provided a total of approximately US\$20 million of technical assistance for 17 countries and is supporting 4 regional initiatives, including one in the Caribbean; and it

²² [The MDB's tracking methodology](#) refers to the amounts committed by these multilateral organizations to finance climate change mitigation and adaptation activities for development projects in developing and transitional emerging economies.

has also financed a Results-Based Loan (RBL) on Land Management for the Achievement of Results of the Climate Change Agenda for \$600 million.

NDC Invest operations are guided with the vision of ensuring that best practices and lessons learned from the past are adequately considered within the construction and implementation of NDC's and any other national climate strategies. So far work has initially focused on providing Technical Assistance in the following main areas of work:

- Designing NDC Financial Strategies and investment plans.
- Translating the NDC into a planning instrument for implementation across sectors.
- Identification of opportunities to align NDCs and national planning tools/priorities:
 - Identification of an NDC infrastructure project portfolio / Private sector projects.
 - Studies to define opportunities, policies and financial instruments for NDC implementation.
 - Alignment with GCF engagement and portfolio planning.
- Strengthening capacity to develop long term strategies for decarbonization.
- Civil society and private sector consultation.
- Public Climate Expenditure analysis.
- Development of MRV systems for transparency.
- Upstream Project Preparation.
- Portfolio Planning and Project Preparation.

Given the important role of Ministries of Finance to enable effective channeling of financial resources and implementation of NDCs, NDC Invest has also started building a network of Ministries of Finance to support and facilitate NDC implementation.

2. Sustainable infrastructure

Since 2016, the IDBG has been working to develop **a framework for sustainable infrastructure** to help ensure that infrastructure is designed, built, and operated in a way that is sustainable over time, including delivering on climate goals. Through this process, a definition of sustainable infrastructure is emerging: *“Infrastructure projects that are planned, designed, constructed, operated and decommissioned in a sustainable manner so as to ensure economic, financial, social, environmental, and institutional sustainability over the entire lifecycle of the project.”*

The framework underpinning this definition provides criteria for the four dimensions of sustainability: economic and financial; environmental and climate resilience; social; and institutional. Within this framework, specific criteria that align to objectives of the PA can be identified, in particular:

Environmental/Climate Resilience:

- Efficient use of resources.
- Project design for low GHG emissions.

- Understanding of climate risks and project resilient design.
- Disaster Risk Management.

Institutional Sustainability:

- Alignment with global and national objectives and strategies (implying alignment with the PA, and NDCs).
- Local capacity building.

Other aspects also reflect the aspirations of the PA, for example:

- Social: Stakeholder engagement and community consultation and participation reflects art 7.5 relating to community involvement in adaptation efforts.
- Economic/Financial: Infrastructure asset maintenance and optimal use, which implies efficient use of infrastructure which may be relevant for reducing emissions and greater adaptive qualities. More generally, all criteria that constitute financial sustainability can help mobilize investments into sustainable projects.

IDBG is now working to develop the Sustainable Infrastructure Framework (SIF), and operationalize this in the LAC region through two regional technical cooperations as well as outreach and engagement. Activities include developing and deploying tools for project prioritization and selection, integration of sustainability criteria into project lifecycle processes e.g. PPP procurement, etc.

The approach taken is designed to be flexible and country driven, to incorporate and operationalize the framework through tools and processes that align with countries' existing institutional and operational frameworks to integrate the principles of the SIF, rather than impose a one size fits all approach to implementation.

Work is also underway with partner organizations to operationalize the framework:

- Project Preparation Platforms: IDB is working with the Sustainable Infrastructure Foundation to develop an integrated framework to guide sustainability across the project cycle, using the internationally known [SOURCE platform](#).
- IDB and Public-Private Infrastructure Advisory Facility (PPIAF) are working together to support the main sustainable infrastructure tools (i.e. [SURE](#), [ISCA](#), and [ENVISION](#)) to develop metrics/indicators with the purpose of developing a taxonomy and business case for sustainable infrastructure to attract private sector investment at scale.

