TECHNICAL NOTE Nº IDB-TN-3235

# Scaling Sustainable Impact through a Performance-Based Financial Mechanism

Federico Brusa
Juan Martín Chaves
Asier Rodríguez
Agustina Carvallo

Inter-American Development Bank
Climate Change Solutions Division

November 2025

# Scaling Sustainable Impact through a Performance-Based Financial Mechanism

Federico Brusa
Juan Martín Chaves
Asier Rodríguez
Agustina Carvallo

Inter-American Development Bank
Climate Change Solutions Division

November 2025

IDB

**Cataloging-in-Publication data provided by the**
**Inter-American Development Bank**
**Felipe Herrera Library**

Scaling sustainable impact through a performance-based financial mechanism / Inter American Development Bank.

p. cm. — (IDB Technical Note ; 3235)
Includes bibliographical references.

1. Environmental protection-Finance-Latin America. 2. Environmental protection-Finance-Caribbean Area. 3. Climate change mitigation-Finance-Latin America. 4. Climate change mitigation-Finance-Caribbean Area. 5. Economic development-Environmental aspects-Latin America. 6. Economic development-Environmental aspects-Caribbean Area. I. Inter-American Development Bank. Climate Change Solutions Division. II. Title. III. Series.

IDB-TN-3235

**Keywords:** Climate finance, thematic bonds, governance, transparency, public investment management, results-based financing.
**JEL Codes:** Q54, Q56, G23, H63, O19

http://www.iadb.org

Copyright © **2025** Inter-American Development Bank (IDB). This work is subject to a Creative Commons Attribution 4.0 International Public License CC BY 4.0 (https://creativecommons.org/licenses/by/4.0/legalcode). The terms and conditions indicated in the URL link must be met and the respective recognition must be granted to the IDB.

Any and all disputes arising under this license that cannot be settled amicably shall be resolved in accordance with the following procedure. Pursuant to a notice of mediation communicated by reasonable means by either you or the licensor to the other, the dispute shall be submitted to non-binding mediation conducted in accordance with the World Intellectual Property Organization (WIPO) Mediation Rules. Any dispute that cannot be settled amicably shall be submitted to arbitration pursuant to the United Nations Commission on International Trade Law (UNCITRAL) rules. The use of the IDB name for any purpose other than the respective recognition and the use of the IDB logo are not authorized by this license and require an additional license agreement.

Note that the URL link includes terms and conditions that are an integral part of this license.

The opinions expressed in the work are those of its authors and do not necessarily reflect the views of the IDB, its Board of Executive Directors, or the countries they represent.

# SCALING SUSTAINABLE IMPACT THROUGH A PERFORMANCE-BASED FINANCIAL MECHANISM

## TECHNICAL NOTE

NOVEMBER 2025

IDB

# Acknowledgements

Juan Pablo Bonilla, Paloma Acevedo Alameda, Gisella Barreda, Pedro Garay, Cesar Leyva (CSD/CSD); Alfred Grunwaldt, Graham Watkins, Catalina Aguiar, Claudio Alatorre, Gerard Alleng, Luciana Araujo, Cristina Ashton, Felipe Borja, Mariana Ceva Alvarez, Janelle Christian, Francine Costa Vaurof, Xavier Debade, Raul Delgado, Roberto Esmeral, Gisella Ferrari, Juan Carlos Gómez Sandoval, Mar Gómez Gómez de la Torre, Griselle Gonzalez, Esperanza Gonzalez, Alejandra Guraieb, Claudia Hernandez Segura, William Holness, Caroline Holo, Margarita Jiménez, Mariel Juarez Olvera, Pauline Lola Blanc, Raquel López, Ana Luisa Sosa, Nitya Mehta, Karla Meléndez, Vanina Messere, Álvaro Miranda, Luis Mora, Paula Morandi, Natalie Onstein, Laura Ortiz de Zarate, Patricia Oviedo Cespedes, Lorena Palomo, Katia Queiroz Fenyves, Adriana Quesada Valverde, Daniella Restrepo, Ethel Rojas, Anabella Ron, Rilla May Sanchez Greer, José Manuel Sandoval, Ignacio Simón, Annette Suardi, Sofía Viguri, Gloria Visconti (CSD/CCS); Gregory Watson, Frida Arriaga Cinta, Irene Gauto, Carolina Gutierrez (CSD/BNC); Maria Netto (IFD/IFD); Tatiana Alves, Giovanni Frisari, Daniel Ricas (IFD/CMF); Odile Ivette Johnson Naveo (INE/INE); Cecilia Correa Poseiro, José Luis Irigoyen, Jesus Tejeda Ricardez (INE/ENE),Benoit Lefevre (INE/TSP); Jose Luis de la Bastida, Serge-Henri Troche (VPS/ESG); Gabriela Cicci Faria (VPS/KLD); Naiara Martinez (SCL/GDI); Virginia Snyder, Claudia Suaznabar, Wilkferg Vanegas, Mauricio Lopez Prada, (VPS/VPS) Manuel Pacheco (VPC/VPC); Gregory Dunbar, Victor H. Escala, Santiago Schneider (VPC/FMP); Ramón Ruiz García (FIN/TRY); Ian MacDonald (FIN/FPD); Juan Manuel Casalino, Cristina Celeste Marzo (LEG/SGO); Betina Henning (LEG/CLA); Juanita Riano Londoño (OII/OII); Gabriel Filc (SPD/SDV); Maria Fernanda Merino (SPD/SMO); David Margolis (GPS/GPS); Felipe Caicedo, María Fernanda Rincón(GPS/GCM); Isabelle Braly-Cartillier, Victoria Florez Toro, Silvina Regueiro (GPS/REM).

The authors also wish to thank the following colleagues who served as peer reviewers for this document, providing insightful comments and valuable recommendations: Claudia Suaznabar (VPS/VPS); Rafael Cavazzoni Lima (CSC/CUR); Rudy Loo-Kung Agüero (SPD/SQR); Daniel Fonseca, Alexander Vasa (IFD/CMF); Mariana Alfonso, Marcio Alvarenga, Jennifer Doherty-Bigara, María Sofía Polcaro (CSD/CCS).

# Table of contents


01. Executive summary 08

02. Introduction 10

03. Key challenges to meeting countries' climate and nature objectives 16

A. Main barriers to meet national objectives on climate change and nature 16

B. Governance issues that limit the mobilization of public and private resources 19

C. Implementation challenges derived from a lack of transparency 22

D. The financing gap to achieve climate and nature goals 25

04. The opportunity of thematic and green debt markets 28

A. Understanding thematic and green debt instruments 28

B. Green and thematic debt market challenges, standards and requirements 31

05. The role of international financial institutions (IFIs) 35

06. IDB CLIMA Pilot Program 38

A. Motivation 38

B. The Pilot Program 40

C. State of implementation of the Pilot Program 44

07. Conclusions 45

08. References 47

09. Annex I. Intervention logic of the Pilot Program 54

A. The barriers that the IDB CLIMA Pilot Program aims to address 54

B. IDB CLIMA Pilot Program Objectives 56

10. Annex II. Key instruments for Pilot Program implementation 59

A. The Green Transition Framework (GTF) 59

B. Verification framework for compliance with KPIs 60

C. Monitoring, Evaluation and Learning (MEL) Approach 61

# Abbreviations

| | |
|---|---|
| CBD | Convention on Biological Diversity |
| CIFs | Climate Investment Funds |
| COP | Conference of the Parties |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| EMDE | emerging market and developing economies |
| ESG | environmental, social, and governance |
| G20 | Group of Twenty |
| GBF | Global Biodiversity Framework |
| GDP | gross domestic product |
| GHG | greenhouse gas |
| GTF | Green Transition Framework |
| ICMA | International Capital Market Association |
| IDB | Inter-American Development Bank |
| IDB CLIMA | IDB Biodiversity and Climate-Linked Incentive Mechanism for Ambition |
| KPI | Key Performance Indicator |
| LAC | Latin America and the Caribbean |
| MDB | Multilateral Development Bank |
| MEL | Monitoring, Evaluation, and Learning |
| MRV | measurement, reporting and verification |
| NBSAPs | national biodiversity strategy and action plans |
| NDCs | nationally determined contributions |
| OECD | Organization for Economic Co-operation and Development |
| SDGs | Sustainable Development Goals |
| SLB | sustainability-linked bond |
| SLBP | sustainability-linked bond principles |
| SPT | sustainability performance targets |
| SSLB | sovereign sustainability-linked bond |
| UNFCCC | United Nations Framework Convention on Climate Change |
| WWF | World Wildlife Fund |

01.

# Executive summary

**While national environmental objectives are becoming more ambitious, countries continue to struggle to translate these objectives into effective climate and nature conservation outcomes.** Without swift and coordinated action, the growing materialization of physical and transition risks will amplify already substantial economic losses, undermine fiscal stability, and reverse decades of development progress. In Latin America and the Caribbean (LAC), the annual frequency of meteorological, hydrological, climatological and other types of disasters quadrupled between the 1970s and the 2014-2023 period, resulting in significantly greater losses and damages (Alejos et al., 2025). For example, extreme weather events alone have caused annual economic losses equivalent to roughly 1.7% of regional gross domestic product (GDP) over the past two decades (Valencia & Martinez, 2025). Moreover, in terms of biodiversity, LAC has experienced a 95% decline in the average population size of more than a thousand monitored wildlife species over the past 50 years, the fastest rate of biodiversity loss in the world, well above the global average of 73% (WWF, 2024).

**Closing the gap between ambition and implementation will require substantial investment from both public and private sources.** Achieving national climate targets in the region is estimated to require between $470 billion and $1.3 trillion annually by 2030 (Galindo Paliza et al., 2022a). In 2024, multilateral development banks (MDBs) provided approximately $45 billion in total financing to the region, based on authors' estimates. If all these resources were allocated solely to meeting national climate objectives, they would cover just under 4% of the total annual financing needed. Of these $45 billion, only a portion (estimated at $15.8 billion (African Development Bank et al., 2025) qualified as climate finance. Meanwhile, the region continues to face significant fiscal pressures and high levels of debt in the aftermath of the COVID-19 pandemic.

**While the financial resources needed to meet climate and nature objectives are significant, the challenge extends beyond funding.** Institutional fragmentation, governance and coordination challenges, an inadequate legal framework, insufficient economic incentives, and limited technical capacity are equally critical issues. Many actors face considerable constraints when designing investable project pipelines, structuring green finance products, and tracking the impacts of their policies and investments. Weak governance mechanisms that fail to ensure ownership of climate and nature goals result in a lack of bankable project pipelines needed to crowd in greater, innovative, financial flows. In addition, countries face serious reporting and policy evaluation gaps. For example, an analysis carried out by the authors using publicly available data from the United Nations Framework Convention on Climate Change (UNFCCC) shows that most countries in the LAC region are more than two years behind in submitting their greenhouse gas (GHG) reports. While some countries are more advanced than others, efforts in these areas must be significantly scaled up across the region.

**Debt markets provide an opportunity to address these challenges by mobilizing capital through the issuance of thematic bonds that support climate and nature objectives, while also enabling access to more favorable financial terms.** Despite the strong growth in green debt issuances, a substantial financing gap remains. For example, in 2023, global issuance of green bonds reached $616.2 billion, yet meeting global climate targets will require $7.5 trillion per year until 2030, according to Strinati and Baudry (2025). This imbalance highlights how debt markets could be a powerful channel to mobilize capital at scale, financing the demands of climate and nature priorities, provided that countries are able to develop robust, investable project pipelines. The IDB's work supporting LAC countries in accessing green thematic debt markets has revealed three main barriers. First, there is insufficient knowledge and ownership of climate and nature concerns across sectors, which results in investments that are not resilient to the consequences of environmental degradation. Second, there is a lack of mature, bankable projects suitable for green bond financing. The third barrier is the insufficient capacity to monitor and report on project execution to ensure that development goals and impact are achieved. This document compiles and presents evidence of these three main barriers. To help address them, the IDB is piloting the IDB Biodiversity and Climate-Linked Incentive Mechanism for Ambition (CLIMA). This program is designed to incentivize and support countries in overcoming these obstacles and unlocking climate and nature finance at a meaningful scale.

**IDB CLIMA is a performance-based pilot program that rewards IDB borrowers who invest in key result areas that enhance their environmental impact by developing the infrastructure and capacity needed to access thematic debt markets.** These include investments needed to (i) foster sectoral ownership of nationally determined environmental objectives, and develop investment portfolios at a scale compatible with green thematic debt issuance, and (ii) improve impact reporting systems for climate and nature policies. Ministries of finance, debt management units of state-owned enterprises, national development banks, and other actors can leverage these investments to secure better financing terms in green thematic debt markets. This sector-driven, bottom-up ownership approach enables an increase in interventions focused on impact and scale to deliver on national environmental objectives.

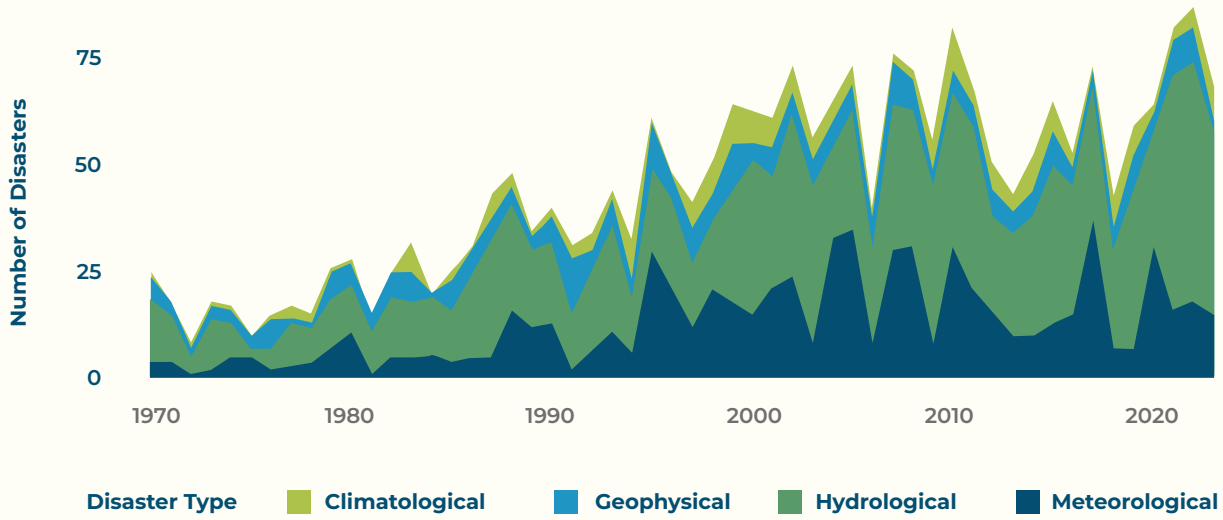
02.

# Introduction

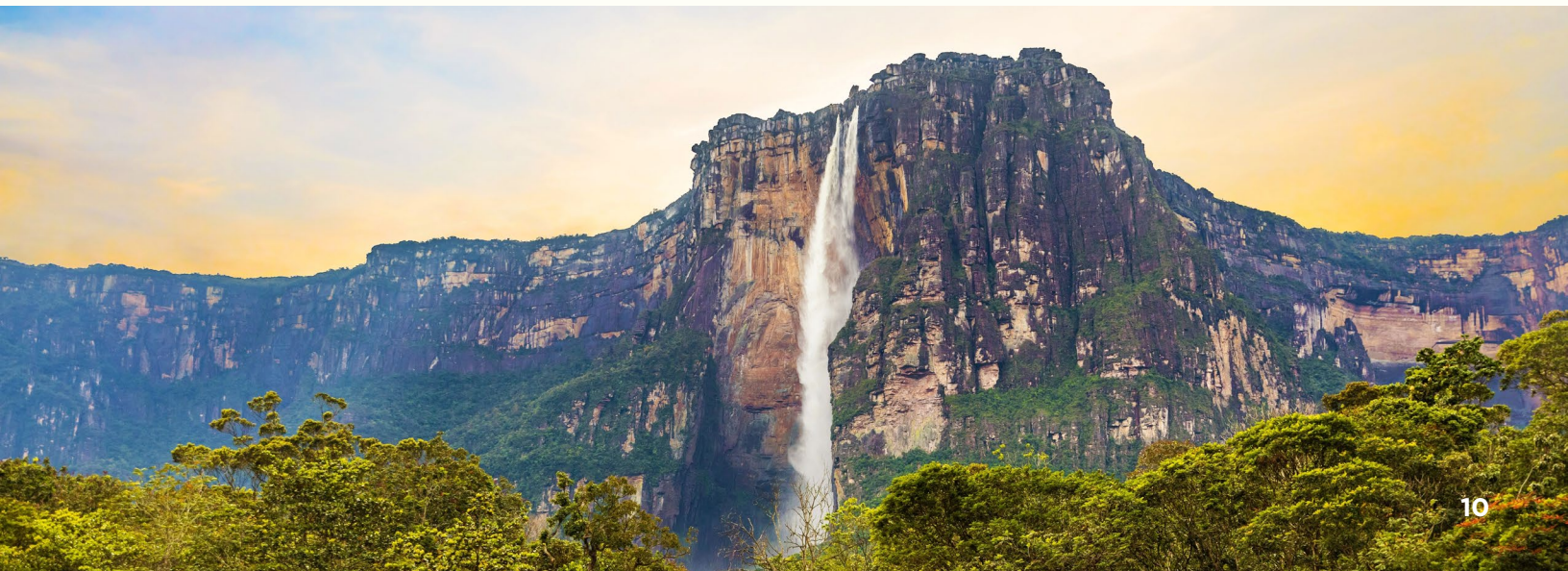
**Climate change and environmental degradation are increasingly threatening sustainable development at the global scale (G20, 2024).** Among the most pressing risks are extreme climate events (closely related to global warming, biodiversity loss and ecosystem collapse), which can severely disrupt economic growth, and harm populations and natural resources. These growing threats highlight the urgent need to scale up and coordinate action (World Economic Forum, 2025).

**LAC is the second most vulnerable region in the world to storms and slow-onset events caused or intensified by climate change (UNDRR, 2023).** Caribbean countries are particularly affected by storms and sea level rise, while the rest of the region faces heightened risks from droughts and floods. At the same time, LAC is endowed with abundant and diverse natural resources, which offer a powerful tool for addressing climate change, yet face growing threats themselves (Alejos et al., 2025).

**Figure 1.** **Incidence of disasters by type, 1970–2023 for LAC**




Data from the EM-DAT International disaster database and the Center for Research on the Epidemiology of Disasters (CRED) at UCLouvain.



**Climate projections point to increasing extreme weather events and escalating disaster impacts across LAC.** According to the IPCC AR6, severe risks to natural and human systems are already being observed and are expected to intensify before mid-century and by the end of the century, particularly through the increased frequency and severity of extreme weather events. These events include droughts, floods, hurricanes, and landslides, and are closely linked to the degradation of ecosystem services, including water regulation, food production, and coastal protection, leading to cascading impacts on health, infrastructure, and livelihoods (IPCC, 2022).

**The materialization of risks associated with extreme climate events, compounded by nature-related physical risks, has wide-ranging economic and fiscal impacts.** In LAC, these global risks translate into specific vulnerabilities: projections show that climate mitigation pathways to mid-century bring both benefits and trade-offs, including reductions in air pollution due to the transition away from fossil fuels, but also potential increases in commodity prices and short-term adjustments in household spending (such as energy and food) under certain scenarios (IPCC, 2022). These impacts can also reduce the effectiveness of education programs through disruptions, and affect labor productivity and employment due to increased morbidity, mortality, heat stress, informality, and climate-induced migration. Agricultural productivity may also decline due to shifts in rainfall patterns, microclimate, and the availability of pollinators, among other factors, further impacting rural livelihoods. Climate-related disasters can also place significant pressure on public finances through increased emergency spending, reconstruction costs, and slower economic growth (Alejos et al., 2025).

