GEF-8 PROJECT IDENTIFICATION FORM (PIF)

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General Project Information

Project Title
Innovative use of financial instruments for Biodiversity Conservation and Restoration in Latin America and the Caribbean

Region	GEF Project ID
Regional	11324
Country(ies)	Type of Project
Regional	FSP
GEF Agency(ies):	GEF Agency ID
IADB	RG-O1712
Executing Partner	Executing Partner Type
IADB (Administrator of funds while it is a guarantee) Conservation Trust Funds	GEF Agency CSO
GEF Focal Area (s)	Submission Date
Biodiversity	9/18/2023

Project Sector (CCM Only)
Mixed & Others

Taxonomy
Focal Areas, Biodiversity, Financial and Accounting, Conservation Finance, Conservation Trust Funds, Protected Areas and Landscapes, Coastal and Marine Protected Areas, Terrestrial Protected Areas, Influencing models, Strengthen institutional capacity and decision-making, Demonstrate innovative approache, Deploy innovative financial instruments, Stakeholders, Beneficiaries, Communications, Behavior change, Awareness Raising, Education, Public Campaigns, Private Sector, Financial intermediaries and market facilitators, Capital providers, Indigenous Peoples, Local Communities, Civil Society, Non-Governmental Organization, Community Based Organization, Academia, Trade Unions and Workers Unions, Type of Engagement, Consultation, Information Dissemination, Participation, Gender Equality, Gender Mainstreaming, Gender-sensitive indicators, Sex-disaggregated indicators, Women groups, Gender results areas, Access to benefits and services, Knowledge Generation and Exchange, Participation and leadership, Capacity, Knowledge and Research, Knowledge Generation, Training, Workshop, Capacity Development, Learning, Theory of change, Indicators to measure change, Innovation

Type of Trust Fund	Project Duration (Months)
GET	240
GEF Project Grant: (a)	GEF Project Non-Grant: (b)
0.00	40,180,000.00
Agency Fee(s) Grant: (c)	Agency Fee(s) Non-Grant (d)
0.00	3,616,200.00
Total GEF Financing: (a+b+c+d)	Total Co-financing
43,796,200.00	641,280,000.00

PPG Amount: (e)	PPG Agency Fee(s): (f)
0.00	0.00
PPG total amount: (e+f)	Total GEF Resources: (a+b+c+d+e+f)
0.00	43,796,200.00

Project Tags

CBIT: No NGI: Yes SGP: No Innovation: No

Project Summary

Provide a brief summary description of the project, including: (i) what is the problem and issues to be addressed? (ii) what are the project objectives, and if the project is intended to be transformative, how will this be achieved? iii), how will this be achieved (approach to deliver on objectives), and (iv) what are the GEBs and/or adaptation benefits, and other key expected results. The purpose of the summary is to provide a short, coherent summary for readers. The explanation and justification of the project should be in section B "project description".(max. 250 words, approximately 1/2 page)

Although it represents only 16% of the planet's land, Latin America and the Caribbean (LAC) hold 40% of the world's biological diversity. However, land-use change, climate change, overexploitation, pollution, and invasive species, threaten the region's biodiversity. A recent study by WWF shows an average 94% decline in LAC's population abundance of mammals, birds, fish, reptiles, and amphibians between 1970 and 2018.

In December 2022, during the United Nations Biodiversity Conference (COP15), countries struck a global agreement to halt and reverse nature loss by 2030. To deliver on their commitments, LAC countries must move swiftly to begin implementing the Global Biodiversity Framework (GBF), mobilizing resources from national budgets and the private sector, and this will require substantial financing in a context of high debt stocks and rising interest rates.

Given the scarce financial resources allocated to biodiversity in national budgets, the current levels of national debt, and fiscal constraints of countries, public funds for biodiversity protection and conservation are far from sufficient to halt these developments and meet the GBF targets. This has been evidenced in numerous studies, including by the Paulson institute in 2020, which showed an approximately US$800 billion financing gap per year for biodiversity finance. Concerted efforts are needed to drive new additional finance to protected areas (PAs), and to the development and implementation of corresponding management plans.