Furthermore, in partnership with the Department for Business, Energy and Industrial Strategy of the UK, we created the **UK Sustainable Infrastructure Program (SIP)** and approved US\$230 million³ in financing to the program. This constitutes the largest partnership effort of both parties in Latin America and the Caribbean. The SIP is supporting IDBGs efforts to accelerate sustainable infrastructure development in the

³ Original currency in pounds (£177 million), converted with www.xe.com on October 26th, 2018.

region by catalyzing private sector investment for the implementation of the NDCs of the Paris Agreement. Brazil, Colombia, Mexico and Peru are the four countries where the program is being implemented.

3. Deep decarbonization pathways and stranded assets

Decarbonization pathways are helpful to plan for emission reduction policies and investment, understand short term milestones consistent with decarbonization at the sectoral level (e.g. stop deforestation by 2025, reach 40% renewable electricity by 2030), avoid carbon lock ins and stranded assets, strengthen NDCs and align them with the need for decarbonization by the end of the century as per the PA objectives; anticipate social and political costs in decarbonization strategies (stranded assets, stranded jobs, impacts on consumers) and maximize social and development benefits of decarbonization strategies (carbon taxes for fiscal revenues, green jobs, electric buses to reduce congestion).

To improve the capacity of the LAC region to rely on independent, domestic evaluations to assess their NDCs, emission reduction plans, and climate policies, we created a **Deep decarbonization pathways in Latin America and the Caribbean** technical cooperation that aims to train local academic teams and/or think tanks in the use of complex models, relying on the knowledge of more advanced teams. As part of the project the modelers engage and present the models to local government counterparts, to prove their value to inform policy decisions and start a dialogue to answer questions in the national context.

This work can support a public debate about NDC planning to spark the generation of emissions reduction pathways at the national level; and develop a regional community of practice capable of discussing modeling approaches and assessments of climate change policies, share experiences and continue to develop expertise. The project can contribute to improve the transparency of international stocktaking on NDCs with robust contributions from LAC countries and promote general awareness about the value of prospective models to produce decarbonization pathways and inform the policy debate around NDCs.

Work is currently under way in 6 countries in LAC (Argentina, Colombia, Costa Rica, Ecuador, Mexico, Peru), where local universities/think tanks are working with international experts in developing local modelling capacity and scenarios for decarbonization, in a close dialogue with stakeholders in the national government. The teams have met twice in regional workshops to collectively discuss and share their individual technical approaches, building a regional community of practice. The project also receives financing and support by AFD and the 2050 platform, connecting this work to the international dialogue on long term strategies.

4. Disaster and Climate Risk Assessment

Through the Bahamas Resolution, the IDBG also committed to screen all relevant projects for climate risks by 2018 to increase investments in resilience, particularly for countries that are most vulnerable to the impacts of climate change. Rooted in the existing Policy for Disaster Risk Management, the IDB is enhancing the existing tool for screening of disaster and climate change risk of projects. As indicated in the policy, projects that are classified as high-risk will continue to require a Disaster Risk Assessment (DRA). Currently, the IDB is improving the screening process, including strengthening the informational

map database on current and future hazards. In addition, a DRA methodology is being developed for high- and medium-risk projects, including guidelines and terms of reference, as well as vulnerability criteria for at least three project typologies.

This approach is being piloted in 7 IDB projects in Argentina, Brazil, Haiti (2 projects), Jamaica, Panama and Paraguay. It is expected to be submitted for broader consultation by the end of 2018. A learning by doing approach is being used, which has made it possible to already identify challenges for ensuring that the assessments add value to projects, such as the importance of completing hazard and climate change information with project criticality and project characteristics and the importance of having qualitative approaches such as mode of failures analysis, in addition to quantitative methods for risk analysis.

5. Sustainable Islands Platform

Islands territories are ecological fragile and vulnerable to the impacts of climate change. To help them tackle these impacts and pursue sustainable and climate-resilient investments, we launched the **Sustainable Islands Platform** in 2017. It will benefit 11 Caribbean Basin Island states and continental countries and will promote economic growth and climate-resilient investments through an innovative approach that applies the principles of Blue and Circular Economy and climate change resilience.

The activities to be financed are aimed at supporting investments in the Caribbean Basin Islands, aligned with the Sustainable Development Goals (SDGs)⁴ and the outcomes of the PA, while facilitating access to climate finance to leverage private sector investment through: (i) improvement of institutional capacities (governance, policy, legislation, regulations and organizational); (ii) support of upstream planning and preparation of investment proposals to attract sustainable finance; and (iii) creation of an operational funding facility to mobilize private and public investment for island territories in LAC.