**Physical and transitional risks associated with climate change[1] can lead to undesirable macroeconomic impacts, particularly on public finances.** Impacts from physical risks may arise through increased government spending to address the damage caused by extreme natural events, as well as reduced tax revenues due to potential disruptions across various economic activities. In LAC, extreme natural events have caused annual economic losses equivalent to approximately 1.7% of GDP over the past two decades. Between 2001 and 2019, the fiscal deficit attributable to extreme climate events ranged between 0.8% and 0.9% of GDP in low- and middle-income countries in the region. Transition risks may also have short- and medium-term economic and fiscal implications. For instance, subsidies for clean transportation can increase public expenditure in the near term if they are not properly designed to be financed by redirecting incentives away from carbon-intensive activities. Additionally, a significant proportion of carbon-intensive assets is at risk of becoming stranded, ceasing to deliver economic returns before the end of their expected lifespan. Estimates suggest that the value of stranded assets in LAC could range from 0.7% to 1.7% of regional GDP (Valencia & Martinez, 2025). Given that countries' resilience levels are insufficient to cope with extreme climate events, economic costs and unavoidable spending on damage repair and emergency response strain fiscal space and delay investments in resilience, which are less costly than remedying impacts (UNDRR, 2025).

**Countries lack access to the capital needed to address the impacts of extreme climate events.** The Independent High Level Expert Group (IHLEG) on Climate Finance estimates

[1] Physical risks arise from the interaction between climate impacts and environmental and human systems, with the potential to cause macroeconomic disruptions. Transition risks stem from policies aimed at driving a shift toward a low-emission economy. While these policies are designed to reduce long-term climate-related risks and costs, they may generate short to medium-term economic and fiscal repercussions (Valencia & Martinez, 2025). Consequently, they must be designed with the political economy and opportunities of a just transition in mind (Trebilcock, 2015).

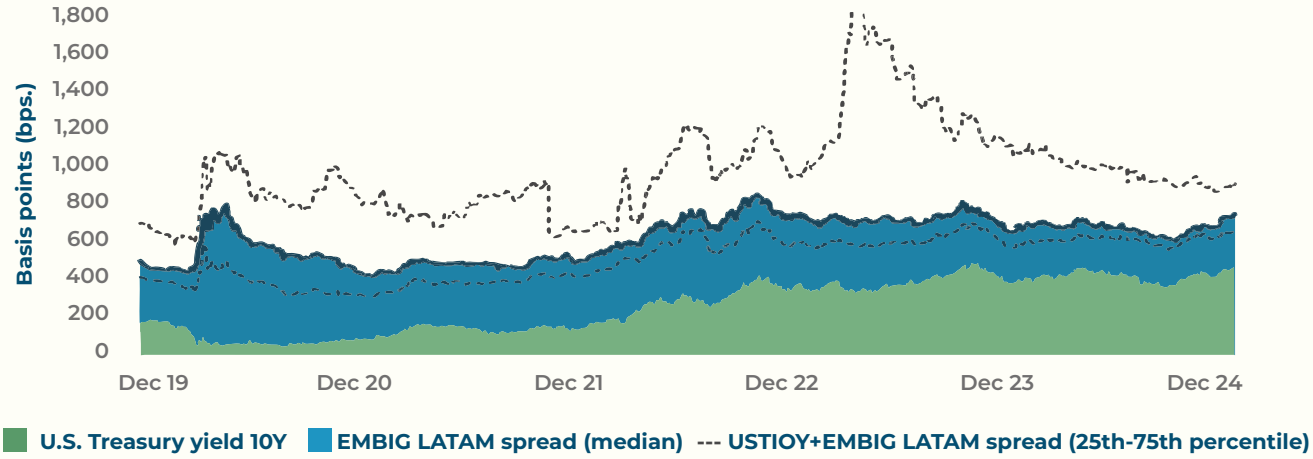
that $6.3 trillion to $6.7 trillion will be needed each year until 2030 to combat climate change (IHLEG, 2024). An additional $700 billion to $824 billion per year is needed between now and 2030 to close the biodiversity finance gap through nature-positive interventions (CBD, 2022; The Paulson Institute et al., 2023). In LAC, Galindo Paliza et al. (2022b) find that between $0.47 trillion and $1.3 trillion per year will be needed in infrastructure and social spending to respond to the climate crisis, while broader emerging market and developing economies (EMDE) estimates place needs at $2.3 trillion to $2.5 trillion annually (IHLEG, 2024). Meanwhile, Steffen and Michaelowa (2022) find that to mobilize the needed flows at both the regional and international levels, the climate finance policy landscape must develop new instruments and deepen its research into effectiveness.

**Using 2024 authors' estimates for the case of LAC, if all multilateral finance had focused on climate, it would have represented only 3.4% of the annual investments required for each country to meet its climate objectives.** In 2023, building on previous calls for action, an independent group of experts commissioned by the Indian presidency of the Group of Twenty (G20) prepared a document entitled 'Strengthening Multilateral Development Banks: the Triple Agenda,' which contains specific recommendations (G20, 2023). These recommendations stem from the acknowledgment that the balance sheets of the MDBs fall short of the scale of funding that countries must mobilize to meet their climate and nature objectives. In the region, this has led to other international mandates, such as the Bridgetown Initiative, which emphasizes the need to address the cost of capital, attend to emergency liquidity requirements, expand multilateral lending, and crowd in private capital for mitigation and resilience, all while considering the limited fiscal space of countries (The Bridgetown Initiative, 2022).

**Addressing the risks of climate change and nature loss not only provides opportunities for technological, economic, and social transformation but also accelerates sustainable development (Alejos et al., 2025).** However, the LAC region faces significant barriers that hinder capital mobilization at the scale needed to achieve its climate and nature goals. Limited fiscal space and high debt ratios are prevalent in the region (Galindo & Nuguer, 2023), and countries struggle to develop project pipelines that prioritize climate and nature considerations (Hillman & Tippett, 2021). Moreover, the region lacks the systems and capacity required to measure investment impacts or report on climate and nature interventions.

**Fiscal space constraints severely limit the region's capacity to invest in additional climate and nature ambition.** Although LAC countries have made some progress in restoring macroeconomic stability following the impacts of COVID-19, they continue to face significant risks related to the fragmentation of global trade, potential financial market volatility, and uncertainty surrounding the economic policies of major global economies. Fiscal uncertainty persists, as many countries struggle to meet fiscal targets and debt servicing costs remain high, which continue to constrict growth. Long-term interest rates, relevant to the region's external debt, have stayed elevated. The average yield on LAC sovereign debt rose significantly from 4.7% in 2019 to 7.3% in 2024. Debt affordability has deteriorated sharply, primarily due to higher interest payments, making it one of the most pressing challenges for the region (Ayres et al., 2025a).

**Figure 2.** **Global interest rates and LAC sovereign yield**




Source: IDB staff calculations and Bloomberg.
Note: Daily data from December 2019 to January 2025 from Bloomberg. The dotted lines represent the 10-year U.S. Treasury yield plus the 25th and 75th percentiles of EMBI spreads in Latin America and the Caribbean.

**The availability of bankable projects is also limited by insufficient transparency, macroeconomic country risk, and weak project pipelines.** EMDEs face multiple challenges that include long timeframes, a lack of large investment grade projects and liquid markets, high upfront capital and transaction costs, and significant project risks (Prasad et al., 2022). In the academic and policy fields, the incorporation of nature-positive and climate-driven considerations to motivate public investments is relatively recent (Kok & Coninck, 2007) and is still limited in scope (OECD, 2021). While equity is an issue (Bayliss & Waeyenberge, 2018) an argument can be made that the principal barrier is not lack of funding, but rather the unavailability of bankable projects (Cuntz et al., 2017). Overall, several obstacles still contribute to the scarcity of bankable project pipelines, which limits the potential of crowd in capital (Watkins et al., 2019). Best practices like the adoption of sustainable infrastructure criteria, and their communication to investors, can help address this challenge. For example, nationally determined contributions (NDCs) to the Paris Agreement are important drivers for the development of shovel-ready project pipelines (OECD, 2018). A recent research report examines bankable nature solutions and illustrates how investing in the environment that enables certain types of projects can help bridge the funding gap while addressing both biodiversity and climate objectives (WWF, 2020).

**Countries require innovative debt instruments and strategies that recognize these realities.** This is especially important if they are to act while managing higher debt levels, which are often exacerbated by increasingly frequent and costly climate-induced shocks acting through multiple transmission channels (Scatigna et al., 2021). The IDB has substantial experience supporting upstream efforts to foster financial innovation, including the design of green finance taxonomies, and regulatory work with pension fund regulators on climate investments and with financial regulators on disclosure. The Bank has also been deeply involved in designing financial solutions that mobilize blended finance and leverage



private capital to address challenges related to nature preservation and climate action. These experiences include the work on debt-for-nature swaps, forex hedging strategies, green finance taxonomies, use-of-proceeds, and the first sovereign sustainability-linked bond with a step-down mechanism.

**In response to this context, the IDB CLIMA Pilot Program was launched to test a performance-based approach that rewards IDB borrowers for investing in the systems and instruments required to mobilize climate and nature action at the relevant scale through thematic debt market access.** The program stems from the following two observations. First, the balance sheet of international financial institutions (IFIs) alone is insufficient to meet the nature preservation and climate objectives that each country has set for itself.[2] Second, most entities in charge of designing and implementing investments funded through public resources have yet to take full ownership of the new technologies, policies, and solutions necessary for successfully transitioning towards decarbonized, resilient, and nature-positive growth paths. The IDB CLIMA Pilot Program tests a solution to incentivize the design of interventions that will help address these issues by building the necessary capacities to (i) foster sectoral ownership of nationally determined environmental objectives, and develop investment portfolios at a scale compatible with green thematic debt issuance, and (ii) improve impact reporting systems for climate and nature policies, to be better positioned to issue green thematic debt

[2] These targets can be unconditional, meaning those that countries commit to achieving with their own resources and capacities, or conditional, meaning those that countries pledge to achieve only if they receive external support (financial, technological, or capacity building) from other countries or international organizations.

products or other innovative green thematic debt solutions that offer more attractive financial conditions than traditional debt instruments (for instance, through greenium-type rewards and step-down-type rewards).

**In its pilot phase, IDB CLIMA targets specific IDB investment loan operations that can be designed and aligned with the objectives of the Pilot Program.**[3] The IDB CLIMA Pilot Program, therefore, tests a new approach to incentivize changes in the design of such operations. Its performance-based focus aims to incentivize and reward IDB sovereign borrowers that employ IDB investment loans to develop and strengthen their capabilities to mainstream climate and nature goals into sectoral investments, as well as to improve nature-positive and climate impact reporting. The IDB CLIMA Pilot Program includes a reward that is conditioned upon independent verification confirming the achievement of three key performance indicator (KPI) targets. The motivation behind the IDB CLIMA grant is based on IDB research (Cárdenas et al., 2021) that makes the case for the monetization of reporting capacities to encourage ministries of finance to prioritize investments in nature-positive and climate-driven sectors by providing access to higher concessional rates available in thematic debt markets.

**Furthermore, the IDB CLIMA Pilot Program seeks to align the institutional incentives of line ministries and other sector policy implementers with those of the entities responsible for sovereign debt issuance.** These entities can access and benefit from debt at competitive concessional rates if investment strategies justifying the use of resources are consistent with the IDB CLIMA KPI result areas. Thus, a sector that accesses IDB capital to (i) learn how to mainstream climate and nature considerations into its investment decisions; (ii) build the capacities to strengthen or create robust project pipelines that replicate these criteria at scale; and (iii) strengthen transparency and impact monitoring and reporting capacities will be in a preferential position to secure public funding through green thematic debt issuances. Indeed, green thematic debt must be issued at a scale that requires sufficient nature-positive and climate-driven investments to justify the use of proceeds and ensure that issuance targets are met. More importantly, issuers must comply with the specific criteria and reporting standards set forth by market actors such as ICMA, particularly with regards to impact reporting.

**This document presents the rationale for the creation of the IDB CLIMA Pilot Program and compiles and presents evidence on the barriers hindering efforts to close the climate and nature financing gap.** It is organized into four main sections. The first section situates the analysis within current policy and academic debates, identifying key challenges that hinder progress toward national climate and nature objectives, as highlighted in the literature. Emphasis is placed on the climate and nature finance gap, as well as governance and transparency capacity issues, identified as major barriers to fulfilling national objectives. The second section explores the constraints and potential benefits of using thematic debt instruments to mobilize climate and nature finance in LAC. The third section highlights the strategic role that IFIs can play in closing both financing and institutional gaps for climate and nature action. The fourth section presents the rationale, framework, and implementation tools of the IDB CLIMA Pilot Program as a structured response to the challenges identified throughout the document. Overall, the objective of this technical note is to present the case for IDB CLIMA as an innovative mechanism to accelerate climate and nature outcomes in the region.

[3] IDB CLIMA's General Objective is to use investment loan operations to incentivize sector-driven investments that will help accelerate the access of sovereign borrowers to green thematic capital markets, with the intent of achieving the needed scale to meet climate and nature national commitments. Please refer to section VI.I.ii for further details on IDB CLIMA Pilot Program's intervention logic.

03.

# Key challenges to meeting countries' climate and nature objectives

## A. Main barriers to meeting national objectives on climate change and nature

**The transition to low-carbon, resilient, and nature-positive economies requires ambitious investments from countries.** While nations have set their own targets to guide their climate change and nature actions, these remain insufficient and are not being implemented at the pace required. The national targets set forth in countries' nationally determined contributions (NDCs) and in national biodiversity strategies and action plans (NBSAPs) reflect efforts made in this direction. However, most countries are currently not on track to meet their objectives (UNEP, 2024; WWF, 2024).

**Implementation is hindered in part by the substantial, interconnected, and sequential changes required across multiple sectors of the economy.** Additionally, the presence of regulatory, informational, and capacity-related barriers discourages both private and public investment (Alejos et al., 2025).

**A relevant set of barriers to achieving climate- and nature-related objectives stem from governance challenges.** Climate and nature action faces issues such as short-term decision-making biases, political inconsistency or capture, weak accountability mechanisms, a lack of regulations, limited expertise and knowledge, and corruption-related concerns (Babacan, 2025; Borys et al., 2022; Lindvall, 2021; Martin et al., 2025; Peterson & Asselt, 2025; Sattar, 2025). Progress toward these goals requires not only strong political support but also robust public institutions capable of implementing them effectively (OECD, 2025; Raman et al., 2024). Institutional arrangements are one of the key areas where developing countries require support to implement their climate goals (UNDP, 2016). One way to strengthen climate and nature governance is by promoting the ownership of environmental targets through a bottom-up approach led by sector actors responsible for economic activities. Combining this with a top-down coordination mechanism in which environment ministries validate these targets and finance ministries allocate the necessary resources for implementation can build a more robust, coherent, and effective governance framework (Cárdenas et al., 2021).

**Another critical set of challenges in implementing climate and nature objectives is linked to transparency constraints, primarily stemming from a lack of capacity to monitor, evaluate, and report on the effects of policies and public investments.** Shortcomings in monitoring, narrowly defined goals and actions, gaps

in metrics, and obstacles to innovation and technology adoption are among the key challenges to attract larger investments (Babacan, 2025; Kyséla et al., 2025; Peterson & Asselt, 2025). Additional weaknesses include insufficient numbers of trained civil servants, inadequate systems and infrastructure, as well as the low prioritization of investments in transparency mechanisms across sectors. The IDB's experience working with regional ministries of finance shows that these institutions increasingly recognize that building sectoral reporting and transparency capacities can yield financial returns through the issuance of green debt, given the benefits of thematic debt markets. This recognition creates incentives and establishes the foundation for policymakers to start investing in robust transparency systems that support the design of more effective public policies and investments, while also enabling reporting to green bond holders and tracking progress of national environmental objectives (Cárdenas et al., 2021). In countries where such systems are already in place, additional challenges arise, such as unclear timelines for target-setting and implementation, as well as ambiguities in the methodologies used to define and measure those targets. These issues significantly undermine the effectiveness of climate- and nature-related goals. These are compounded by inefficient and poor-quality planning processes, particularly the limited engagement of stakeholders across sectors, which negatively affects the implementation of environmental policies. Most national objectives also lack cost estimates for proposed measures and fail to identify potential funding sources. Funding remains one of the main obstacles countries face in achieving their climate objectives. Furthermore, climate objectives often provide limited data on specific sectors and fail to comprehensively incorporate GHG emissions from key economic activities (Peterson, 2024).

**Barriers to implementing national climate- and nature-related targets are also linked to inadequate financing.** Key issues include insufficient public funding due to economic constraints, competing budgetary priorities,

## Key challenges to meeting countries' climate and nature objectives

and policy limitations; lack of data, analysis, and research on climate risks, project impacts, and financing needs; and institutional and bureaucratic challenges that hinder the efficient allocation and distribution of climate finance (Anyaokei, 2025). Mobilizing private capital will be crucial for transitioning to low-carbon, climate-resilient, and nature-positive economies, especially in the context of public budget constraints and high debt levels.

The public sector plays a key role in enabling private investment, as many private decisions depend on public sector signals, strategies, and regulations (Alejos et al., 2025). However, market and government failures, inefficient regulations, weak policy frameworks, high costs in emerging economies, and underdeveloped financial markets continue to limit climate investment. In countries with high levels of climate risk and vulnerability, capital tends to be scarce and expensive (Alejos et al., 2025). More broadly, financial markets in developing countries remain shallow, with a limited supply of financial instruments (Naran et al., 2022). Additionally, market and governance failures further discourage the development of projects with positive climate impacts (Alejos et al., 2025).

There are three main obstacles preventing the mobilization of capital at the scale required to meet climate and nature change national objectives. The first is a constrained fiscal space and high levels of public debt (Powell & Valencia, 2023). The second is the limited availability of investment portfolios that include a sufficient pipeline of implementable climate and nature projects (Hillman & Tippett, 2021). The third obstacle is limited institutional capacity, both in terms of impact reporting and target setting, and in applying best practices to effectively access financial markets (Cárdenas et al., 2021). Addressing these challenges through investments in monitoring, evaluation and learning (MEL) can unlock access to more affordable financing, while also creating incentives for policy alignment and improved governance.

## B. Governance issues that limit the mobilization of public and private resources

**The main challenge to the effective deployment of mitigation, resilience, and nature conservation policies and investments is best defined as a wicked problem.** Its complexity stems from the inherently interdependent and cross-cutting nature of these issues. This poses distinct challenges for public administrations that remain largely organized through rigid, sector-based structures. Traditionally, ministries of education, health, infrastructure, and others operate within normative frameworks that define linear procedures, where policy inputs are assumed to yield predictable outcomes (Mosqueira & Alessandro, 2023). While this model can be effective for managing straightforward interventions, it is poorly suited to addressing systemic challenges such as climate change or biodiversity loss, where interactions cut across multiple sectors and require adaptive, coordinated responses.

**Addressing these governance challenges involves fostering cross-sectoral collaborations, promoting multi-actor engagement and strengthening institutional capacity.** The vertical and autonomous operation of public agencies and state-owned enterprises reinforces siloed approaches. Public service regimes usually assign staff to specific sectors, while budgetary frameworks define allocations along sectoral lines, leaving little room for multisectoral budget lines or joint initiatives (Mosqueira & Alessandro, 2023). As a result, collaboration among ministries, such as finance, planning, environment, and infrastructure, remains limited, even when joint action is indispensable. Moreover, assigning sector-specific targets, as often done in NDCs and NBSAPs, is insufficient without accompanying mandates, resources, and mechanisms for joint planning and accountability (Mazzucato, 2021). This institutional fragmentation undermines the capacity of governments to design integrated project pipelines, weakens the connection between climate national targets and fiscal planning, and reduces the credibility of investment frameworks in the eyes of private markets.