The objective of this Project is to establish a Regional Facility to support biodiversity conservation and restoration in at least 3 LAC countries by: (i) enabling long-term financing for conservation, restoration, and sustainable management without increasing the debt ceiling; (ii) introducing very powerful incentives to timely achieve conservation commitments; and (iii) strengthening national institutional frameworks to support natural resources management. It is aimed at improving management effectiveness and expanding land and sea under conservation or restoration, through PA and other effective area-based conservation measures (OECMs), with the final expected goal of preserving species and ensuring provision of ecosystem services. This objective supports goals A, B, and D of the Global Biodiversity Framework, and multiple targets, with particular relevance to Targets 1, 2, 3, and 19. It is also aligned with the recent initiatives to maximize development financial institution programming to support nature, climate and fiscal goals discussed in Paris by global leaders in June 2023.

To achieve this goal, the Facility will provide to each participating country, or sub-national government, an innovative blended finance solution through the use of guarantees to support a Debt for Nature Conversion (DFNC) and a performance- based grant, that will help countries attend to nature and debt objectives concurrently, ensuring long-term financing for PAs, spatial planning, effective management, and/or expansion without increasing the debt ceiling. A DFNC is a debt management exercise where the

country seizes a market opportunity and issues a guaranteed instrument (loan or bond) at more favorable terms and, in line with its medium-term debt management strategy (MTDS)[1], uses the proceeds to substitute outstanding more expensive sovereign debt generating savings on the interest rate coupon and/or the principal in the process. The IDB will issue the guarantee once the country has met a series of policy reforms aimed at promoting the good governance structures for the successful use of conservation resources, including supporting existing and new conservation trust fund governance, and that will help ensure timely achievement of conservation commitments. It is expected that the Facility will achieve between 15,9M Ha and 37,7M Ha of land/ocean protected/restored/under improved management. There may be additional benefits in terms of improved management of existing PA as well. The Facility is designed to attract other international donors and investors, thereby enabling replication and scale.

[1] in some countries, the optimal liability management will not be to repurchase long-term debt but could also entail to buy short-term debt to improve liquidity positions. In these circumstances, conservation savings will also accrue and will be duly computed.

Indicative Project Overview

Project Objective

To establish a Regional Facility to support biodiversity conservation and restoration in at least 3 LAC countries by: (i) enabling long-term financing for conservation, restoration, and sustainable management without increasing the debt ceiling; (ii) introducing very powerful incentives to timely achieve conservation commitments; and (iii) strengthening national institutional frameworks to support natural resources management.

Project Components

1. Innovative use of financial instruments to ensure long-term financing for biodiversity conservation and restoration activities.

Component Type	Trust Fund
Investment	GET
GEF Project Financing ($)	Co-financing ($)
39,000,000.00	640,000,000.00

Outcome:

1.1. Long-term financing available for restoration and/or PA creation and/or effective management

Output:

1.1.1. One sustainability-linked bond/loan per country that serves the Debt for Nature Conversion (DFNC) purposes.

1.1.2. Estimated US$111 – US$147 million mobilized to the selected CTFs

1.1.3. Estimated 15,9M – 37,7M Ha of terrestrial and/or marine PA created and/or under improved management for conservation and sustainable use and/or land restored.

2. Enabling environment for a successful use of conservation resources and implementation of conservation commitments

Component Type	Trust Fund
Technical Assistance	GET
GEF Project Financing ($)	Co-financing ($)
500,000.00	1,000,000.00

Outcome:

2.1. Environmental governance strengthened for conservation management, sustainability and biodiversity protection.

2.2. Debt management institutional framework and capacities improved.

Output:

2.1.1. One Conservation Commitments document approved by relevant authorities in each participating country, including a Stakeholder Engagement Plan.

2.1.2. One Stakeholder Advisory Committee (SAC) established in each participating country.

2.1.3. One Conservation Trust Fund (CTF) established or strengthened following Practice Standards for CTFs in each participating country.

2.1.4. One capacity-building training for government officials from the Ministry of Finance and Ministry of Environment implemented in each participating country.

2.1.5. One Gender Action Plan per participating country

2.2.1. One diagnostic and roadmap for institutional strengthening of the Debt Management Office completed per participating country.

2.2.2. One DFNC strategy approved per participating country.

2.2.3. One Sovereign Sustainability Linked Bond (SSLB) Framework and Reporting Guidelines approved per participating country.

3. Knowledge sharing and MRV

Component Type	Trust Fund
Technical Assistance	GET
GEF Project Financing ($)	Co-financing ($)
500,000.00	280,000.00

Outcome:

3.1 Knowledge generated by the project is disseminated, and the likelihood of replication and scale-up increases.

Output:

3.1.1. One step-by-step guide on how to implement DFNC published.

3.1.2. One case study published per country.

3.1.3. Systemic MRV system to track progress against policy triggers and conservation commitments developed.

3.1.4. One workshop for relevant stakeholders on DFNC implementation delivered.

M&E

Component Type	Trust Fund
Technical Assistance	GET
GEF Project Financing ($)	**Co-financing ($)**
180,000.00	

Outcome:

Monitoring and evaluation completed.