6. Natural Capital Lab

IDB has recently launched, in September 2018, the Natural Capital Lab, a space where governments and businesses will work together to incubate concepts that can yield breakthroughs in financing conservation, landscape, biodiversity, and marine ecosystem projects. The Lab will seek to attract public and private entities to craft high-risk, high-reward approaches to protecting and preserving natural capital. Successful projects may then be scaled and replicated using the IDB's lending portfolio, external resources from public funds (multilateral or bilateral), or private sector investors.

The Natural Capital Lab has three main objectives: (i) incubate a pipeline of projects, (ii) provide blended finance, and (iii) mobilize resources for scale. It has thematic areas under conservation of natural capital, biodiversity, and sustainable development.

- Climate change mitigation and adaptation
- Alternative development of forests and agroforestry
- Territorial approaches in urban and rural settings
- Payment for environmental services

⁴ Specifically, SDGs # 6, 7, 9, 11, 13, 14, and 15.

- Circular economy
- Ocean plastic
- Nature-based solutions
- Strengthening national parks and protected areas
- Tools for public and private decision making
- Pollution
- Blue economy and fisheries
- Payment for results models
- Tourism and natural capital

Whilst these efforts mentioned above show some of the main areas of work that respond to the IDB's commitment to supporting the LAC region to achieve PA's objectives much greater effort is needed to help countries achieve low-carbon and climate-resilient sustainable development. According to the IPCC special report on 1.5°C, current NDC are leading us to a more than 3°C world.

WHERE DO WE WANT TO GO?

We, at the Inter-American Development Bank, are committed to the sustainable development of countries in Latin America and the Caribbean (LAC), and for supporting implementation of countries objectives under the Paris Agreement.

The past few years have been key to move the world towards this vision. 2015 marked an historic turning point, as crucial elements successfully converged for the first time: political will, momentum within the real economy and an effective multilateral process. The adoption of **The Sustainable Development Goals (SDGs) and the Paris Agreement** reinforced a global commitment to shift the world onto a sustainable and resilient path and set an ambitious development agenda for the next 15 years. The transformation of the global economy needs to start immediately if we are to meet the Paris objective of keeping the increase in global average temperature to well below 2 °C above pre-industrial levels; and to limit the increase to 1.5 °C by the end of the century. The Agreement recognizes the need to achieve zero net emissions by 2050, calls for the alignment of all financial flows to a pathway for low-carbon and climate-resilient development, and urges industrial countries to jointly increase climate finance to US\$100 billion per year by 2020.

Our updated **Institutional Strategy 2020-2023** continues our focus to help the LAC region overcome poverty and inequality. This institutional strategy reaffirms our commitment to support countries in their efforts to accelerate economic growth by overcoming these main development challenges: social exclusion and inequality; low productivity and innovation; and limited economic integration. Our vision is to increase productivity and reduce inequality in a sustainable way to transform LAC into a more inclusive and prosperous society. To make this vision a reality, we are working to strengthen the IDBG's comparative advantages by increasing our catalytic role, strengthening client focus, and reinforcing development effectiveness. The IDBG Institutional Strategy includes amongst its priorities: social inclusion and equality, productivity and innovation, economic integration, climate change and environmental sustainability, gender equality and diversity, and institutional capacity and rule of law.

To implement the commitment of increasing our climate finance, in 2017 we approved a new **Climate Change Action Plan**. The intention is to set a long-term path to mainstream climate change across our portfolios to achieve a sustainable growth in LAC. It describes systematically how the IDB Group is including components in its operations in order to meet the goal of having 30% of approvals related to climate change by 2020. The plan consists of five action lines: aligning with IDBG strategies, strengthening collaboration and mobilizing external resources, mainstreaming climate change into operations, opportunities and actions by sector, and tracking financing and measuring results. In order to achieve these goals, coordinated efforts of the IDBG departments and divisions is needed.