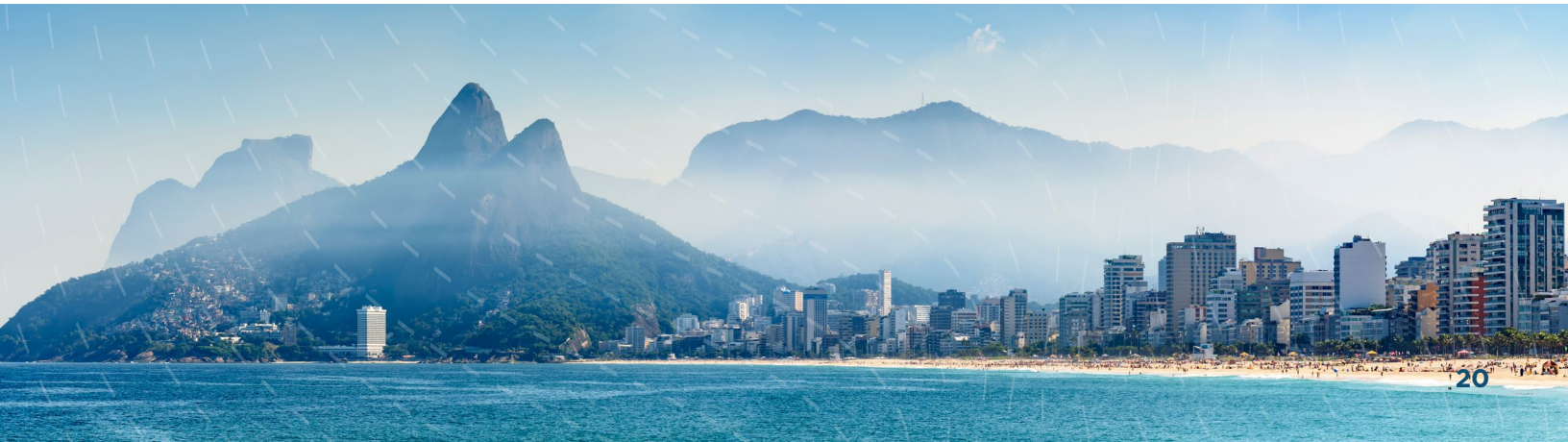
**Vertical integration is also essential to aligning national objectives with local implementation.** In the context of climate action, vertical integration refers to the process of creating intentional and strategic linkages between national and subnational planning, implementation, and monitoring systems. Achieving national targets set in international agreements requires local action, which involves engaging subnational governments, enhancing urban planning and development, and embedding resilience measures in the built environment. This is especially relevant in decentralized contexts, where cities and regions have significant responsibilities over infrastructure, land use, public transportation, waste management, and other service delivery. Luna Rodríguez et al. (2023) highlight three complementary dimensions. In planning, vertical integration enables dialogue across governance levels to ensure that national and local strategies are mutually supportive. In implementation, it ensures that subnational actors have access to the information, resources (including finance) and capacities they need to act effectively. In monitoring, evaluation, and learning (MEL), vertical integration captures subnational climate processes and outcomes, while feeding national lessons back into local decision-making.

**Country platforms provide an innovative example of a multisectoral approach to addressing environmental challenges.** They bring together governments, the private sector, development partners, and civil society around a shared vision. By aligning national priorities with international support and financing, country platforms enable coordinated, cross-

sectoral action, foster innovation, and integrate climate and nature-based solutions into broader economic and development strategies. They also support the development of bankable projects and facilitate the connection between international financial flows and domestic capital markets, positioning NDCs and NBSAPs as investment-oriented plans. In addition, country platforms enhance project development, risk management, stakeholder coordination, and resource mobilization, thereby improving the efficiency of collective action (Climate Policy Initiative, 2024). The Climate Investment Funds serve as a strong example of a financial mechanism providing targeted funding and technical assistance to help countries align investment plans with climate goals, often in close collaboration with multilateral development banks (MDBs).

**Ministries of economy and finance can play a pivotal role in addressing and leading this governance issue.** Against this backdrop, these ministries are strategically positioned to bridge institutional gaps by incentivizing actors to embed environmental considerations into investment planning, while also acting on the core tenets of fiscal and macroeconomic governance. Finance ministries hold specialized responsibilities for revenues, expenditures, incentives, debt management, national budgeting, macro-fiscal planning, risk management, and access to financing. Each of these responsibilities is typically carried out by independent units, each operating under its own instruments and legal frameworks. However, the design of effective, efficient, and robust policy reforms requires coordination and consensus across these units. These ministries therefore occupy a critical position within national organigrams to incentivize the alignment of environmental objectives into the design of budget, policy and program definition (Campillo et al., 2025).

**The mainstreaming of mitigation, adaptation and nature objectives must therefore be conceived not merely as an environmental concern, but as a matter of efficient resource allocation.** Public investment that does not incorporate resilience to climate risks cannot be considered true development investments, as they generate future fiscal liabilities rather than long-term assets. For example, if a government spends public funds to build an infrastructure network designed to last a specific number of years but fails to consider the detrimental effects of extreme weather events, the infrastructure may suffer premature damage, leading to additional public expenditures for repairs or reconstruction. To address this inefficiency, strong sectoral ownership of climate- and nature-related criteria in investment planning is therefore essential. Ministries of economy and finance can ensure that sectoral government agencies take proactive and effective action to ensure that climate resilience is considered in project design and national budget formulation. This, in turn, enhances the effectiveness of public spending through the establishment of climate-smart public financial management and planning frameworks (Fozzard, 2019).



## Key challenges to meeting countries' climate and nature objectives

**National public investment systems can play an essential role in linking climate objectives to national planning and budgeting cycles.** As shown by Llempén et al (2025), these systems have gained increasing recognition in recent years as a key mechanism for mainstreaming climate and nature consideration into sectoral investment decisions and for strengthening inter-institutional coordination. By incorporating climate criteria into their procedures, national public investment systems can help establish clearer institutional connections between the climate objectives outlined in NDCs and national budgetary frameworks. They also foster greater alignment between mitigation and adaptation priorities and the design and selection of public investment projects. However, in many countries, weak intersectoral coordination and fragmented governance still limit the ability of these systems to systematically integrate climate and nature-related information, constraining the effective mobilization of both public and private resources for climate action (Fozzard, 2019).

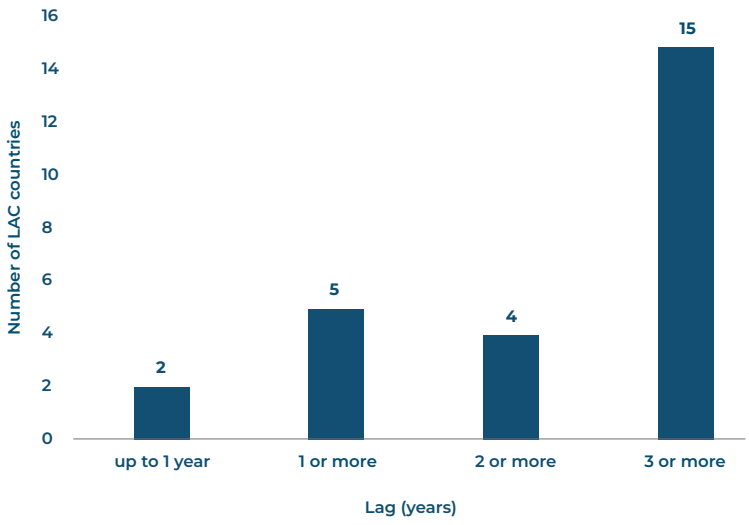
**Long-term planning for climate and development requires tailored governance and institutional arrangements that extend beyond the short-term horizons of political and budgetary cycles.** Most national frameworks are designed for periods of less than ten years, creating a misalignment with the transformational changes needed to address climate change. Establishing rules, incentives, and structures that embed long-term objectives into short- and medium-term decision-making is therefore essential to avoid path dependency on carbon-intensive infrastructure and investments (Elliot et al., 2019). Taking long-term planning into account means aligning current investment decisions with trajectories that foster climate resilience, low-carbon competitiveness, and the sustainable use of natural capital. These impacts go beyond immediate project outcomes and emerge when institutions adjust how they plan, prioritize, and finance development, ensuring that sectoral and multisectoral pathways remain consistent with climate and biodiversity targets.

## C. Implementation challenges derived from a lack of transparency

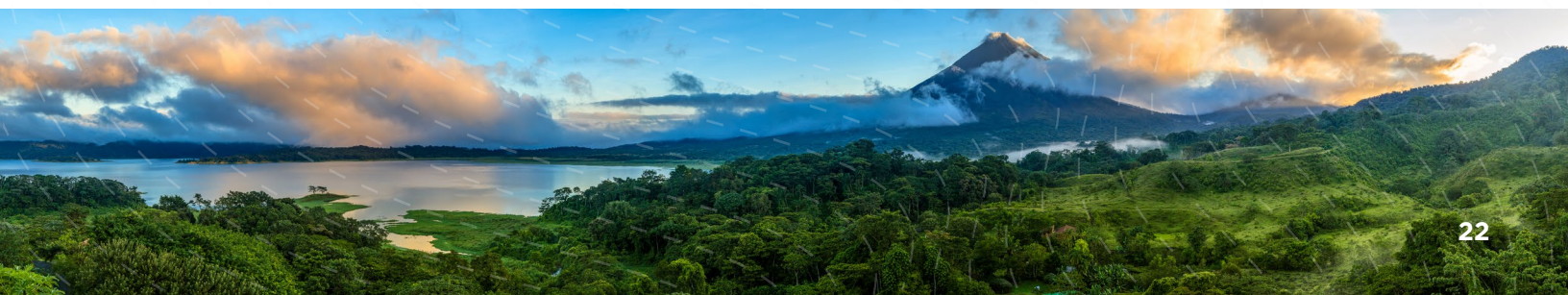
**The LAC region faces significant structural challenges in terms of transparency and impact reporting.** These challenges have led to growing demands for improved reporting on climate- and nature-related impacts. This includes compliance with the new Enhanced Transparency Framework, as well as the reinforced market standards required to access thematic debt markets. The inherent risks of mislabeling and information asymmetries in a still-nascent environmental, social and governance (ESG) market, further aggravated by macroeconomic concerns, have contributed to investor withdrawals from EMDEs, highlighting the urgent need for increased transparency (Scatigna et al., 2021). Failure to link the reporting and financing agendas has resulted in structural limitations within the region, as illustrated by the region's lag in terms of national communication report submissions (see Graph 1). Reporting capacities across the LAC region remain limited (IMF, 2022) and require significant institutional strengthening. The author's analysis, based on publicly available data, shows that most countries in the LAC region are more than two years behind in submitting their GHG reports, while International Capital Market Association (ICMA) standards recommend a maximum lag time of 12 months. While some countries are more advanced than others, efforts in this area need to be scaled up considerably.

Graph 1.

### Lag in national communication report submission to UNFCCC LAC countries (reported by countries)




Note: Based on data published by the UNFCCC as of September 9, 2025. https://unfccc.int/reports / Source: Author's elaboration



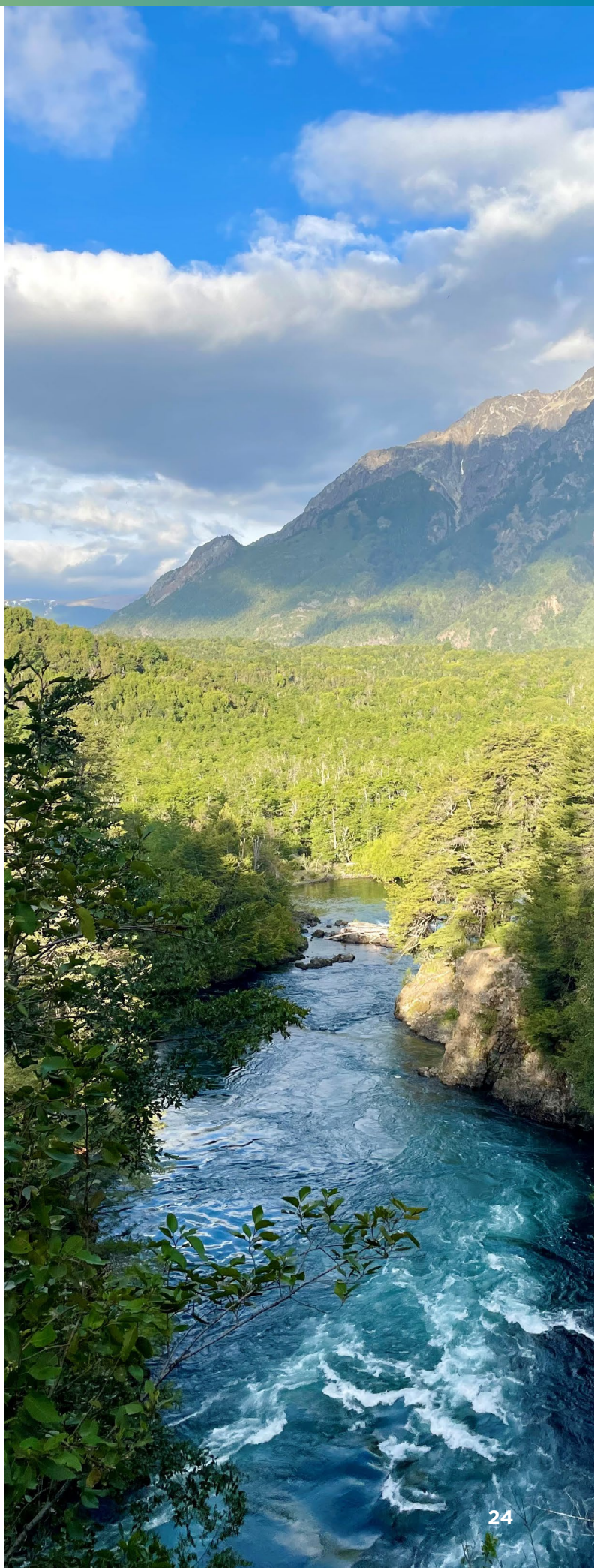
**Institutional and capacity gaps limit the effectiveness of measurement, reporting and verification (MRV) systems in informing climate policy and finance.** Preliminary findings from ongoing IDB research reveal that while all LAC countries have established some form of mitigation MRV system, there are significant differences in methodology, efficiency, and the extent to which these systems are used to inform climate policy. Climate mitigation MRV systems are critical for the development of national GHG inventories and the operation of key UNFCCC mechanisms. In addition, they have the potential to improve domestic policy formulation by enabling more evidence-based decision-making (Kamil et al., 2021). However, in practice, these systems often fall short of this potential (Gupta & Mason, 2016). The core limitation lies in the institutional capacity constraints common across emerging economies, which hinder the integration of MRV systems into effective, evidence-driven policy making (Sarr, 2018). Countries are required to balance international reporting obligations, domestic policy development, and the high transaction costs associated with these processes, factors that ultimately constrain their ability to mobilize climate finance effectively (Belianska et al., 2022).

**While different international and national governance efforts exist to promote transparency, effectively achieving environmental objectives requires an approach tailored to the complexity underlying these policy challenges.** To effectively align institutional incentives, impact reporting must be properly articulated so that investments in transparency can be monetized through the issuance of green thematic debt or access to other performance-based instruments. Articulating these efforts with reporting methodologies that ministries of economy and finance must employ to report on green investments is critical to accessing thematic debt markets effectively. In turn, these methodologies must be aligned with green taxonomies which, to avoid reputational risk, must build upon internationally agreed definitions of climate- and nature-related criteria. Ministries of environment, particularly their climate and biodiversity units, hold technical knowledge regarding those methodologies. Therefore, finance ministries must ensure that the reporting units of the ministries of the environment, the reporting units of the sector ministries, and the reporting units of the debt management offices use the same data. The building block for all these reporting efforts is defined by market actors in the methodologies defined by the scientific community through the Intergovernmental Panel for Climate Change (IPCC) and the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES).

**Designing sector-owned MEL frameworks, articulated with environment and finance ministries is essential for credibility and scale.** A sector-owned MEL framework provides a more comprehensive approach, introducing a continuous cycle of evaluation and learning. By embedding MEL within the mandates of finance and environment ministries, these systems gain credibility and scale, ensuring that policies and investments generate measurable, long-term results and impacts. When properly designed, MEL frameworks not only strengthen transparency and policy effectiveness, but can also be leveraged to facilitate access to thematic debt markets and sustainable infrastructure platforms, thereby helping to attract private capital (Beauchamp et al., 2024). Recent sovereign green debt issuances supported by the IDB in the LAC

region demonstrate that such efforts can be monetized, offering a compelling incentive to raise ambition in both climate and nature action.

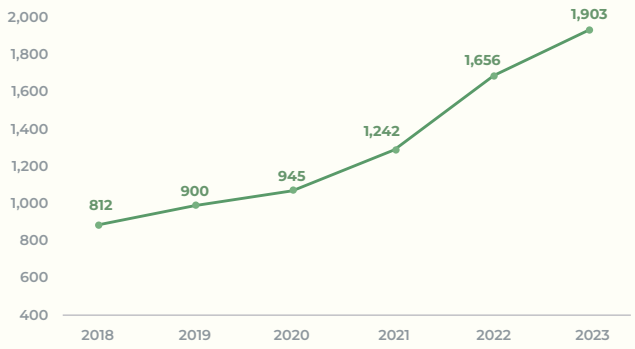
**To achieve the necessary levels of ownership by policymakers in the region, climate reporting systems must not only meet the UNFCCC requirements but also address the main socioeconomic challenges facing the region.** Therefore, an evidence-based, climate-centered policy system should encompass the three dimensions of climate MRV as defined by (Cárdenas et al., 2021). These include monitoring economic activities and policies that generate and mitigate GHG (climate mitigation MRV), monitoring economic activities and policies that enhance a country's resilience to shocks caused by climate change (climate adaptation MRV), and monitoring climate and nature-related public spending and budgeting activities to better calibrate and support climate policy formulation from a fiscal perspective (climate finance MRV). Across the region, climate reporting challenges are exacerbated by the disconnection among policymaking bodies at different governance levels, from national to municipal (Hsu et al., 2017).



## D. The financing gap to achieve climate and nature goals

**At the global level, current flows of capital (both public and private) directed toward climate and nature, remain far below what is required to meet sustainability objectives.** While climate finance has grown substantially in recent years, this increase still falls short of projected needs. The persistence of this financing gap represents one of the central obstacles to achieving a just and orderly transition to low-carbon, climate-resilient economies. According to the Global Landscape of Climate Finance 2025, global climate finance flows reached approximately $1.9 trillion in 2023, an increase of 15 percent from the previous year and a compound annual growth rate of 19 percent since 2018. Between 2021 and 2023, growth accelerated to 26 percent per year, reflecting rising investment in renewable energy, electric mobility, and sustainable infrastructure. Yet, this pace remains insufficient. Moreover, evidence shows that most of the mobilized resources are unevenly distributed, with a large share flowing towards developed economies, while developing regiones (often the most vulnerable to climate impacts) continue to face significant barriers in accessing finance (Buchner et al., 2023b). It is estimated that $7.5 trillion per year will be needed during 2024–2030 to avoid the impacts of climate change, rising to more than $8.8 trillion annually between 2031 and 2050. Current mitigation and adaptation investments therefore cover only about 20 to 25 percent of the required levels, leaving an annual shortfall of around $6 trillion (Naran et al., 2025).

**Graph 2.** **Trend in climate and nature finance (USD billion)**




Source: Climate Policy Initiative (CPI)

**This imbalance is not evenly distributed across climate priorities.** The composition of flows reveals a significant bias toward mitigation. In 2023, roughly $1.78 trillion (94 percent) was allocated to mitigation efforts, particularly in the energy and transport sector, while adaptation received only $65 billion, or 3 percent of the total. Adaptation finance is not only marginal in relative terms, but also severely misaligned with the scale of climate impacts already being experienced. The disparity is most acute in emerging markets and developing economies, where adaptation needs are projected to exceed $220 billion annually by 2030. The United Nations Environment Programme (UNEP) Adaptation Gap Report 2023 underscores that developing countries face an adaptation financing shortfall ranging from $194 billion to $366 billion per year, highlighting the systemic underinvestment in resilience.

**The nature agenda presents an equally pressing financing gap.** The Kunming-Montreal Global Biodiversity Framework calls for at least an additional $700 billion per year to halt biodiversity loss and safeguard ecosystem services (Deutz, A. et al., 2020). Currently, biodiversity finance amounts to only around $133 billion annually (World Economic Forum, 2021), meaning that less than one-fifth of the required resources is being mobilized. This reflects not only the insufficient scale of investment, but also the limited integration of nature-related considerations into global financial systems and public policy frameworks.

**Fiscal constraints continue to exacerbate these gaps.** Countries in LAC grapple with significant risks stemming from the fragmentation of global trade, heightened financial market volatility, and ongoing uncertainty around the economic policy direction of major global economies. Fiscal challenges remain persistent, as many countries struggle to meet budgetary targets amid elevated debt servicing costs that constrain growth. Long-term interest rates, crucial for managing the region's external debt, have remained high, further straining public finances. The average yield on LAC sovereign debt increased sharply to 7.3% in 2024, reflecting tighter global financial conditions. As a result, debt affordability has deteriorated considerably, with rising interest payments emerging as one of the region's most urgent economic concerns (Ayres et al., 2025b).