Output:

One mid-term evaluation conducted.

One final evaluation conducted.

Component Balances

Project Components	GEF Project Financing ($)	Co-financing ($)
1. Innovative use of financial instruments to ensure long-term financing for biodiversity conservation and restoration activities.	39,000,000.00	640,000,000.00
2. Enabling environment for a successful use of conservation resources and implementation of conservation commitments	500,000.00	1,000,000.00
3. Knowledge sharing and MRV	500,000.00	280,000.00
M&E	180,000.00	
Subtotal	**40,180,000.00**	**641,280,000.00**
Total Project Cost ($)	**40,180,000.00**	**641,280,000.00**

Please provide justification

Due to the large extension of land/sea that is projected to be protected through potential country-specific projects, it is expected that the Inter-American Development Bank (IDB) will contribute US$641,2 million from the Bank’s ordinary capital or through resource mobilization. As evidenced by recent transactions and as it will be explained in the Project Rationale Section, the IDB plays a catalytic role in these transactions, helping the mobilization of resources from third parties by partnering with financial and non-financial institutions, such as The Nature Conservancy (Barbados) and U.S. International Development Finance Corporation (Ecuador). Moreover, due to the large size of the ordinary capital/resource mobilization expected for each deal and to add significant value, IDB is requesting US$40,18 million from the GEF under the Blended Finance Global Program, to support at least 3 LAC countries. As part of IDB's M&E requirements as GEF implementing agency and to ensure high quality reports and appropriate coordination and integration of information for a regional facility of that size, IDB is requesting US$180,000 to cover independent evaluation consultancies to be hired for the midterm and final evaluation. Periodic M&E of the project goals, objectives and impact, is one of the key responsibilities of Conservation Trust Fund (CTF) and will be covered by the administrative budget resources of the CTF. SSLB frameworks under output 2.2.3. will be financed with government's budget or through IDB's issuers support program. No GEF funds will be used for this activity.

PROJECT OUTLINE

A. PROJECT RATIONALE

Briefly describe the current situation: the global environmental problems and/or climate vulnerabilities that the project will address, the key elements of the system, and underlying drivers of environmental change in the project context, such as population growth, economic development, climate change, sociocultural and political factors, including conflicts, or technological changes. Describe the objective of the project, and the justification for it. (Approximately 3-5 pages) see guidance here

Although it represents only 16% of the planet's land, Latin America and the Caribbean (LAC) hold 40% of the world's biological diversity and contains seven of the world's 25 biodiversity hotspots, six of the 17 "megadiverse" countries, 11 of the 14 terrestrial biomes, and the second largest reef system worldwide. More than 30% of the earth's available freshwater and almost 50% of the world's tropical forests are found in the region and LAC possesses a vast array of terrestrial, freshwater, coastal, and marine ecosystems containing some of the richest collections of birds, mammals, plants, amphibians, and landscapes on the planet. This unique source of capital – natural capital – provides sustainable livelihoods for local people as well as vital ecosystem services for the region and the globe, such as the supply of oxygen, clean air and water, food, pollination of plants, and protection from extreme weather events.

However, despite its importance, LAC's biodiversity has decreased significantly over the last few decades. A recent study by WWF[1] shows an average 94% decline in LAC's population abundance of mammals, birds, fish, reptiles, and amphibians between 1970 and 2018. Moreover, Global Forest Watch data shows that 4 of the top 10 countries for tropical tree cover loss in 2021 were in Latin America. Mangrove deforestation rates are 3-5 times higher globally than terrestrial forests and, in our oceans, 90% of fish stocks are either fully fished or over-fished, and plastic pollution has been detected in all major marine environments.