A new **Climate Change Sector Framework Document (SFD)** was approved in 2018. This identifies and assesses required knowledge and capacity and summarizes available evidence of how to assist countries in their pursuit of climate-resilient and low-carbon development. Specifically, the SFD explores how to: (i) foster institutions and markets that are implementing the Paris Agreement; (ii) improve access to climate finance and the effectiveness of its use; (iii) apply tailored knowledge to support climate-resilient and low-carbon development; and (iv) mainstream climate considerations across sectors. As a cross-cutting development challenge, climate change solutions must be integrated and the Climate Change SFD frames sector challenges around four areas: (i) social considerations, (ii) climate risk and the implications of the financial system, (iii) sustainable infrastructure, and (iv) sustainable landscapes.

At the IDBG we are working to effectively mainstream climate change across all the operational areas. We believe that to achieve this we would have to work hand in hand with all sectors to support them to fully own the climate agenda within their own operations and deliver solutions for the region to tackle climate change and seize the sustainable development benefits.

HOW DO WE GET THERE?

The region faces a complex challenge as it must become ever more competitive while successfully transitioning towards low-carbon resilient development paths. Yet LAC is ideally endowed and positioned to achieve this transition. **With financial and technical innovation at the national, and sub-national levels, and platforms such as NDC Invest**, the IDB is not only helping countries fully implement and operationalize their NDCs, but we are also helping these countries engage in the ambition mechanism of the Agreement; safeguarding the competitiveness of local economies while transitioning towards the goal of a carbon-neutral region of countries in LAC have huge potential to unlock more ambition to beef up their NDCs. Taking advantages of these opportunities will not only support the Paris Agreement but also complement efforts to achieving sustainable development.

Since 2015, the IDB has driven a **unique effort** to put in place the tools and mechanisms to respond to the Paris Agreement and Sustainable Development Goals that governments have defined. The work has been **holistic**, covering different activities across the spectrum of the challenge including: mitigation, adaptation, resilience, risks, infrastructure, transparency, financial flows and others. We have been advancing work across these areas and **catalyzing actions as needed**, given the scale of the required transformation and that the impact of our work needs to expand beyond individual and scattered projects,

and into strategic approaches that enable the changes required. Finally, we are strengthening and building alliances to facilitate **strong collaboration** and dialogue with countries, sectors, regional and international partners in support of solutions and accelerate learning.

However, we know that there is still a lot more work to do. According to the IPCC special report on 1.5°C, temperatures are already up more than 1°C compared to pre-industrial levels and are rising at a rate of 0.2°C per decade, thus a 1.5°C warmer world is not far off if the business as usual path continues to be followed. According to the report, economic growth is projected to be lower at 2°C warming than at 1.5°C, whereas impacts and their consequences will be higher, and more costly; and keeping warming to 1.5°C has far more synergies than tradeoffs with SDGs. However, current NDCs will not be enough to limit global temperature in this range, thus **we need to have rapid and far reaching transitions, to act quicker and faster.**

To advance in this direction, at the IDBG we have set up a working group seeking to develop a deeper internal understanding over what may constitute alignment with the PA and how can we work towards it effectively. Seven areas of work have been identified and currently are being studied, with a view of ultimately guiding our agendas and financial flows in line with article 2.1 (c) objective for “consistency of financial flows with low GHG and resilient development pathways” and doing so in a **country driven** manner.

Through key activities areas we are aligning IDBG finance to NDCs/Long-term strategies to support implementation of the PA, including by: supporting our clients in the improvement of their NDCs and LTSs in response to the objectives of the PA; applying and promoting a Framework on Sustainable Infrastructure with criteria covering economic and financial, environmental, social, and institutional dimensions, with applications across all stages of infrastructure planning, design and delivery; working with Financial Institutions (FIs) to align their financial flows; partnering with a range of internal and external stakeholders to enhance the role that FIs are able to play in financing low-carbon climate-resilient investment in our region; measuring the alignment of operations; considering how existing IDBG policies and the Institutional Framework are consistent/aligned; and managing our Corporate Footprint.

The international climate change agenda will continue to require ambitious policy reforms and investments. The planet requires reaching **zero net emissions** of GHG by mid-century. Therefore, the IDB as a non-Party stakeholder, is engaged in this inclusive, participatory, and transparent Dialogue to contribute to building a common understanding of challenges and solutions, working collectively to enhance cooperation and learning, and providing valuable information to better inform decision-making to speed up enhanced ambition and preserve our planet, our development achievements, and ultimately humankind.