**The mobilization of private capital is essential to deliver climate and nature-related results at the scale required.** Blended finance has emerged as a promising mechanism to de-risk investments and attract private sector resources to climate and biodiversity projects. It is estimated that MDBs and development finance institutions could catalyze more than $600 billion annually in private capital, helping emerging markets and developing economies move closer to the target of $2.4 trillion per year in climate investment by 2030 (Massdorp et al., 2024). Yet, the

deployment of blended finance remains limited and requires coordinated efforts to standardize methodologies, reduce transaction costs, and enhance transparency in measuring outcomes.

**While climate finance flows have reached historic highs, the scale of the shortfall remains significant.** The imbalance between mitigation and adaptation, the chronic underinvestment in biodiversity, and the fiscal constraints faced by developing economies underscore the urgency of financial innovation, enhanced international cooperation, and significantly stronger role for private capital. A combination of robust public policy, multilateral coordination, and active engagement from the financial sector can help countries to close the gap between climate ambition and financial reality, ensuring a transition that is not only low-carbon and resilient, but also positive for nature.

**Investing in transparency, governance, capacity building and MEL systems can help unlock access to more affordable financing, particularly through thematic debt markets.** These institutional investments enhance credibility and reduce perceived risks for investors by improving the quality, traceability, and reliability of climate-related information. Strong governance arrangements and transparent reporting frameworks also facilitate the verification of results and the demonstration of fiscal responsibility, both of which are increasingly important for accessing green and thematic debt markets.

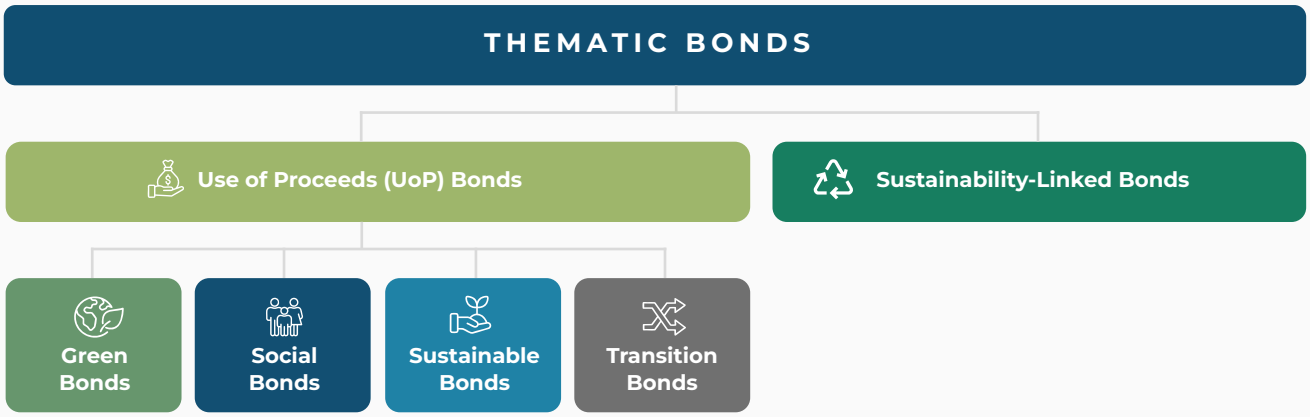
04.

# The opportunity of green thematic debt markets

## A. Understanding thematic debt instruments

**In recent years, raising funds through capital markets via thematic bond[4] [5] issuances has gained significant traction and interest.** Thematic bonds are fixed-income debt securities that fall into two main categories. The first includes bonds whose use of proceeds, or an equivalent amount, is wholly or partially allocated to financing eligible green, social or sustainable projects, as well as initiatives that support the transition to lower environmental impacts, whether these projects are new or existing. The second category consists of sustainability-linked bonds (SLBs), whose financial or structural terms may be adjusted based on whether the issuer meets predefined sustainability performance targets (SPTs) (ICMA, 2024, 2025).

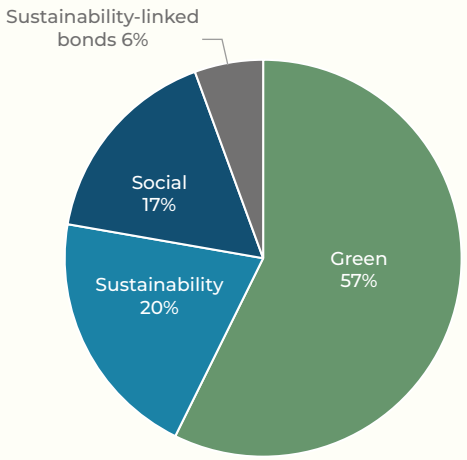
**Figure 3.** Thematic bond types




**Since the issuance of the first green bond by the European Investment Bank in 2007 (Banga, 2019), the thematic debt market has grown steadily in both volume and issuer diversity.** MDBs, public development banks, sovereign governments, municipalities, private companies, and other entities have collectively issued over $6.2 trillion in thematic bonds since that initial offering (ICMA, n.d.). However, despite sustained growth, public and private market participants are only beginning to tap into the full potential of these markets to finance green projects (Sangiorgi & Schopohl, 2021). As a result, thematic bonds continue to represent a relatively modest share of the global bond market, accounting for approximately 11% in 2024 (Cochelin et al., 2024). Issuance has also been uneven across regions, with EMDEs still in the early stages of market development (Banga, 2019). To date, EMDEs account for only 14% of total thematic bond issuance. Green bonds remain the most prevalent instrument in both advanced economies and EMDEs, representing approximately 58% and 52% of thematic bond issuance, respectively (ICMA, n.d.).

[4] Also referred to as labeled bonds.
[5] In this document, we will refer to green, social, sustainable, sustainability-linked, and transition bonds collectively as thematic bonds.

**Graph 3.** **Global thematic debt issuance volume and share by type of bond in USD billions, as of May 2025**



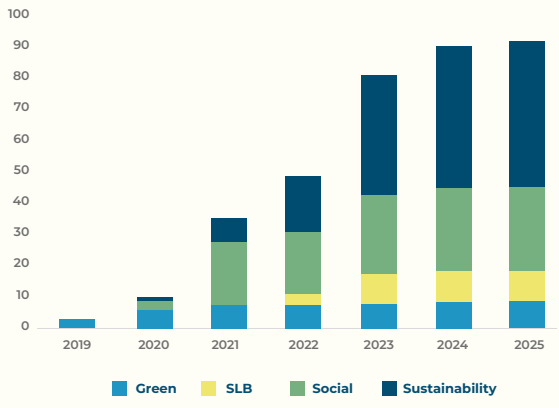

Source: ICMA

**Thematic bond issuance represents an emerging trend.** While the sovereign bond market, referring to debt issued by general government entities, accounts for nearly half of global outstanding debt securities (Monnin et al., 2024), sovereign thematic bonds still represent a small share of the total. As of 2024, such bonds represent around 2% of all global bonds and approximately 15% of the thematic bond segment in 2024 (Cochelin et al., 2024), totaling $576.8 billion issued by 55 sovereigns since 2016 (ICMA, n.d.), when Poland issued the first worldwide sovereign green bond.

**Despite recent growth, LAC remains a marginal player in global thematic bond markets.** While sustainable debt issuances in LAC more than doubled between 2019 and 2023, reaching $126.9 billion (Green Bond Transparency Platform - IDB Data, n.d.), and green bonds represented approximately 30% of all LAC issuances in 2022 (ECLAC, 2023), the region's participation still represent less than 2% of global thematic bond issuance (Green Bond Transparency Platform - IDB Data, n.d.). This indicates that, although the region is relatively more active in the thematic debt market than in global bond markets overall (around 1%), its absolute share of the global thematic bond market remains very limited, underscoring substantial potential for growth. Moreover, both commercial and sovereign green debt issuances are still highly concentrated within a limited number of countries. In 2021, 96% of all non-sovereign sustainability-linked issuances were in Brazil (60%), Mexico (28%), and Chile (8%) (Velloso et al., 2022).

**Thematic bond issuance is expanding across LAC.** Since 2019, when Chile issued its first sovereign green bond, 11 LAC sovereigns have issued thematic debt, totaling $92 billion. Sovereign thematic bond issuance in LAC has been predominantly concentrated in sustainable bonds, followed by green bonds, social bonds, and sustainability-linked bonds.

**Graph 4.** **Cumulative sovereign thematic debt issuance in LAC (in USD billion), as of Q1 2025**




Source: CMF IDB data

**The green bond market offers many opportunities for the region.** In this context, there is considerable potential for sovereign issuers in LAC to expand their participation in the thematic bond market, thereby mobilizing larger-scale financial flows toward investments aligned with national climate and nature objectives. The global green bond market is projected to reach an outstanding volume of between $4.7 trillion and $5.6 trillion by 2035 (IDB, 2023).

**By accessing thematic debt markets, LAC countries can leverage a range of potential benefits.** First, the issuance of thematic bonds can attract new investors, thereby broadening the investor base and serving as a platform to enhance the country's reputation in environmental stewardship (Tsonkova, 2019). Investors are increasingly aware of the value generated by green projects (Shishlov et al., 2016) as well as the risks that climate change poses to traditional financial assets (OECD, 2015, 2018). Furthermore, thematic bonds promote the development of sustainable capital markets at the national level (Cheng et al., 2024). By establishing a robust institutional framework for green bond issuance and leading by example, governments can stimulate market growth (Rodrigues, 2019). A sovereign or quasi-sovereign thematic bond issuance, such as one led by a development finance institution, has a multiplier effect on the domestic market, typically resulting in a 50% increase in funding volume and a 25% rise in the number of issuances by public and private institutions within the following two years (Cunha et al., 2023a).

**Lower financing costs provide more incentives.** Countries may also benefit from lower financing costs by capturing the "greenium," a green premium reflected in yields that are lower than those of conventional bonds. Empirical evidence indicates that investors value green bonds, often rewarding their environmental credentials with lower required yields. Studies report yield discounts ranging from 5 to 18 basis points government, or supranational issuers, or issuances in euros (EUR)(Kapraun et al., 2021), and around 6 to 14 basis points for U.S. municipal green bonds depending on certification (Baker et al., 2018). In secondary markets, disclosure quality can drive differences of up to 23 basis points (Geerlings, 2019). A systematic review finds that most studies confirm a greenium, averaging 1 to 9 basis points, especially for investment-grade, government-issued bonds with strong governance (MacAskill et al., 2020). More recent research shows a modest premium in advanced economies (around 4 bps) but higher and rising in emerging markets (around 11 bps) (Ando et al., 2024). In addition to the greenium, SLBs offer further incentives to drive investment in climate and nature by incorporating favorable financial terms. One example is the potential reduction in interest rate, known as step-down, which is triggered when sustainability performance targets (SPTs) are met. IDB experience in supporting the structuring and issuance of the first sovereign SLB with a step-down mechanism highlights the potential of these instruments to promote policy coordination and alignment around environmental objectives.[6]

[6] Uruguay Issues Global Sustainability-Linked Bond, with IDB Support https://www.iadb.org/en/news/uruguay-issues-global-sustainability-linked-bond-idb-support

## B. Green and other thematic debt market challenges, standards, and requirements

**The are several barriers limiting the development of thematic debt markets, many of which are closely linked with the structural challenges that developing countries face in achieving their nationally determined climate and nature targets.** Limited fiscal space, high debt ratios, a lack of shovel-ready climate and nature investment pipelines, and insufficient transparency are major obstacles that hinder capital mobilization, limit the ability to close the financial gap and, ultimately, undermine the achievement of national climate and nature objectives (Cárdenas et al., 2021; Galindo & Nuguer, 2023; Hillman & Tippett, 2021). Insufficient investor willingness to take positions on green and thematic debt, driven by risk–return expectations, minimum ticket size requirements, underlying portfolio risks, and the lack of standardization and predictability, also represent a key barrier to the development of green debt markets. Additionally, climate and nature sectoral objectives cannot lead to meaningful and efficient implementation without concreate alignment of debt management offices and sectoral ministries. Unlocking these challenges requires sustained political commitment and significant investment in the strengthening of institutional frameworks, particularly in areas related to governance and transparency. These investments are typically resource-intensive, demanding not only substantial financial allocations but also robust human and technical capacity. Although often viewed as high-cost undertakings with limited short-term returns, such efforts can support the development and implementation of evidence-based, results-driven policies that improve overall policy coherence, effectiveness, and long-term impact.

**Transparency criteria for thematic debt issuance are in the early stages of development.** The challenges associated with accessing capital are explicitly reflected in the standards required for issuing thematic bonds in global markets, particularly those outlined in the International Capital Market Association (ICMA) Principles, which serve as a key reference for these types of instruments. The ICMA framework is structured around core components that aim to ensure transparency, build investor confidence, and uphold the integrity of the market. For green, social, and sustainability bonds, commonly referred to as use-of-proceeds instruments, the ICMA Principles establish four core components. First, issuers must clearly define the use of proceeds, directing funds to projects with well-defined environmental or social benefits. Second, the project evaluation and selection process requires disclosure of sustainability objectives, eligibility criteria, and risk management practices. Third, robust fund management is essential, including transparent tracking and monitoring of proceeds, as well as external audits. Finally, issuers must produce annual reports detailing the funded projects, their impacts, and the use of both qualitative and quantitative indicators. In the case of SLBs, the ICMA Sustainability-Linked Bond Principles outline five essential components. Issuers must select key performance indicators (KPIs) that are strategically relevant, measurable, and verifiable. These are supported by ambitious SPTs that go beyond business-as-usual trajectories. The financial characteristics of the bond must be directly linked to the achievement of these targets, creating performance-based incentives. Annual reporting is required to disclose progress toward meeting targets, and external verification ensures the accuracy and credibility of both KPIs and SPTs (ICMA, 2024, 2025).

**These principles are designed to enhance the credibility and effectiveness of thematic bond issuances by establishing rigorous and transparent standards.** Such standards align financial instruments with sustainability goals and foster the trust necessary to scale up investment in environmental and social outcomes. A key objective of these principles is to reduce information asymmetries between investors and countries, thereby mitigating the risk of greenwashing—defined as the intentional or grossly negligent misrepresentation of a financial product's sustainability attributes or the issuer's commitments and achievements (ICMA, 2023). Meeting the demanding requirements of thematic debt markets necessitates significant investments in institutional capacity building and the modernization of reporting systems. Accessing these markets requires countries to demonstrate strong commitments to strengthening their institutional frameworks, ensuring transparency, accountability, and credibility in sustainable finance. Indeed, the issuance of thematic bonds entails additional transparency requirements compared to conventional bond issuances (Chesini, 2024). While international reporting standards represent the ultimate benchmark for potential issuers, it is essential to acknowledge the varying levels of capacity among them. This makes it necessary to design tailored interventions that respond to the specific circumstances and needs of each issuer, ensuring that the adoption process is supportive rather than prescriptive. Progress should therefore be understood as gradual and cumulative, with each step forward recognized as part of a broader trajectory of continuous improvement that, over time, will enable greater alignment with international best practices.

**Recent developments in thematic debt markets, such as SLBs, offer greater flexibility in pursuing positive social and environmental outcomes compared to traditional green bonds.** They hold the potential to transform how countries work toward climate and nature goals, particularly by enabling financing at larger scales. Unlike instruments tied to specific projects through use-of-proceeds requirements, SLBs allow issuers to raise capital more flexibly while aligning financing with long-term institutional strategies. While the primary users of this instrument have been private companies and corporations (Harrison et al., 2021), development finance institutions and sovereign governments have begun to explore and adopt this mechanism to finance their operations. A distinguishing feature of SLBs is the requirement to set ambitious, science-based, and measurable targets, making intended outcomes both quantifiable and verifiable. Emerging research indicates that accessing ESG markets can lead to significant increases in issuance volumes in both domestic and international markets (Cunha et al., 2023b).

**The IDB's experience supporting the structuring and issuance of SSLBs in the region has yielded key lessons regarding the challenges countries must address.** First, the sectors involved often lack experience in making investments related to climate and nature. There is limited integration of these topics into public planning, which is reflected in budgets and public investment projects that do not adequately incorporate climate and nature measures. In this context, developing investment portfolios that can be reported to SLB holders becomes unfeasible. Finally, SLBs require specific transparency standards regarding target quality and reporting. However, limited monitoring and reporting capacity, particularly the lack of infrastructure and systems to measure the impact of climate- and nature-related activities, undermines the quality of reports associated with these issuances.

## The opportunity of green thematic debt markets

**In addition to fiscal policy, development policies and institutional capacities are also relevant to the issuance of green and thematic debt.** While a strong fiscal policy framework and robust governance are essential to build trust and ensure the success of thematic bond issuances (Manda et al., 2024), policy signals—such as commitments or strategic frameworks—in areas linked to thematic debt issuances are equally important. Specific public policies and resilient governance structures play a critical role in attracting private sector participation in climate financing (Prasad et al., 2022). Additionally, transparency is paramount, as failures to meet targets in SLBs have raised concerns among investors and credit rating agencies. The adoption of clear taxonomies and enhanced transparency initiatives can help increase demand for these financial instruments (Cochelin et al., 2024). Investments in climate and nature reporting systems can be monetized while helping to shift climate and nature goals from merely environmental responsibilities to fiduciary duties. Recent experiences in LAC, such as the issuance of SSLBs in Chile and Uruguay, demonstrate how countries can monetize their reporting efforts, transforming climate and nature ambition into a matter of fiduciary obligation. For financial institutions, the main challenge lies in demonstrating the impact of their financed portfolios, which necessitates robust monitoring and tracking of outcomes. In the case of sovereign issuances, it is essential to link ambition to coherent public policies, aligned with broader sustainability agendas and international commitments such as the Sustainable Development Goals (SDGs), the Paris Agreement, and the Global Biodiversity Framework (GBF) to maximize credibility and impact.

**Additional factors are critical when issuing sovereign thematic debt.** Beyond adhering to best practices in thematic markets, such as those established by ICMA, countries seeking to attract capital must also consider recent regulations and evolving policies that may hinder capital flows or limit market access. Global initiatives, such as the Task Force on Climate-related Financial Disclosures, which concluded its work in December 2023 and whose recommendations have been integrated into the International Sustainability Standards Board, as well as the Taskforce on Nature-related Financial Disclosures, provide valuable guidance on climate- and nature-related risks that must be considered.

Additionally, regulatory frameworks like the EU Taxonomy are setting standards that countries in LAC often adopt. However, countries must approach their adoption with caution, as these standards are still evolving and could work against those that lack the rigor to define their own standards in debt issuance frameworks or reporting methodologies.

**Regional capital markets must also evolve to facilitate and attract green financing.** The development and increased use of innovative debt instruments, such as asset securitization, thematic bond issuances, and other sustainable financing mechanisms, represent a natural path toward closing the financing gap, while simultaneously enhancing the availability of medium- and long-term capital for sustainable investments across the region. Debt capital market products can serve as effective channels for institutional investors to finance or refinance sustainable loans and investments, either through IFIs or private financial intermediaries. Additional pathways for expanding sustainable debt capacity include encouraging institutional investors to issue sustainable debt directly or to allocate capital to funds that finance sustainable assets.

**Despite notable recent progress in several LAC countries in developing sustainable debt markets, several key challenges remain.** The region's financial markets suffer from a lack of depth, which limits access to financing. This is primarily due to challenges related to regulatory compliance, limited availability of reliable information and high transaction costs. Capital markets remain in an early stage of development and are characterized by low liquidity, largely driven by weaknesses in regulatory and institutional frameworks, a shortage of liquid markets, limited participation from both retail and institutional investors, a lack of standardized asset classes, and underdeveloped securitization mechanisms. Furthermore, the absence of adequate risk management and assurance instruments exacerbates these issues. The banking sector, in particular, faces several barriers to expanding the supply of green financial products. These include limited internal capacity to identify opportunities within their client base and to assess the demand for sustainable financial products and services, a lack of clear regulatory incentives and restricted access to green finance from international sources. Additional obstacles include foreign exchange risks, stringent requirements to access funding under terms that are financially viable for this type of investments, and the perception that climate-resilient technologies carry higher risk. These factors discourage financial institutions from developing dedicated green finance lines (CMF Division, IDB, 2023).

05.

# The role of international financial institutions

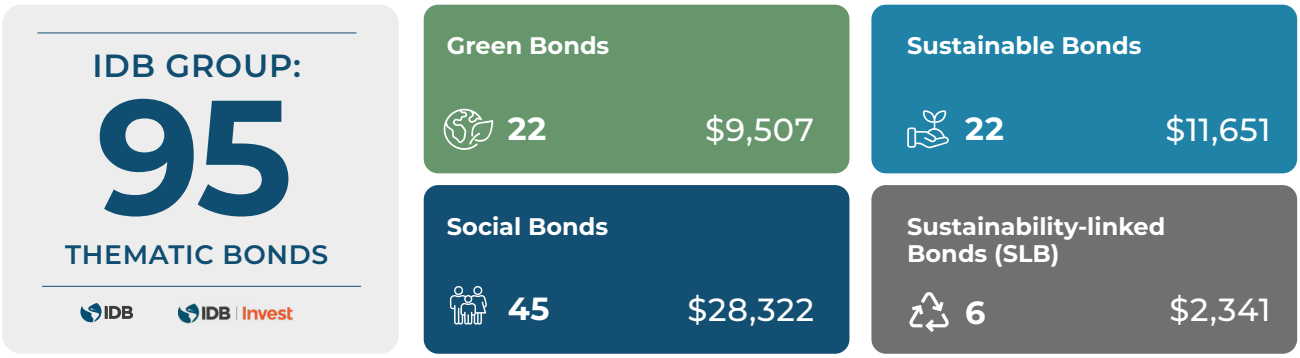
**International financial institutions (IFIs) must evolve and focus on creating the necessary conditions to scale financial flows in line with the level of ambition required for climate and nature action.** The most recent G20 final declaration, issued following the meetings in Brazil at the end of 2024, is very clear in reaffirming the New Delhi Leaders Declaration on the urgent need for a rapid and substantial increase in climate financing, moving from billions to trillions from all sources (G20, 2024). In a similar manner, the World Bank Development Committee has underscored the significant financing gap for climate action in developing countries, highlighting the important role that development finance can play (World Bank, 2022). The outcomes of the respective Conferences of the Parties (COPs) on climate change and biodiversity have also made this clear: current financial flows fall far short of what is needed. Research by the Economic Commission for Latin America and the Caribbean (ECLAC) shows that even if all multilateral lending in the region were devoted exclusively to climate finance, it would still cover only about 3.4% of LAC's annual financing needs in this area. This recognition has led to the emergence of a "dual mandate" that both developed and emerging economies broadly support: the international development finance architecture, along with the instruments and mechanisms of MDBs, must evolve. On the one hand, EMDEs are burdened by high levels of debt and therefore require new financial instruments and technical assistance to support their climate and nature transitions (i.e., green transitions) while expanding their fiscal space. On the other hand, both developed and emerging economies have called on MDBs to align their efforts with the goal of helping countries meet their environmental targets by developing new mechanisms that reward and exponentially scale up biodiversity and climate finance, going beyond the current lending capacity of MDBs. While direct financing for climate and nature action remains insufficient, new mechanisms developed by MDBs could help leverage complementary indirect financing to reach the necessary scale.

**Countries have expressed the need to strengthen MDBs so they can drive the development of new financial instruments and thereby mobilize both private and public capital for projects and programs in developing countries.** The G20 declaration from Brazil also endorsed the G20 roadmap toward stronger, larger, and more efficient MDBs, including recommendations and actions to enhance their vision, incentive structures, operational approaches, and financing capacities. This is intended to better equip MDBs to maximize the impact of addressing the broad range of global and regional challenges, while accelerating progress toward the SDGs (G20, 2024). The Bridgetown Initiative (2022), for example, highlights the need to expand multilateral lending and develop lower-cost financial instruments that can help mobilize private sector investment.

**MDBs can play a key role in developing the systemic capacities needed to access larger and more sophisticated concessional green finance instruments.** An OECD assessment of climate COP15, its $100 billion climate finance commitment, and the progress made highlights that MDBs are instrumental in scaling up climate finance flows while also helping to channel climate investments into sectors that do not traditionally adopt a climate-focused approach (OECD, 2022). The same assessment also finds that, compared to donor countries and multilateral climate funds, MDBs are the most effective actors in mobilizing private finance in higher-risk environments. Between 2016 and 2020, 57% of total private climate finance mobilized was attributable to MDBs, compared to 36% by bilateral providers and just 7% by multilateral climate funds (ibid.).

**The IDB Group can play a critical role in the upscaling of thematic financial flows.** To achieve greater impact and scale, the IDB Institutional Strategy (IDB Strategy+), which sets the strategic direction through 2030, seeks to enhance the accessibility, scale, and effectiveness of financing by increasing the use of fit-for-purpose instruments, including sustainability-linked bonds, blended finance, contingent credit insurance, and results-based lending (IDB, 2025). The IDB has demonstrated, on multiple occasions, its competence to build the systemic capacities that enable countries to access larger and more sophisticated concessional green finance instruments. Indeed, the Bank has been recognized for its role in designing innovative financial instruments to advance climate and nature agendas (Wright et al., 2018). Recent interventions in the region demonstrate this potential, including support for the development and issuance of sovereign green debt instruments—notably the first sovereign SLB featuring a step-down mechanism—as well as the design of debt-for-nature swaps. At the same time, the IDB's role in developing these financial products should be seen as a catalyst for fostering endogenous issuance capacities, helping to create reliable enabling environments and attract private capital flows aligned with sustainability objectives. Furthermore, through multiple and coordinated efforts, the IDB supports countries and other borrowers in the region in taking full ownership of the environmental agenda. The creation of the Climate Change Platform of Economy and Finance Ministries in 2022 has been key to advancing this agenda, by helping countries in the region reframe fiscal reforms to better integrate climate- and nature-related risks and opportunities. The articulation of this platform with other efforts and networks, such as the IDB's LAC Debt Group, a forum which convenes all of the regions' debt management offices to enhance the capacity of governments to apply best practices in managing public debt through technical discussions[7], as well as climate policy dialogues led by sectors, is fostering the adoption and adaptation of a diverse set of policy instruments already tested in the region, with a focus on national needs and capacities. Some examples of resources the IDB has made available to foster financial innovation include the Amazonia Bond Issuance Guidelines[8] and the Practical Guide to Sustainable Financial Instruments for Public Credit Bureaus and Treasury.[9]

**Figure 4.** **Thematic bond issuances supported by IDB Group, as of June 2025**




[7] See also Prats Cabrera, J. O., & Chiara, J. (2022). Debt Management Institutions in Latin America and the Caribbean: A Comparative Analysis. https://doi.org/10.18235/0003953
[8] Inter American Development Bank, & World Bank (2025). Amazonia Bond Issuance Guidelines: Guidance for Labeled Bonds Dedicated to Financing the Economic, Environmental, and Social Development of the Amazonia Region. https://doi.org/10.18235/0013578
[9] Torres Pelaez, D., Pinzon Cortes, A. M., Silva Nava, A., Frisari, G. L., Loo-Kung, R., Delgado, R., Ruíz, U., Rosales, R., & Hernández, Y. (2024). Practical Guide to Sustainable Financial Instruments for Public Credit Bureaus and Treasury. https://doi.org/10.18235/0013054

**The IDB is also leading regional and global efforts to develop new green financial policies and market instruments.** Beyond providing technical and financial assistance to develop new market instruments, the IDB supports the creation and establishment of local green financial markets through interventions aimed at developing national green taxonomies and transparency capacities. An example of this is the creation of the Green Bond Transparency Platform (GBTP), to simplify harmonized reporting[10] and informed decision-making for issuers, investors and other actors.[11] This approach helps sovereign and subnational clients unlock their transformative potential and lead changes in the region. Recent interventions by IDB have shown that, for emerging economies, it is possible to monetize investments in institutional strengthening and transparency to attract climate and nature finance at scale. With the technical and financial support of the IDB Group, borrowers in the region have issued more than $51.8 billion in thematic debt since 2017, including $2.3 billion in sustainability-linked bond (SLB) issuances (Green Bond Transparency Platform - IDB Data, n.d.).

**With IDB support, countries in the region are strengthening their institutional capacity and pioneering innovative green financial solutions.** Financial innovations, such as Chile's issuance of the world's first sovereign sustainability-linked bond (SSLB), Uruguay's pioneering SSLB featuring a step-down interest rate mechanism tied to target achievement, Brazil's sustainable bond program and Colombia's twin bonds, alongside guarantees in Barbados for debt-for-climate-resilience operation and Ecuador for debt-for-nature swap, showcase the potential of the region and the IDB to help develop cutting-edge financial policy solutions that enable a successful green transition in mitigation, adaptation, and nature preservation.[12] In Uruguay, particularly, the IDB's technical assistance in structuring and issuing an SSLB with a variable interest rate, including a rate reduction incentive linked to the country's NDCs and biodiversity and land-use KPIs, illustrates how innovative market instruments can support a country's climate goals. This initiative has also strengthened government-wide coordination mechanisms for defining and implementing climate policy objectives. Other innovative debt solutions, such as Ecuador's debt-for-nature swap, the largest in the world at $1.6 billion, further highlight the IDB's leadership. The IDB has also supported the creation of biodiversity credit markets in Colombia and Argentina, as well as natural asset classifications and insurance for natural assets such as coral reefs in Mesoamerica. Ultimately, two critical success factors are essential to mainstream these innovations into borrower policy options: (i) substantial investments in transparency and impact reporting capacity, and (ii) implementation of reforms to develop local markets and boost demand for commercial green debt both within and beyond the region. However, broadening the pool of borrowers that meet these success criteria is essential to enable more countries to implement and benefit from these innovative financial instruments. As the most important source of development finance in the region, the IDB is uniquely positioned to incentivize countries to make the necessary investments to leverage resources, attract sufficient private capital, and achieve the scale required for transformative impact.

[10] OECD (2025) IDB's Green Bond Transparency Platform and its global replication potential https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/07/blended-finance-case-studies_2dbe4d82/idb-s-green-bond-transparency-platform-and-its-global-replication-potential_6e550c81/74bd012a-en.pdf

[11] Vasa, A. Vartanyan, M. Netto, M. (2022). A novel database for green bonds to support investment analysis and decision making, research, and regulatory decisions: The Green Bond Transparency Platform. White Paper.

[12] **Chile** issued the world's first sovereign SSLB, linking sovereign debt to sustainability performance targets and incentivizing achievement of climate and nature goals through financial rewards, with IDB support in structuring the bond. **Uruguay** pioneered a sovereign Sustainability-Linked Bond (SSLB) with a step-down interest rate, where achieving climate and biodiversity targets (NDCs and land-use KPIs) triggers a reduction in borrowing costs, supported by IDB technical assistance. **Brazil** established its sovereign sustainable bond program with support of the IDB and the World Bank, which paved the way for Brazil's inaugural $2 billion sustainable bond issuance. **Colombia's** first twin bond issuance, which achieved a positive greenium and high oversubscription, demonstrating investor appetite for well-structured thematic instruments. **Barbados** launched the world's first sovereign debt-for-climate-resilience operation, converting expensive debt into a Sustainability-Linked Loan backed by IDB and EIB guarantees, generating US$125 million in fiscal savings for climate-resilient water and sewage projects, with repayment terms tied to ambitious water reclamation targets and penalties funding environmental investments if targets are missed. **Ecuador** executed the world's largest debt-for-nature swap ($1.6 billion), with IDB support, channeling resources into conservation and climate action while reducing the country's debt burden.

06.

# IDB CLIMA Pilot Program

## A. Motivation

**Climate and nature ambition requires action on two levels: implementation and mobilization.** Traditionally, climate and nature ambition refers to the continual upgrading of targets to achieve national objectives or broadening their scope, but the challenges tied to the implementation of actions to achieve these objectives are often overlooked. This is particularly relevant in the context of emerging economies, where political economy constraints are often amplified by weaker institutional gridlock-solving mechanisms. Incentives for enhanced project design and transparency can be linked to market-driven, performance-based financial instruments to drive institutional ambition in both climate and nature by monetizing these investments. These incentives can be conceived as rewards for countries that aim to achieve scale.

**Limited access to green finance is one of two structural constraints to achieving LAC's environmental sustainability objectives.** The development of local green financial markets and access to international ones represents only half of the challenge. While there is currently a substantial excess in demand from institutional investors for green debt, this enthusiasm is tempered by transparency concerns, such as greenwashing fears. These are induced in part by the asymmetric information characteristics of the ESG debt market (Delisle et al., 2021) and by recent shareholder activism dynamics (Liekefett et al., 2021). More concerning is the alarmingly low supply of shovel-ready and shovel-worthy investments, as evidenced by the Green Climate Fund's low access rates for sovereign debt (Caldwell & Larsen, 2021) as well as by an overwhelming concentration of private green finance in the United States, Canada, Western Europe, and East Asia (Buchner et al., 2021).

**Additionally, implementation capacity gaps play a critical role in limiting the region from achieving its long-term environmental sustainability objectives.** Both NDCs and NBSAPs were conceived as development policy and planning instruments, but they are still not being fully deployed as such (Cooke & Gogoi, 2018). It is possible to shift environmental policy from an exclusive perspective of environmental regulation to a shared policy domain that focuses on regulation and on social and economic development (Cárdenas et al., 2021). The potential role of these documents in generating robust project pipelines, which must be connected to budgetary formulation exercises as well as to tax and fiscal policy to fully mainstream environmental policy within the intervention domains of economic growth policy, is detailed by Cárdenas et al. (2021). These objectives can be achieved only by establishing solid working relationships between ministries of finance and economy, national planning authorities, central banks, ministries of the environment and line ministries.

**Implementation also has a climate ambition dimension.** The definition of ever-increasing ambition in mitigation and adaptation targets is crucial to the achievement of the region's environmental objectives. However, these targets will not be achieved without what Cárdenas et al (2021) refer to as the "second dimension of ambition," which relies on the effective design and deployment of whole-of-government, bottom-up policies and coordination mechanisms to deliver on targets. The achievement of NBSAP and NDC climate targets requires that they be consensual, coordinated, and both long-term and short-term.

**Mainstreaming climate and nature considerations across sectors, fostering ownership of national goals, through robust project pipeline design, and strengthening transparency and reporting systems are critical to fulfill the two dimensions of climate and nature ambition.** Historically, climate- and nature-related considerations have not been central to investments designed to address development gaps. This is largely due to the limited availability of practical, sector-specific knowledge for designing projects that are both climate- or nature-positive and responsive to development priorities. For example, line ministries often lack the mandate or technical capacity to support policies on decarbonization, climate adaptation, or biodiversity conservation beyond their immediate agendas. As a result, institutional and technical capacity to formulate integrated policies and investment projects remains weak. Additionally, frequently there is an absence of sectoral ownership of national climate and nature objectives. Without clear ownership, identifying and designing investments at the scale required to achieve national targets becomes difficult. This in turn constrains the development of a "critical mass" of relevant investments needed to underpin thematic debt instruments. Furthermore, there is limited capacity to monitor, evaluate, and report on the impacts of climate and nature actions. Weak reporting systems undermine transparency, accountability, and the ability to demonstrate progress toward national targets.

**Financial incentives are needed to promote sectoral mainstreaming, strengthen ownership, and enhance reporting systems.** In the current macroeconomic context, regional borrowers need sufficient financial incentives to invest in enhanced project design and deploy more robust, frequent reporting systems throughout entire sectors of the economy. Traditional technical cooperation products support development, gap analysis, and capacity building, among other things, but are not sufficient to generate the needed incentives for ministries of finance and economy, planning, or for other borrowers to invest significantly in project design and impact reporting, or to articulate those systems with strategies to access thematic debt markets.

**Financial incentives are instrumental to implementing this transition.** A thematic sovereign issuance, or a quasi-sovereign issuance by a development finance institution, has a multiplier effect on the domestic market, promoting an increase of approximately 50% in volume of funds and 25% in the number of issuances by public and private institutions within two subsequent years (Cunha et al., 2023a). Following the same logic, providing the correct financial incentives in terms of increasing ambition towards environmental commitments, and the development of impact reporting capabilities, could have a similar multiplier effect. The IDB is already leading regional efforts to develop local green financial markets and to help borrowers access international thematic debt markets. The upgrading of national project design and impact reporting systems is an opportunity to help monetize these systems by aligning them with the best practices of the thematic debt markets, such as those of the ICMA.

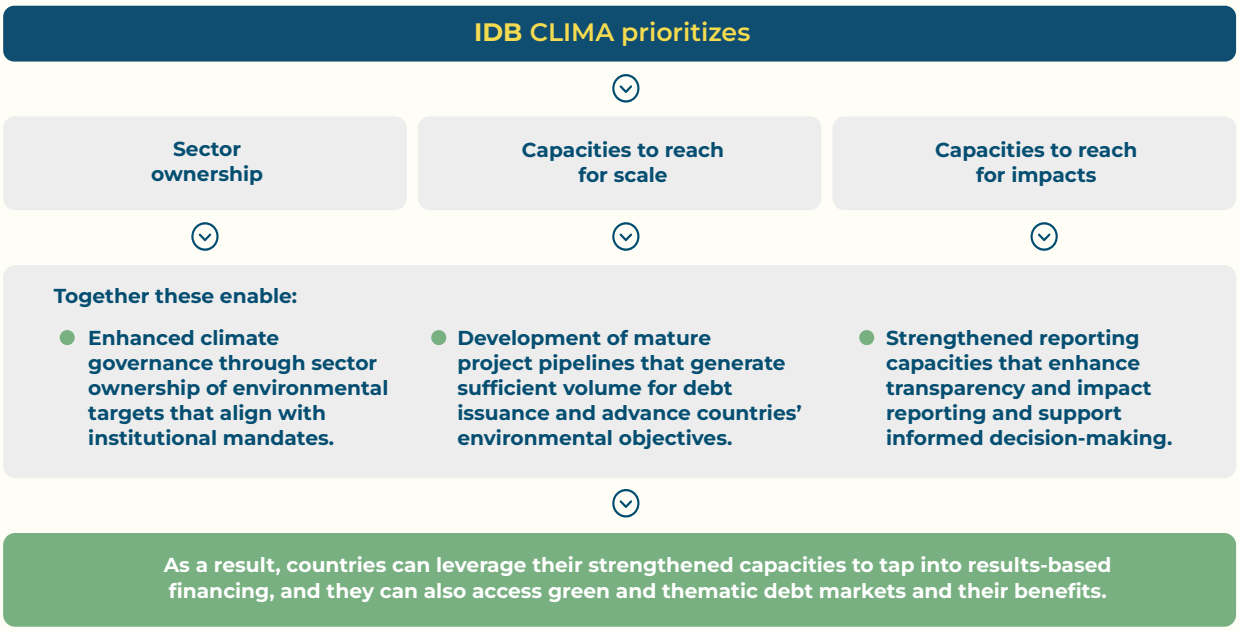
**The IDB CLIMA Pilot Program was designed to implement this approach.** It is a program that tests a performance-based reward approach for IDB investment loans. The initiative introduces a new type of investment grant designed to reduce countries' financing costs, effectively replicating the effect of an interest rate rebate. Access to the reward is conditional upon independent verification confirming that the borrower has successfully invested in the institutional and technical capacities needed to take full advantage of opportunities in green and thematic debt markets.

## B. The Pilot Program

**The IDB Biodiversity and Climate-Linked Incentive Mechanism for Ambition (CLIMA) is a performance-based pilot program that rewards IDB borrowers for their achievements related to climate and nature capacity building, targeted at gaining access to thematic debt markets.**[13] These achievements include developing the capacities needed to foster sectoral ownership of nationally determined environmental goals and developing investment portfolios at a scale compatible with thematic debt issuance, as well as the improvement of impact reporting systems for climate and nature policies. Leveraging these capacities enables borrowers to secure better financing terms in the thematic debt markets (such as lower financing costs) and expand the impact and scale of their interventions to meet their national environmental objectives through a bottom-up ownership approach.

**The Pilot Program general objective is to use investment loan operations to incentivize sector-driven investments that will accelerate sovereign borrowers' access to green capital markets. This will help achieve the necessary scale to accomplish national climate and nature objectives.** To this end, the Pilot Program is built around three specific objectives, each addressing one of the key determinants identified. The first objective is to ensure that sectoral investment loans contribute to the achievement of climate and biodiversity goals. It seeks to empower those sectors to implement investments that deliver measurable development impacts while advancing national or subnational climate and nature objectives. The second objective is to improve the capacity to identify, design, and mainstream sectoral investment projects with a climate or biodiversity perspective. This lays the groundwork for developing public investment project pipelines of sufficient scale to meet environmental objectives while also addressing sectoral development gaps. The third objective aims to create or improve climate or biodiversity impact reporting capabilities within the sector or governing bodies, supporting the higher levels of transparency required by international standards.

**Figure 5.** **IDB CLIMA Pilot Program rationale**




[13] The IDB CLIMA Pilot Program was created on 2 August 2023 with of up to US$50 million in non-reimbursable funding.

IDB CLIMA Pilot Program

**These efforts aim to attract concessional financing at the required scale.** Essentially, the IDB CLIMA reward seeks to catalyze investments that address sectoral development challenges while embedding nature- and climate-positive considerations, provided that specific requirements linked to the pilot projects are met. Ultimately, this will support the large-scale expansion of public investments aligned with climate and nature goals by leveraging the advantages offered by debt markets, particularly those of thematic debt instruments with more favorable financial terms.

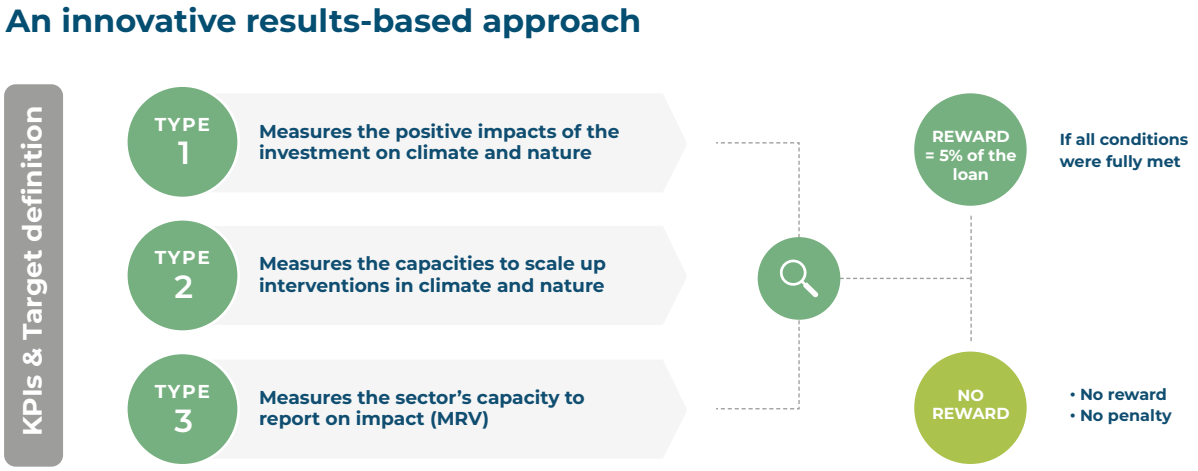
**Borrower performance is measured through three KPIs.** These are defined jointly with the borrower's debt management authorities, finance and environment ministries (or their equivalents) as well as sector ministries during the preparation of the investment loan. The first KPI (KPI 1) measures environmental outcomes of investments tied to the loan and shows borrowers a way to mainstream environmental considerations into their decision-making process. The second KPI (KPI 2) measures improvements to a bottom-up approach that facilitates achieving national climate and nature objectives through effective ownership of those targets and their incorporation into the borrower's public investment decision-making process. The third KPI (KPI 3) measures enhancements in the capacities to design, implement, and verify environmental impact achieved by investments and policies. Said capacities must be aligned with international reporting standards, including those of the International Capital Market Association, the U.N. Framework Convention on Climate Change and the U.N. Convention on Biological Diversity. In addition to the KPIs, the proportion of climate and nature finance within the project is also evaluated. IDB CLIMA pilot projects are required to allocate at least 60% of their financing to climate or nature investments, in line with the joint methodologies of the MDBs.

## Table 1. IDB CLIMA KPIs explained

| KPI type | KPI objective | Rationale | Illustrative examples | Long-term impact contribution |
|---|---|---|---|---|
| **KPI 1** | **Measure the investment loan's environmental effects.** | This KPI measures the environmental impact attained through investments tied to the loan, effectively showing the borrower a way to mainstream long-term environmental impact into its decision-making process. | Effluent samples at the outlet of the wastewater treatment system that have phosphorus concentrations less than or equal to 4 mg/l.<br><br>(PR-L1193) | It contributes to long-term impact because it is the first Level 3 treatment plant in Paraguay (advanced technology), and one of the first in the region. Without this particular plant, the expected impact would not be achieved. |
| **KPI 2** | **Measure improvements to achieve ownership of national environmental policy objectives.** | This KPI contributes to a bottom-up approach that facilitates the achievement of national climate and nature objectives through effective ownership of those targets and their incorporation into the borrower's public investment decision-making process. | Percentage of Financiera de Desarrollo Nacional's (FDN) portfolio measured as the number of projects aligned with the country's green taxonomy.<br><br>(CO-L1287) | It changes the decision making and monitoring processes of Colombia's FDN by aligning projects with the country's green taxonomy. It promotes systematic integration of environmental criteria into project selection and design. It sets a precedent for the creation of a strong green portfolio in the country by enhancing transparency and accountability and strengthening the institution's capacity to support climate development. |
| **KPI 3** | **Measure improvements to report environmental impact.** | This KPI increases capacities to design, implement and verify environmental impact achieved by investments and policies. Said capacities must be aligned with international reporting standards, including those of the International Capital Market Association, the U.N. Framework Convention on Climate Change and the U.N. Convention on Biological Diversity. | Reports sent by Empresa Nacional de Energía Eléctrica (ENEE) to Secretaría de Energía (SEN), Secretaría de Recursos Naturales y Ambiente (SERNA), and Secretaría de Finanzas (SEFIN) through the new MRV system on climate change mitigation and adaptation measures.<br><br>(HO-L1245) | It has a strong contribution to long-term impact since it involves coordination between the company and several ministries. It represents a change in governance and institutional arrangements with high technical quality in the report design. |

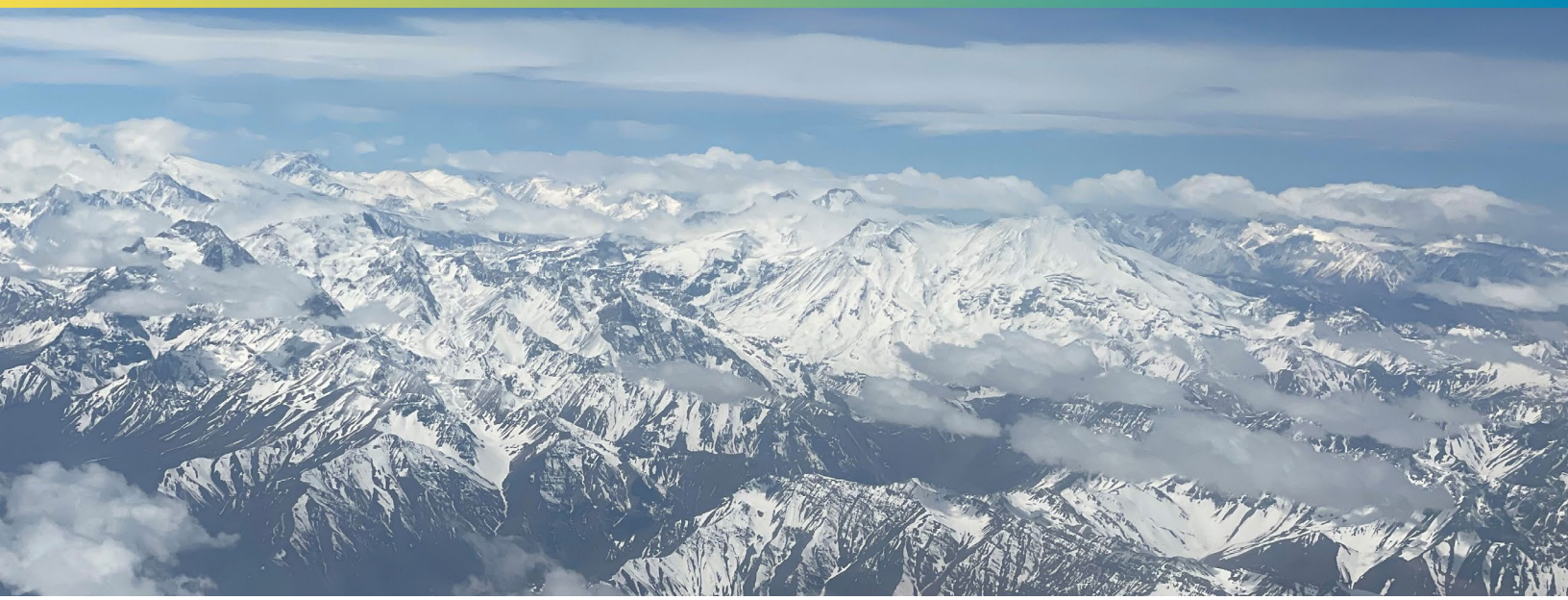
**Borrowers who achieve all three KPIs and the climate and nature finance targets obtain the reward.** They are rewarded with a grant equivalent to 5% of the IDB ordinary capital loan principal ("IDB CLIMA grant"). This reward is disbursed after an independent verification of KPI target fulfillment has been performed, once 90% of the investment loan has been disbursed, and the project has reached its final year of implementation. The verification procedure similar to those used for issuing debt linked to environmental indicators is used.

**Figure 6.** IDB CLIMA Grant




**Box 1.** Eligibility Requirements for IDB CLIMA pilot projects

- The operation must be classified as an investment loan (in any of its forms), must be new, and must be included in the country's programming document or its updates.
- The operation may involve up to $200 million in Ordinary Capital borrowing.
- At least 60% of the operation's financing must qualify as climate or green finance.
- Only one IDB CLIMA pilot project is permitted per country.
- Borrowers must complete the Green Transition Framework (GTF) Assessment Questionnaire and develop a roadmap outlining actions to enhance their capacities.
- Operations must have a vertical logic aligned with the program's vertical logic.
- Each operation must include three grant disbursement-linked KPIs, with each KPI aligned to one of the three IDB CLIMA Specific Objectives.



IDB CLIMA Pilot Program

## C. State of implementation of the IDB CLIMA Pilot Program

**The IDB CLIMA Pilot Program was approved in September 2023 and has since attracted growing interest from IDB borrowing countries.** The first projects started their design phase in 2023 and were included in the 2024 approval pipeline. As of September 2025, approximately 70% of the allocated resources have been approved for pilot projects in diverse sectors, such as energy, water, and social development, with several additional projects currently under design. These projects have been designed within a representative sample of countries from the Caribbean, Central America, the Andean region, and the Southern Cone, reflecting the region's diversity in terms of capacities and environmental challenges. The design of these operations differs from "business-as-usual" investment loans, but this shift has not slowed down project preparation timelines. More countries have expressed interest in participating in the program. Beyond the innovative nature of the instrument, that reduces financing costs while embedding environmental considerations into investment design, countries have also emphasized its added value in strengthening institutional capacities, noting that the program supports the integration of climate and nature objectives into national planning and investment processes.

**Looking ahead, the Pilot Program is entering a stage where lessons learned are shaping its future expansion.** The program's initial implementation has highlighted the need for greater sectoral balance, as initial pilots were concentrated in areas with stronger climate experience. The pilots also confirm that, while coordinating multiple counterparts is complex, proper incentives help address some of those challenges. Strengthening bottom-up ownership of environmental issues and reinforcing the needed systems and capacities, through targeted and scalable training for both national counterparts and bank teams, remains essential. In addition, persistent gaps in data access and standardization call for investment in data ecosystems and sector guidance to design and monitor projects execution as well as KPIs. Project eligibility criteria were also identified as an area for improvement. Future adjustments are expected to promote broader sectoral inclusion and a stronger focus on long-term impact, ensuring that projects contribute more effectively to climate resilience, biodiversity, and sustainable development.

07.

# Conclusions

**Bridging the gap between ambition and reality requires addressing financing, governance, transparency and capacity challenges simultaneously.** This note has shown that the scale of climate and nature finance needed in LAC is substantial, but challenges extend far beyond capital mobilization. Institutional fragmentation, weak governance frameworks, limited coordination, lack of transparency and insufficient technical capacity are equally significant barriers. In many cases, weak governance frameworks and insufficient coordination mechanisms undermine the integration of climate and nature objectives into core planning and budgeting processes. At the same time, many governments lack the technical instruments and institutional capabilities needed to develop bankable project pipelines, structure effective green financing, and systematically monitor policy impacts.

**MDBs play a critical role in supporting countries to overcome implementation challenges related to achieving their climate and nature objectives, by mobilizing resources at greater scale and driving more impactful results.** IDB's recent experience supporting countries access thematic debt markets through the issuance of sovereign SLBs has demonstrated that these markets offer an opportunity to address such challenges. In that context, the IDB launched the IDB CLIMA Pilot Program, which responds both to the identified barriers and to the growing demand from countries and the international community for innovative financial instruments. Through this initiative, the IDB positions itself as a pioneer by integrating a performance-based reward mechanism into its sovereign-guaranteed investment loans.

**IDB CLIMA offers an integrated platform that combines financial innovation with institutional strengthening.** The Pilot Program provides a comprehensive set of tools and approaches to address countries' challenges, including enhanced

investment planning, strengthened institutional capacity, and robust results monitoring and reporting frameworks. The Pilot Program is a comprehensive mechanism for aligning public investment with climate and nature strategies while improving reporting systems to ensure that measurable and lasting impacts are achieved. It helps countries plan, finance, execute, monitor, and deliver climate and nature interventions with greater coherence and impact.

**Continuous monitoring, evaluation, and learning (MEL) are essential to validate the design of the Pilot Program and ensure its future scalability.** The IDB CLIMA Pilot Program relies on a continuous MEL approach, and its initial implementation has already generated valuable lessons. Bridging the gap between national ambition and the implementation of climate and nature objectives will require sustained innovation and a substantial scaling up of financing efforts. Mobilizing additional resources through multi-donor funds and developing integrated approaches such as country platforms to reach greater impact, can help pave the way for the future expansion of performance-based mechanisms like the IDB CLIMA Pilot Program.

**Ultimately, this technical note underscores how IDB CLIMA can serve as both a strategic guide and an operational plan for advancing climate and nature action in LAC.** For IDB teams, government counterparts, and development partners, the Pilot Program helps define practical pathways that enable IDB countries to access innovative, result-based thematic finance, including, but not limited to, thematic debt markets, while advancing, at the same time, towards effective climate and nature action in the region. It demonstrates how a performance-based mechanism can catalyze a transition toward more coherent, credible, and impactful climate and nature investments, helping countries transform their objectives into measurable progress. In doing so, IDB CLIMA contributes not only to individual country goals, but also to building a stronger regional architecture for climate and nature finance.

8.

# References


African Development Bank, Asian Development Bank, Asian Infrastructure Bank, Council of Europe Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter American Development Bank, IDB Invest, Islamic Development Bank, New Development Bank, & World Bank. (2025). 2024 Joint Summary on Multilateral Development Banks Climate Finance.

Alejos, L., Alfonso, M., Alpízar, F., Alvarez, L., Balza, L., Bebczuk, R. N., Blackman, A., Blyde, J. S., Bos, M. S., Cavallo, E. A., Celis, C., Delgado, R., Dolabella, M., Calatayud, A., Dueñas, J., Gabrielli, V., Galindo, A., González, M., Jaramillo, M. J. G., … Yáñez-Pagans, P. (2025). Peril and Promise: Tackling Climate Change in Latin America and the Caribbean. Peril and Promise: Tackling Climate Change in Latin America and the Caribbean. https://doi.org/10.18235/0013427

Ando, S., Fu, C., Roch, F., & Wiriadinata, U. (2024). How Large is the Sovereign Greenium?*. Oxford Bulletin of Economics and Statistics, 86(6), 1472–1483. https://doi.org/10.1111/OBES.12619

Anyaokei, P. (2025). FINANCING A GREENER FUTURE: THE ROLE OF CLIMATE FINANCE. SSRN Electronic Journal. https://doi.org/10.2139/SSRN.5179405

Ayres, J., Izquierdo, A., & Parrado, E. (2025a). 2025 Latin American and Caribbean Macroeconomic Report: Regional Opportunities Amid Global Shifts. https://doi.org/10.18235/0013475

Ayres, J., Izquierdo, A., & Parrado, E. (2025b). 2025 Latin American and Caribbean Macroeconomic Report: Regional Opportunities Amid Global Shifts. https://doi.org/10.18235/0013475

Babacan, H. (2025). From Crisis to Policy Action: Tackling Climate Change Through SDG 13. The International Journal of Community and Social Development. https://doi.org/10.1177/25166026251351370

Baker, M., Bergstresser, D., Serafeim, G., & Wurgler, J. (2018). Financing the response to climate change: The pricing and ownership of US green bonds. https://www.nber.org/system/files/working_papers/w25194/w25194.pdf

Banga, J. (2019). The green bond market: A potential source of climate finance for developing countries. Journal of Sustainable Finance & Investment, 9(1), 17–32. https://doi.org/10.1080/20430795.2018.1498617

Bayliss, K., & Waeyenberge, E. V. (2018). Unpacking the Public Private Partnership Revival. The Journal of Development Studies, 54(4), 577–593. https://doi.org/10.1080/00220388.2017.1303671

Beauchamp, E., Leiter, T., Pringle, P., Brooks, N., Masud, S., & Guerdat, P. (2024). Toolkit for Monitoring, Evaluation, and Learning for National Adaptation Plan Processes.

Belianska, A., Bohme, N., Cai, K., Diallo, Y., Jain, S., Melina, G., Mitra, P., Ribeiro, M. P., & Zerbo, S. (2022). Climate Change and Select Financial Instruments: An Overview of Opportunities and Challenges for Sub-Saharan Africa. Staff Climate Notes, 2022(009), 1. https://doi.org/10.5089/9798400225208.066

Borys, T., Bugdol, M., & Puciato, D. (2022). Barriers To Achieving Climate Goals. An External Context. EKONOMIA I ŚRODOWISKO •, 3(82), 2022. https://doi.org/10.34659/eis.2022.82.3.476

Buchner, B., Naran, B., Fernandes, P., Padmanabhi, R., Rosane, P., Solomon, M., Stout, S., Strinati, C., Tolentino, R., Wakaba, G., Zhu, Y., Meattle, C., & Guzmán, S. (2021). Global Landscape of Climate Finance 2021. https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf

Buchner, B., Naran, B., Padmanabhi, R., Stout, S., Strinati, C., Wignarajah, D., Miao, G., Connolly, J., & Marini, N. (2023a). Global Landscape of Climate Finance 2023. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/

Buchner, B., Naran, B., Padmanabhi, R., Stout, S., Strinati, C., Wignarajah, D., Miao, G., Connolly, J., & Marini, N. (2023b). Global Landscape of Climate Finance 2023. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/

## References


Caldwell, M., & Larsen, G. (2021). Improving Access to the Green Climate Fund: How the Fund Can Better Support Developing Country Institutions. World Resources Institute. https://doi.org/10.46830/WRIWP.19.00132

Campillo, L. S., Molina, P., & Rangel, F. (2025). Institucionalidad y gobernanza climática en los Ministerios de Finanzas.

Cárdenas, M., Bonilla, J. P., & Brusa, F. (2021). Climate Policies in Latin America and the Caribbean: Success Stories and Challenges in the Fight against Climate Change. Climate Policies in Latin America and the Caribbean: Success Stories and Challenges in the Fight against Climate Change. https://doi.org/10.18235/0003239

CBD. (2022). Exploration of the biodiversity finance landscape.

Cheng, G., Ehlers, T., Packer, F., & Xiao, Y. (2024). Sovereign green bonds: A catalyst for sustainable debt market development? BIS Working Papers. https://ideas.repec.org/p/bis/biswps/1198.html https://ideas.repec.org//p/bis/biswps/1198.html

Chesini, G. (2024). Can Sovereign Green Bonds Accelerate the Transition to Net-Zero Greenhouse Gas Emissions? International Advances in Economic Research, 30(2), 177–197. https://doi.org/10.1007/S11294-024-09900-6/TABLES/5

Climate Policy Initiative. (2024). Strengthening climate finance delivery: The path from Brazil's G20 presidency to COP30. Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2024/04/Strengthening-Climate-Finance.pdf

CMF Division, IDB. (2023). Long-Term Financing Sector Framework Document.

Cochelin, P., Popola, B., & Volland, E. (2024). Sustainable Bond Issuance To Approach $1 Trillion In 2024. https://www.spglobal.com/_assets/documents/ratings/research/101593071.pdf

Cooke, K., & Gogoi, E. (2018). Overcoming the NDC implementation gap lessons from experience Policy brief. https://www.opml.co.uk/files/Publications/8617-action-on-climate-today-act/ndc-gap.pdf?noredirect=1

Cunha, D., Craveiro, G., & Rossi, M. (2023a). Evidence of the knock-on effect of sovereign ESG bonds on corporate ESG bonds from Latin American and Caribbean (LAC) issuers. https://debtcon6.princeton.edu/sites/g/files/toruqf3611/files/documents/carvalho_cunha-updated_2023-0404.pdf

Cunha, D., Craveiro, G., & Rossi, M. (2023b). Evidence of the knock-on effect of sovereign ESG bonds on corporate ESG bonds from Latin American and Caribbean (LAC) issuers. https://debtcon6.princeton.edu/sites/g/files/toruqf3611/files/documents/carvalho_cunha-updated_2023-0404.pdf

Cuntz, C., Afanador, A., Klein, N., & Sharma, R. (2017). Connecting multilateral climate finance to mitigation projects A guide to the multilateral climate finance landscape of NAMAs. https://www.researchgate.net/publication/320197254_Connecting_multilateral_climate_finance_to_mitigation_projects_A_guide_to_the_multilateral_climate_finance_landscape_of_NAMAs

Delisle, R. J., Grant, A., & Mao, R. (2021). Does ESG Decrease Information Asymmetry? Evidence from Earnings Conference Call Tones and Subsequent Returns. https://www.efmaefm.org/0EFMAMEETINGS/EFMA%20ANNUAL%20MEETINGS/2021-Leeds/papers/EFMA%202021_stage-2049_question-Full%20Paper_id-330.pdf

ECLAC. (2023). Capital Flows to Latin America and the Caribbean in five charts: 2022 year-in-review and early 2023 developments \textbar Economic Commission for Latin America and the Caribbean. https://www.cepal.org/en/notes/capital-flows-latin-america-and-caribbean-five-charts-2022-year-review-and-early-2023

Elliot, C., Worker, J., Levin, K., & Ross, K. (2019). Good governance for long-term low-emissions development strategies. https://www.wri.org/research/good-governance-long-term-low-emissions-development-strategies

Ellis, J., Briner, G., & Dagnet, Y. (2011). Design Options for International Assessment and Review (IAR) and International Consultations and Analysis (ICA). www.oecd.org/cc/ccxgwww.iea.org

## References


Financing Nature: Closing the Global Biodiversity Financing Gap. (n.d.). Retrieved September 15, 2025, from https://www.paulsoninstitute.org/conservation/financing-nature-report/

Fozzard, A. (2019). Climate change and governance: Opportunities and responsibilities. https://documents1.worldbank.org/curated/en/711501555389933326/pdf/Climate-Change-and-Governance-Opportunities-and-Responsibilities.pdf

G20. (2023, July). Strengthening Multilateral Development Banks: The Triple Agenda. https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda

G20. (2024). G20 Rio de Janeiro Leaders' Declaration.

Galindo, A., & Nuguer, V. (2023). 2023 Latin American and Caribbean Macroeconomic Report: Preparing the Macroeconomic Terrain for Renewed Growth. https://doi.org/10.18235/0004780

Galindo Paliza, L. M., Hoffmann, B., & Vogt-Schilb, A. (2022a). How Much Will It Cost to Achieve the Climate Goals in Latin America and the Caribbean? https://doi.org/10.18235/0004021

Galindo Paliza, L. M., Hoffmann, B., & Vogt-Schilb, A. (2022b). How Much Will It Cost to Achieve the Climate Goals in Latin America and the Caribbean? https://doi.org/10.18235/0004021

Geerlings, W. (2019). Green Bonds: Why green bond investors can't eat their cake and have it too. https://finance-ideas.nl/wp-content/uploads/2019/02/master-thesis-wouter-geerlings.pdf

Georgieva, K. (2021). Securing a Green Recovery: The Economic Benefits from Tackling Climate Change. https://www.imf.org/en/News/Articles/2021/04/15/sp041521-securing-a-green-recovery

Green Bond Transparency Platform—IDB data. (n.d.). https://www.greenbondtransparency.com/

Gupta, A., & Mason, M. (2016). Disclosing or obscuring? The politics of transparency in global climate governance. Current Opinion in Environmental Sustainability, 18, 82–90. https://doi.org/10.1016/J.COSUST.2015.11.004

Harrison, C., MacGeoc, M., & Michetti, C. (2021). Sustainable Debt, Global State of the Market 2021. https://www.climatebonds.net/files/documents/publications/Sustainable-Debt-Global-State-of-the-Market-2021.pdf

Hillman, J., & Tippett, A. (2021). Financing Global Infrastructure: The Role of the Private Sector. https://www.cfr.org/blog/financing-global-infrastructure-role-private-sector

Hsu, A., Weinfurter, A. J., & Xu, K. (2017). Aligning subnational climate actions for the new post-Paris climate regime. Climatic Change, 142(3–4), 419–432. https://doi.org/10.1007/S10584-017-1957-5/METRICS

ICMA. (n.d.). Sustainable Bond Market Data. https://www.icmagroup.org/sustainable-finance/sustainable-bonds-database/

ICMA. (2023). Market integrity and greenwashing risks in sustainable finance. https://www.icmagroup.org/assets/documents/Sustainable-finance/Market-integrity-and-greenwashing-risks-in-sustainable-finance-October-2023.pdf

ICMA. (2024). Sustainability-Linked Bond Principles (SLBP). https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/

ICMA. (2025). Green Bond Principles. https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/

IDB. (2023). The Green Transparency Platform (GBTP) Fact Sheet.

## References


IDB. (2024). IDB Group Institutional Strategy: Transforming for Scale and Impact. https://www.iadb.org/en/who-we-are/institutional-strategy

IDB. (2025). IDB Strategy+ Approach To Addressing Climate Change and Environmental Degradation.

IHLEG. (2024). Raising ambition and accelerating delivery of climate finance. Third report of the Independent High-Level Expert Group on Climate Finance.

IMF. (2020). Fiscal Monitor, October 2020—Policies for the Recovery. https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor

IMF. (2022). Regional Economic Outlook for the Western Hemisphere, October 2022. https://www.imf.org/en/Publications/REO/WH/Issues/2022/10/13/regional-economic-outlook-western-hemisphere-october-2022

Investing Less than 1% of World GDP into Nature-Based Solutions Can Tackle Climate Change and Biodiversity Crisis. (n.d.). World Economic Forum. Retrieved September 15, 2025, from https://www.weforum.org/press/2021/05/investing-less-than-1-of-world-gdp-into-nature-based-solutions-can-tackle-climate-change-and-biodiversity-crisis/

IPCC. (2022). IPCC Sixth Assessment Report. Impacts, Adaptation and Vulnerability. Chapter 18: Climate Resilient Development Pathways. https://www.ipcc.ch/report/ar6/wg2/chapter/chapter-18/

Kapraun, J., Latino, C., Scheins, C., & Schlag, C. (2021). (In)-Credibly Green: Which Bonds Trade at a Green Bond Premium? Proceedings of Paris December 2019 Finance Meeting EUROFIDAI-ESSEC. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3347337

Kok, M. T. J., & Coninck, H. C. de. (2007). Widening the scope of policies to address climate change: Directions for mainstreaming. Environmental Science & Policy, 10(7–8), 587–599. https://doi.org/10.1016/J.ENVSCI.2007.07.003

Kosack, S., & Fung, A. (2014). Does transparency improve governance? Annual Review of Political Science, 17(Volume 17, 2014), 65–87. https://doi.org/10.1146/ANNUREV-POLISCI-032210-144356/1

Kyséla, H., Utterberg, J., & Elliot, V. (2025). Bridging the financing gap for biodiversity in emerging and developing markets – A case study on Brazil. https://gupea.ub.gu.se/handle/2077/88789

Liekefett, H. E., Gregory, H. J., Wood, L., & Austin, S. L. (2021). Shareholder Activism and ESG: What Comes Next, and How to Prepare. Https://Corpgov.Law.Harvard.Edu/. https://corpgov.law.harvard.edu/2021/05/29/shareholder-activism-and-esg-what-comes-next-and-how-to-prepare/

Lindvall, D. (2021). Democracy and the Challenge of Climate Change. Democracy and the Challenge of Climate Change. https://doi.org/10.31752/IDEA.2021.88

Llempén, Z., Frenk, P., & Guardia, A. (2025). Incorporación de la acción climática en la inversión pública Avances y retos de los sistemas nacionales de inversión pública (SNIP) en América Latina y el Caribe. http://dx.doi.org/10.18235/0013381

Luna Rodríguez, M., Ledwell, C., & Olaide Bankole. (2023). Progress on Vertical Integration in National Adaptation Plan Processes. NAP Global Network. https://napglobalnetwork.org/resource/progress-on-vertical-integration-in-nap-processes/

Manda, V. K., Yadav, A., Shivani, Sangwan, V., & Vambol, S. (2024). Sovereign green bonds as an unconventional tool to address climate change. Ecological Questions, 35(3), 1–26. https://doi.org/10.12775/EQ.2024.028

Martin, J. G. C., Scolobig, A., Linnerooth-Bayer, J. A., Irshaid, J., Rodriguez, J. J. A., Fresolone-Caparrós, A., & Oen, A. (2025). The nature-based solution implementation gap: A review of nature-based solution governance barriers and enablers. Journal of Environmental Management, 388, 126007. https://doi.org/10.1016/J.JENVMAN.2025.126007

## References


Massdorp, L., Jongeneel, M., & Thorleifsson, T. (2024). How development finance can unlock the private capital the world needs to meet net zero. https://www.reuters.com/sustainability/comment-how-development-banks-can-unlock-private-capital-world-needs-meet-net-2024-11-12/

Mazzucato, M. (2021). Mission economy: A moonshot guide to changing capitalism. Harper Business.

Monnin, P., Feyertag, J., Robins, N., & Wollenweber, A. (2024). Aligning sovereign bond markets with the net zero transition: The role of central banks. https://www.lse.ac.uk/granthaminstitute/publication/aligning-sovereign-bond-markets-with-the-net-zero-transition-the-role-of-central-banks/

Mosqueira, E., & Alessandro, M. (2023). State Capacities and Wicked Problems of Public Policy: Addressing Vulnerabilities that Affect Human Development. https://publications.iadb.org/en/state-capacities-and-wicked-problems-public-policy-addressing-vulnerabilities-affect-human

Naran, B., Connolly, J., Rosane, P., Wignarajah, D., & Wakaba, G. (2022). Global Landscape of Climate Finance A Decade of Data: 2011-2020. https://www.climatepolicyinitiative.org/wp-content/uploads/2022/10/Global-Landscape-of-Climate-Finance-A-Decade-of-Data.pdf

Naran, B., Shankar, V., de Aragão Fernandez, P., Dixon, J., Burnett, J., Abraham, S., Stout, S., Connolly, J., Strinati, C., & Buchner, B. (2025). Global Landscape of Climate Finance 2025.

OECD. (2015). Aligning Policies for a Low-carbon Economy. Aligning Policies for a Low-Carbon Economy. https://doi.org/10.1787/9789264233294-EN

OECD. (2018). Developing Robust Project Pipelines for Low-Carbon Infrastructure. https://doi.org/10.1787/9789264307827-EN

OECD. (2021). Biodiversity, natural capital and the economy. 26. https://doi.org/10.1787/1A1AE114-EN

OECD. (2022). Climate Finance Provided and Mobilised by Developed Countries in 2016-2020. https://doi.org/10.1787/286DAE5D-EN

OECD. (2025). Harnessing Mission Governance to Achieve National Climate Targets. https://doi.org/10.1787/781146EB-EN

Peterson, L. (2024). Policy Brief Clarity and Transparency of Information in Nationally Determined Contributions (NDCs): Barriers to Implementation? https://www.uef.fi/en/unit/uef-law-school

Peterson, L., & Asselt, H. van. (2025). Assessing risks to the implementation of NDCs under the Paris Agreement. Climate Policy. https://doi.org/10.1080/14693062.2025.2513023

Powell, A., & Rojas-Suárez, L. (2022). Healthier Firms for a Stronger Recovery: Policies to Support Business and Jobs in Latin America and the Caribbean. Healthier Firms for a Stronger Recovery: Policies to Support Business and Jobs in Latin America and the Caribbean. https://doi.org/10.18235/0004398

Powell, A., & Valencia, O. (2023). Dealing with Debt: Less Risk for More Growth in Latin America and the Caribbean. Dealing with Debt: Less Risk for More Growth in Latin America and the Caribbean. https://doi.org/10.18235/0004707

Prasad, A., Loukoianova, E., Feng, A. X., & Oman, W. (2022). Mobilizing Private Climate Financing in Emerging Market and Developing Economies. Staff Climate Notes, 2022(007), 1. https://doi.org/10.5089/9798400216428.066

Raman, R., Ray, S., Das, D., & Nedungadi, P. (2024). Innovations and barriers in sustainable and green finance for advancing sustainable development goals. Frontiers in Environmental Science, 12, 1513204. https://doi.org/10.3389/FENVS.2024.1513204/XML

## References


Rodrigues, J. (2019). What Drives the Issuance of Green Bonds: What Country Characteristics Have an Effect on Issuance of Green Bonds? https://api.semanticscholar.org/CorpusID:199520189
Sangiorgi, I., & Schopohl, L. (2021, December). Explaining Green Bond Issuance using Survey Evidence: Beyond the Greenium. https://papers.ssrn.com/abstract=3994375



Sangiorgi, I., & Schopohl, L. (2021, December). Explaining Green Bond Issuance using Survey Evidence: Beyond the Greenium. https://papers.ssrn.com/abstract=3994375



Sarr, B. (2018). Nine success factors, for an efficient and transparent MRV system, within the framework of the Paris Agreement (2015 Climate Conference). Carbon Management, 9(4), 361–366. https://doi.org/10.1080/17583004.2018.1486682

Sattar, U. (2025). Capacity Determinants of Climate Action in Developing Countries. Sustainable Development. https://doi.org/10.1002/SD.3516

Scatigna, M., Xia, F. D., Zabai, A., & Zulaica, O. (2021). Achievements and Challenges in ESG Markets. SSRN Electronic Journal. https://doi.org/10.2139/SSRN.3989761

Shishlov, I., Morel, R., & Cochran, I. (2016). Beyond transparency: Unlocking the full potential of green bonds. https://www.i4ce.org/en/publication/unlocking-the-potential-of-green-bonds/

Siegel, J. (2015). Expanding Nuclear Weapons State Transparency to Strengthen Nonproliferation. https://www.jstor.org/stable/resrep05006?seq=1

Songwe, V., Stern, N., Bhattacharya, A., Soubeyran, E., Macquarie, R., Kyriakopoulou, D., & Tanaka, J. (2022). Finance for climate action: Scaling up investment for climate and development. https://www.lse.ac.uk/granthaminstitute/publication/finance-for-climate-action-scaling-up-investment-for-climate-and-development/

Steffen, B., & Michaelowa, A. (2022). Policies for climate finance: Status and research needs. PLOS Climate, 1(10), e0000083. https://doi.org/10.1371/JOURNAL.PCLM.0000083

Strinati, C., & Baudry, C. (2025). Top-down Climate Finance Needs. https://www.climatepolicyinitiative.org/publication/top-down-climate-finance-needs/

TAI. (2023). The world's largest asset managers – 2023. https://www.thinkingaheadinstitute.org/research-papers/the-worlds-largest-asset-managers-2023/

The Bridgetown Initiative. (2022). The 2022 Bridgetown Initiative for the Reform of the Global Financial Architecture. https://www.bridgetown-initiative.org/wp-content/uploads/2024/05/The-2022-Bridgetown-Initiative.pdf

The Paulson Institute, The Nature Conservancy, & Cornell Atkinson Center for Sustainability. (2023). Financing Nature: Closing the Global Biodiversity Financing Gap.

Trebilcock, M. J. (2015). Dealing with Losers: The Political Economy of Policy Transitions. Oxford University Press.

Tsonkova, V. (2019). The Sovereign Green Bond Market in The European Union: Analysis and Good Practices. KNOWLEDGE INTERNATIONAL JOURNAL, 30(1), 165–172. https://doi.org/10.35120/KIJ3001165D

UNDP. (2016). Developing Country Support Needs for the Implementation of Nationally Determined Contributions (NDCs) Results from a Survey conducted by the United Nations Development Programme. https://www.undp.org/sites/g/files/zskgke326/files/publications/Developing%20Country%20Support%20Needs%20for%20NDCs_Survey%20Analysis.pdf

UNDRR. (2023). Overview of disasters in Latin America and the Caribbean 2000-2022. https://www.undrr.org/publication/overview-disasters-latin-america-and-caribbean-2000-2022

## References


UNDRR. (2025). Global Assessment Report on Disaster Risk Reduction 2025: Resilience Pays: Financing and Investing for oue Future.

UNEP. (2019). LAC countries are working on the development of common agendas for the implementation of the Enhanced Transparency Framework of the Paris Agreement. https://transparencia.accionclimatica-alc.org/noticia/lac-countries-are-working-on-the-development-of-common-agendas-for-the-implementation-of-the-enhanced-transparency-framework-of-the-paris-agreement/

UNEP. (2024). Emissions Gap Report 2024. https://www.unep.org/resources/emissions-gap-report-2024

Valencia, O. M., & Martinez, A. (2025). Enhancing Fiscal Resilience: Medium-Term Frameworks for Managing Emerging Risks. https://doi.org/10.18235/0013503

Velloso, H., Silva, F. D., & Reyes, G. N. (2022, March). Corporate governance in Latin America and the Caribbean: Using ESG debt instruments to finance sustainable investment projects. ECLAC. https://hdl.handle.net/11362/47778

Watkins, G. G., Casado, C. C., Zuniga, M. C. S., Bhattacharya, A., Jeong, M., & Amin, A.-L. (2019). Attributes and Framework for Sustainable Infrastructure. https://doi.org/10.18235/0001723

World Bank. (2022). Achieving Climate and Development Goals: The Financing Question.

World Economic Forum. (2025). The Global Risks Report 2025. 20th Edition. Insight Report. www.weforum.org

Wright, H., Mabey, N., Orozco, D., & Hawkins, J. (2018). Banking on reform: Aligning the development banks with the Paris Climate Agreement—E3G. https://www.e3g.org/publications/banking-on-reform-aligning-development-banks-with-paris-climate-agreement/

WWF. (2020). Bankable Nature Solutions.

WWF. (2024). Living Planet Report 2024. https://livingplanet.panda.org/en-GB/

09.

# Annex I: Intervention logic of the Pilot Program

## A. The barriers that the IDB CLIMA Pilot Program aims to address

**The inability to integrate climate and nature considerations into development financing is often due to a relative lack of sector-specific expertise.** This challenge stems from institutional mandates that have yet to fully reflect the realities of climate and nature objectives, limited financial resources, and a lack of capacity to report on environmental impacts. As noted in previous sections, these factors create barriers to accessing thematic debt markets. Accessing these markets can help address this broader challenge, particularly when the capacities developed enable the issuance of thematic debt and obtaining its associated benefits, such as the "greenium" (a premium for green bonds) or interest rate reductions tied to the achievement of KPIs (step-down mechanisms). However, for these benefits to materialize and become attractive, beneficiaries (i.e., debt issuers) must work to align their policy mandates and incentive structures with the sectors and agencies responsible for designing and implementing climate- and nature-aligned policies.

**There are three main underlying causes that explain the barriers described above.** The first is that, historically, nature- and climate-related considerations have not been central to investments aimed at addressing development gaps. This factor reflects the limited availability of practical, sector-level knowledge for designing climate- or nature-positive projects that also tackle sectoral development challenges (OECD, 2018). For instance, line ministries often lack the mandate or technical capacity to support policies related to decarbonization, climate change adaptation, or nature conservation beyond their immediate development priorities. As a result, there is a general lack of know-how and institutional capacity to formulate public policies or investment projects that integrate these dimensions. Moreover, interventions aligned with decarbonization, resilience, or nature-positive outcomes tend to be limited in scope and rarely lead to systemic shifts in how public investment decisions are made. Climate- and nature-related interventions are inherently multisectoral, which adds further complexity to the design of effective policies and investments. To place climate and nature at the core of sectoral investments that address development gaps, dedicated knowledge and capacity-building are essential. For example, low-carbon infrastructure requires technological innovation and the adoption of new designs, products, and practices, each of which presents additional barriers to implementation (Granoff et al., 2016). Therefore, incorporating climate and nature considerations can help create a virtuous cycle, where improved knowledge and experience pave the way for more frequent and long-term impact interventions that embed these environmental dimensions at the heart of development planning.

**A second key factor is the lack of sectoral ownership over the integration of climate and nature considerations.** This issue hinders the ability to scale up interventions to the necessary level. The absence of sectoral ownership of national climate and nature objectives presents a major obstacle to identifying and designing investments at the scale required to meet national targets. This lack of capacity to generate a "critical mass" of relevant investments also poses a barrier

to issuing thematic debt. Debt managers, for example, may be reluctant to proceed with such instruments due to the risk of failing to meet SPTs that would unlock lower interest rates. This challenge stems from the fact that decisions affecting climate and nature outcomes often fall outside the purview of debt management or finance ministries, while efforts to build sector-specific knowledge and capacity on these issues remain insufficient. To identify investments at the scale needed to meet national climate and nature goals, and to enable the issuance of thematic debt products, it is essential to invest in sectoral capacity-building and the development of tools that empower sector actors to formulate relevant policies and projects. This will support the creation of robust project pipelines, helping countries advance toward their environmental and financial objectives within the required timelines. Lessons from past initiatives, such as national investment plans developed under the Climate Investment Funds, should also be considered in this process. Additionally, this approach will help mitigate credit risk for entities issuing debt, as a stronger and more coherent portfolio of investments improves the likelihood of meeting the performance targets and criteria tied to thematic bonds. Such project portfolios should consist of clearly identified projects that are embedded within a coherent strategy, backed by allocated budgets, and aligned with a timeline based on the borrower's NDC, NBSAP, and national adaptation plan.

**A third and final key factor relates to the limited capacity to report on the impacts of climate and nature actions.** Reporting systems for climate and nature impacts often lack the volume, quality, or frequency of data required to meet the standards of the United Nations or other international frameworks, as well as the expectations of thematic debt markets. In many cases, these systems also suffer from significant time lags between the reporting year and the year in which the data was actually generated. This undermines the transparency objectives of both the United Nations and the financial markets, while also limiting the ability to make timely, data-driven decisions. Transparency is a core requirement for investors in thematic bonds. This means countries must be capable of reporting high-quality data and information on the climate and nature impacts of funded projects, as well as progress toward agreed performance targets, with a frequency that meets market expectations, typically on an annual basis.

## B. IDB CLIMA Pilot Program objectives

**The IDB CLIMA Pilot Program uses investment loan operations to incentivize sector-driven investments that help accelerate sovereign borrowers' access to thematic capital markets.** This is done with the aim of achieving the scale needed to meet national climate and nature objectives. To empower LAC countries to effectively implement development policies addressing the urgent challenges of climate change and nature loss, the IDB CLIMA Pilot Program aims to mobilize resources and establish a holistic framework that fully integrates climate and nature priorities. By unlocking access to thematic debt markets, the program facilitates investments at the scale required to drive transformative change, while simultaneously contributing to broader development goals such as sustainable growth, resilience, and institutional strengthening. In doing so, it incentivizes borrowers to embed climate and nature goals within innovative policy solutions that also address critical development issues.

**The IDB CLIMA Pilot Program pursues three specific objectives.** The first is to contribute to achieving climate and nature goals through sectoral investment programs. This objective focuses on empowering sectors with the capacity to design and implement investments that generate measurable development impacts while simultaneously advancing national and subnational mitigation, adaptation, and nature objectives. To achieve this, the program strategically utilizes IDB investment loans to showcase how nature- and climate-focused considerations can be effectively integrated or expanded within sectoral investments. This approach not only supports borrowers in fulfilling their climate and nature objectives but also creates a powerful demonstration effect, highlighting successful public interventions that place climate and nature at the center of development. The success of this intervention is tracked using KPI 1.

**A second specific objective is to enhance the capacity to identify and design sectoral investments that incorporate nature- or climate-focused interventions at a larger scale.** Through investments facilitated by IDB's involvement, technical expertise and sectoral knowledge can be strengthened to better identify and design climate- or nature-inclusive investments. This lays the foundation for developing public investment portfolios at the scale necessary to meet climate and nature targets while simultaneously addressing development gaps within the sector. Interventions contributing to the Pilot Program's second specific objective involve actions aimed at fulfilling national climate and nature objectives at the required scale. While building sectoral capacity for climate and nature interventions, as outlined in the first objective, is essential, it is not sufficient alone to scale up sectoral actions. A successful IDB CLIMA pilot project goes beyond the demonstration effect attained through the intervention; it must also measure how resources are used to ensure that accumulated knowledge translates into the development of the capacities needed for the identification and design of sector-wide interventions at the scale necessary to meet national climate and nature objectives. Therefore, IDB CLIMA pilot projects also require borrowers to strengthen sectoral technical capacities and knowledge to scale up and develop more investments with climate and nature impacts. Indeed, sectoral ownership of the climate and nature agenda leads to stronger, bottom-up climate planning, resulting in achievable environmental targets and more effective budgetary policies and actions (Cárdenas et al., 2021). This sectoral ownership should also result in the development of mature, investment-driven sectoral project portfolios with clear climate or nature impacts. Such portfolios are essential not only to achieve the scale required to meet national climate and nature objectives but also to ensure that borrowers can meet



the sustainability performance targets defined in potential thematic debt issuances. KPI 2 measures the effects of these interventions.

**The third specific objective of the IDB CLIMA Pilot Program is to create or strengthen the capacity of sectoral and governing institutions to report on climate and nature impacts.** This objective focuses on building institutional and systemic capabilities to collect climate and nature data at the sectoral level. It involves advancing compliance with the ETF under the UNFCCC, corresponding requirements under the CBD and the GBF, as well as the ICMA standards. This objective also encompasses improving the capacity to define relevant indicators and targets. This includes engaging sectors in developing climate and nature indicators, refining methodologies for their construction, strengthening sectoral capacity on climate and nature issues, developing and implementing financial monitoring systems that track climate and nature expenditures, and aligning sectoral indicators with national goals. Enhanced capacity in this area is also expected to improve policy formulation. The third type of intervention supporting this objective involves upgrading reporting systems to verify impact and enable access to financing at the required scale. The IDB CLIMA Pilot Program requires borrowers to develop and enhance sectoral approaches to climate and nature reporting. While reporting efforts are sector-driven, they are designed to strengthen existing inter- and intra-institutional capacities, producing reporting systems that are comparable, reliable, timely, material, and comprehensive. Achievement of the necessary reporting capacities is measured through KPI 3. These capacities enable countries to report progress to the United Nations on their national climate and nature objectives. Therefore, interventions aligned with KPI type 3 are closely linked to national climate and nature reporting systems. When properly designed, these reporting systems support the development of evidence-based policies by helping identify issues and define solutions. Robust systems also allow for ongoing monitoring and early warning of potential deviations from climate and nature targets, enabling timely corrective actions. Crucially, recent IDB experience has demonstrated that investments in these systems help borrowers meet relevant market standards, such as those set by ICMA. This, in turn, facilitates access to thematic debt markets and attracts capital at the necessary scale.

## Box 2. What the vertical logic looks like in an IDB CLIMA pilot project

### Program For Complete Educational Trajectories and Their Climate Change Resilience (ES-L1167)

**The general objective of this program is to consolidate complete education trajectories (access, learning, and promotion) and their climate change resilience. This objective is aligned with IDB CLIMA Pilot Program General Objective as it includes a development-oriented general objective with a climate perspective.**

In addition, the project has five specific objectives, two of which ensure alignment with IDB CLIMA's vertical logic:

- Specific Objective 1: increase the supply of climate-resilient education with a focus on preschool and secondary school.

- Specific Objective 5: strengthen education management capacities, including those that incorporate climate change mitigation and adaptation measures (development of a project portfolio and impact monitoring and reporting), helping improve the country's conditions for accessing climate finance

Finally, the specific objective 1 of the project is aligned with IDB CLIMA Specific Objective 1, as it reflects the operation's environmental impact. Specific Objective 5 is aligned with IDB CLIMA Specific Objectives 2 and 3, as it relates to building capacity for designing climate project portfolios and strengthening impact reporting systems.

10.

# Annex II: Key instruments for Pilot Program implementation

## A. The Green Transition Framework (GTF)

**Capacities in the region are heterogeneous both across and within countries.** The IDB CLIMA Pilot Program is built on the understanding of this diverse institutional capacity across countries and sectors in LAC, recognizing that each nation faces unique challenges and contexts that shape its institutional development trajectory. This diversity is reflected in varying degrees of technical preparedness, available resources, regulatory frameworks, and governance structures, all of which underscore the need for tailored, context-specific approaches.

**To support interventions, and to diagnose and guide borrowers in their efforts, the IDB CLIMA approach relies on a Green Transition Framework (GTF).** The GTF is articulated around (i) the three types of KPI previously mentioned, (ii) four vertical axes that consider nature, low-carbon competitiveness, climate adaptation, and disaster risk management; and (iii) a three-stage sequential approach to adapt interventions to borrowers' capacities. These three stages represent the progression of borrowers from an initial stage—with limited capacity to access green and thematic debt markets—to an advanced stage in which they are able to support Debt Management Office efforts in systematizing their issuance of green and thematic debt; (iv) a top-down vision that ensures coherence across all sectoral efforts at the institution level, as well as within the vertical structure of policymaking at both national and subnational levels; and (v) a bottom-up approach focused on the contributions of each economic sector.

**The GTF is anchored by a top-down, economy-wide strategic framework document.** This document seeks to inform country engagement and the inception of investment loans, technical cooperation agreements, as well as other interventions intended to support a green transition in LAC. In this context, the GTF economy-wide approach facilitates the identification of suitable investments and regulatory frameworks that countries in the region can deploy—appropriately tailored to their level of development and other national circumstances—to unlock the potential economic gains associated with transformational low-carbon climate resilient and nature-positive development, while managing risks and costs.

**Furthermore, the GTF relies on a bottom-up approach with three main instruments that operationalize its ambitions during loan design: the GTF Sector Manuals, the GTF Assessment Questionnaire, and the GTF Roadmap.** Central to this approach are the Sector Manuals, developed for each of the Bank's sectors to address the urgent and growing need to scale up climate- and nature-focused investments in line with national objectives. They provide practical tools for identifying sector-specific opportunities to design projects that integrate climate and biodiversity dimensions, along with guidance on establishing relevant, central, and material metrics. These manuals serve as operational documents aimed at guiding sector specialists in designing projects that advance a green transition through a bottom-up approach aligned with IDB CLIMA requirements. Specifically, their content includes clear instructions and minimum criteria for the formulation of KPIs related to climate adaptation, emissions reduction, and nature-positive outcomes.

**The GTF Assessment Questionnaire evaluates the borrower's institutional readiness to fulfill IDB CLIMA objectives.** It identifies strengths and gaps in the borrower's engagement with the environmental agenda and assesses its capacity to support debt management office efforts to structure and issue green and thematic debt. The Questionnaire employs a differentiated structure for central government agencies and subnational institutions versus intermediary financial institutions. The former are assessed on governance, climate and nature project preparation mechanisms, monitoring, reporting and verification, and financing. The latter are assessed on governance, materiality, climate and nature risks, metrics and disclosure, and business strategy. Implementing the GTF Assessment Questionnaire will identify gaps and improvement pathways to integrate climate and nature factors into development policies and to access or expand financing through green or thematic debt issuance. This process also involves creating the necessary conditions and capacities to develop climate and nature projects that can be included in such issuances, while ensuring impact monitoring and reporting in alignment with market requirements and international standards. Within an IDB CLIMA operation, the GTF Assessment Questionnaire is applied during the identification stage to help define the theory of change of the project, including its General and Specific Objectives, and to determine the areas of intervention that will inform the design of the KPIs.

**The GTF Assessment Questionnaire is paired with a GTF Roadmap, which serves as both an operational and strategic instrument to guide loan implementation and the borrower's broader green transition strategy.** The roadmap prioritizes key areas and elaborates on targeted interventions to address capacity gaps identified in the GTF Assessment Questionnaire. It outlines a set of specific actions, indicators, and milestones to support the execution of the loan and ensure the achievement of its objectives and KPIs. Consequently, this will facilitate borrowers' access to the reward mechanism, while enhancing their overall sustainability planning and institutional capacity. The roadmap is co-created with the borrower and formally endorsed by both the borrower and the competent authorities overseeing debt management and climate policy. It contains a detailed list of specific barriers and their corresponding remedial actions to be financed through the loan. It also includes a structured implementation timeline, articulates anticipated outcomes, and provides a rationale for the interventions, based on the questionnaire and the overall objective of the borrower to access green and thematic debt markets. In addition, the roadmap incorporates a condensed vertical logic of the operation, aligned with the General and Specific Objectives of the IDB CLIMA Pilot Program. The GTF Roadmap identifies opportunities consistent with the country's climate and nature policy objectives, emphasizing the alignment of the IDB CLIMA pilot project interventions with the nation's NDCs, NBSAPs, adaptation plans and other climate and nature planning instruments.

## B. Verification Framework for Compliance with KPIs

**The reward mechanism of the IDB CLIMA Pilot Program is based on a rigorous protocol for verifying the achievement of targets across all three types of KPIs.** The reward is triggered upon completion of an independent external verification, which reflects the assurance practices recommended for issuers of thematic debt under ICMA's Sustainability-Linked Bond Principles (SLBPs). The independent verification is conducted during the final year of the original disbursement period (or any extensions thereof) and only after at least 90% of the investment loan amount has been disbursed. The IDB CLIMA Pilot Program reward must be allocated exclusively

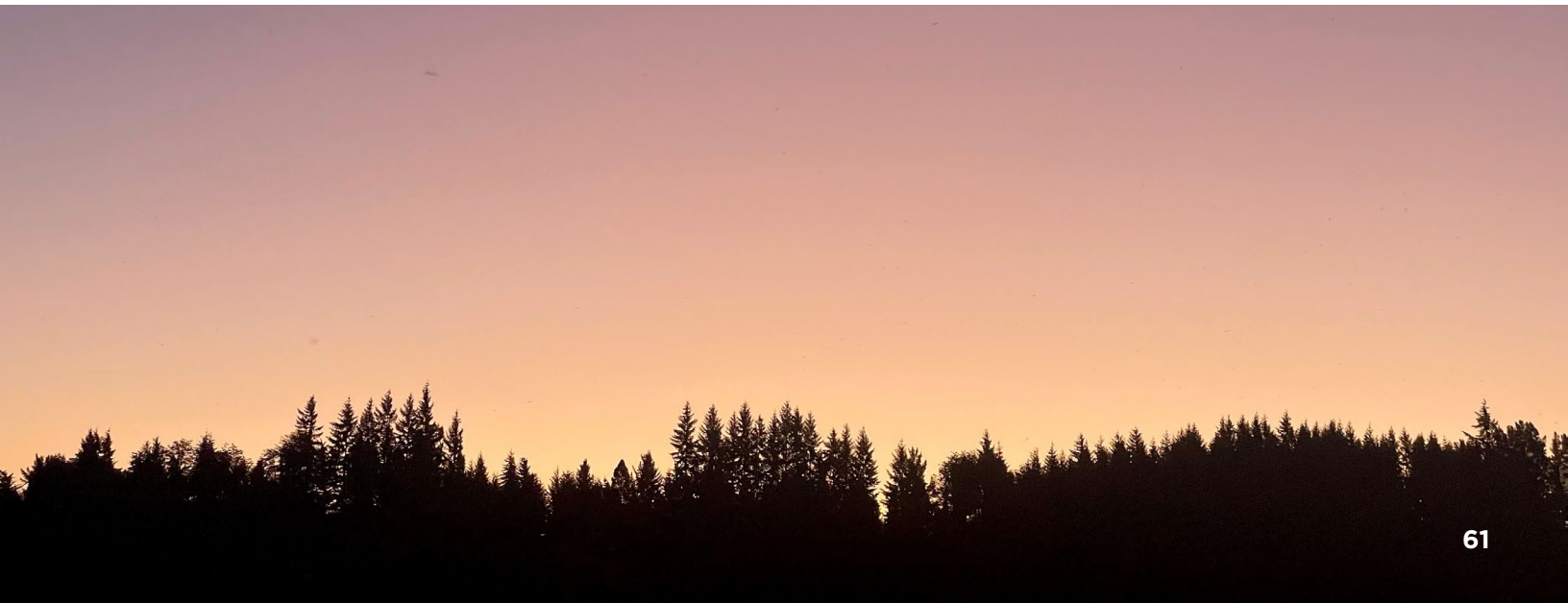
to support interventions related to biodiversity, climate change, and sustainability. It may not be used, directly or indirectly, to finance any projects or sub-projects included in the IDB's Environmental and Social Exclusion List. To claim the reward, the borrower must submit: (i) the independent KPI verification report, and (ii) an indicative action plan specifying how the reward funds will be allocated to interventions related to biodiversity, climate change, and sustainability. Independent verification is essential to ensure the credibility, transparency, and accountability of these efforts and to prevent conflicts of interest. It is key to enhancing investor confidence, reducing the risk of greenwashing, standardizing KPIs and targets for better comparability, and improving the accuracy of reported data.

**IDB CLIMA pilot projects also benefit from Technical Cooperation (TC) support.** Every IDB CLIMA pilot project is granted up to USD 1 million in non-reimbursable TC resources, specifically allocated to advance the objectives of the IDB CLIMA Pilot Program. This support covers key interventions within ministries of environment and sectors, such as assessing and developing plans to improve sector-driven reporting systems and capacities, building climate and nature-positive capacities within sectors and entities in charge of sovereign debt issuance, and funding the design and execution of the IDB CLIMA pilot project, as well as studies that inform its development.

## C. Monitoring, Evaluation and Learning Approach

**The IDB CLIMA Pilot Program incorporates a comprehensive Monitoring, Evaluating and Learning (MEL) approach, tailored to the specific characteristics of the pilot Program and projects.** Far from being a peripheral function, the MEL approach serves as a cornerstone of IDB CLIMA, intended to ensure strategic implementation, continuous improvement, and credible evidence generation.

**The MEL approach plays a key role in IDB CLIMA, serving not only to track progress but also to validate the program's innovative pilot design, support continuous improvement, and scalability.** Given the innovative and pilot nature of IDB CLIMA, MEL is essential for tracking progress, validating the program's design, and ensuring its continuous improvement. As a pilot initiative, it must undergo rigorous monitoring and evaluation to confirm objective achievement and generate insights for future scaling. A key feature of IDB CLIMA is its performance-based reward mechanism, which depends on the achievement of specific KPIs. This makes the availability of robust and high-quality data essential. The MEL framework operates at two interconnected levels: the pilot project level



and the program level. Each level has distinct but complementary approaches to monitoring, evaluation, and learning, ensuring a holistic understanding of the program's performance.

**At the project level, MEL ensures that each pilot project contributes meaningfully to the overarching goals of IDB CLIMA.** Since IDB CLIMA pilot projects are IDB loan operations, they are required to adhere to the Bank's institutional accountability standards and its Effectiveness Development Policy Framework. MEL at project level leverages existing Bank instruments and processes, while adapting them to the specificities of IDB CLIMA. The GTF Roadmap plays a pivotal role in this process, translating IDB CLIMA's objectives into concrete steps and actions. It serves as the most effective instrument for tracking the progress of IDB CLIMA pilot projects and assessing their contribution to the Pilot Program's objectives.

**At the program level, MEL focuses on assessing the overall effectiveness of IDB CLIMA as a whole.** This includes monitoring and evaluating the program's core features, mechanisms, and supporting instruments. Evaluations of the IDB CLIMA Pilot Program will be conducted at strategic moments to generate insights and lessons that inform the refinement of both the Pilot Program and its pilot projects. These evaluations will assess the relevance, efficiency, and effectiveness of the Pilot Program, while also examining the implementation and impact of GTF instruments that support its delivery.


IDB