According to the latest Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) regional report[2], the direct drivers of change in nature with the largest impact have been changes in land and sea use, species overexploitation, invasive species and disease, climate change and pollution. By far the biggest driver of biodiversity loss is habitat destruction, followed by overexploitation of wild species, both fueled by rapid global population growth and by unsustainable consumption patterns. Conversion to croplands and pasturelands is the main driver of terrestrial habitat change in the Americas. Agricultural practices associated with land conversion significantly change biogeochemical cycles contributing to pollution of terrestrial and aquatic ecosystems and to climate change. Overexploitation occurs when humans extract more of a natural resource than can be replaced naturally. This unsustainable practice threatens biodiversity and can degrade ecosystem services by reducing species populations below natural self-sustaining levels and disrupting ecosystem functions and species interactions. Human-induced climate change has already caused increased mean and extreme temperatures and/or, in some places, mean and extreme precipitation throughout the Americas, with adverse impacts on ecosystems. These changes in weather and local climate have in turn caused changes in species distributions and interactions and in ecosystem boundaries, the retreat of mountain glaciers, and melting of permafrost and ice fields in the tundra. Just as climate change alters habitats and ecosystems, loss of biodiversity contributes to climate change and intensifies its effects. The two most important environmental threats are a single, linked process that needs to be addressed jointly. Tropical forests, freshwater wetlands and oceans are carbon sinks, absorbing and preserving important amounts of

CO2. Their conservation, restoration and sustainability are critical to achieving the targets of the Paris Agreement. The protection of nature is hence not only a goal but is also a means to protect us from climate change and sustain livelihoods.

Biodiversity loss and climate change negatively impact livelihoods in the region and women often are especially vulnerable. In many places in LAC, the livelihoods of women depend, in large part, on natural resources and functioning ecosystem services. Women have a relationship with nature that is different from men as they usually have different roles, knowledge, dependencies and contributions to conservation and sustainable management. Negative impacts of environmental degradation, loss of biodiversity, and climate change are affecting women more, placing them in a position of vulnerability and threatening their livelihoods, assets and health. In rural communities across the globe, women and girls, for example, are responsible for gathering food, water, and household energy resources. As droughts worsen, forests burn or precipitation patterns change, they have to travel further distances and spend more time acquiring these resources. As a result, they have less time to pursue other sources of income, which prevents them from becoming economically independent[3].

Drivers of biodiversity loss and reduced contributions of nature to people are projected to increase in intensity if existing patterns of consumption and the policies underlying them continue. All anthropogenic drivers are projected to continue to affect all ecosystems, across all spatial scales, under all future scenarios, although the specific trajectories and rates of change in biodiversity and nature's contributions to people depend on the assumptions used in the various scenarios[4]. The business-as-usual (BAU) projections suggest that pressures from agricultural practices were the major aspects of land-use change and changes in temperature and precipitation regimes as well as the nature of some related extreme events were the major aspects of climate change, in all projections. Pressures to nature are projected to increase by 2050 under the BAU scenario and the three alternative pathways, negatively affecting biodiversity as indicated by a potential reduction of the mean species abundance index. However, the magnitude of the pressures by 2050 is expected to be less under transition pathways to sustainability in comparison to the BAU scenario. Under these pathways to sustainability, climate change mitigation, the expansion of protected areas and the recovery of abandoned lands would significantly contribute to reducing biodiversity loss. Protected areas are essential for biodiversity conservation and there is evidence that local biodiversity is higher inside than outside terrestrial protected areas worldwide[5]. However, extensive human activity within their boundaries can undermine the benefits of protected areas and hence, it is crucial to increase the strictness of protection zones and combat the chronic underfunding of protected areas worldwide[6].

Currently, LAC countries have a reported 10,168 total protected areas and other effective area-based conservation measures (OECMs), with 1,291 having management effectiveness evaluations, across 52 countries. This represents a coverage of 24.93% of terrestrial and inland waters, and 24.66% of marine and coastal areas of the region[7]. The majority of these areas (6,143) are under the administration of federal or sub-national ministries. This can be considered the baseline for the program. Given the scarce financial resources allocated to biodiversity in national budgets, the current levels of national debt, and fiscal constraints of countries, new protected areas would not be established at the pace required to meet the Global Biodiversity Framework targets without concerted efforts to drive new additional finance to protected areas, and to the development and implementation of corresponding management plans[8].

The following barriers have been identified that prevent countries from achieving GBF targets:

Barrier 1. Limited borrowing capacity at sustainable levels. The full implementation of the framework requires adequate, predictable and easily accessible financial resources. Indeed, the UN State of Finance for Nature report[9] in 2021 states that under the BAU scenario, investments in Nature-based solutions (NbS) amount to USD 133 billion/year – most of which comes from public sources (86%). In comparing

existing capital flows to NbS-relevant sectors to the needs of international targets related to addressing the climate crisis, land degradation and reversing biodiversity loss, it is clear that investment needs will have to almost triple by 2030 and increase to over USD 536 billion/year by 2050, at least four times the amount invested today. However, most LAC countries have a limited borrowing capacity at sustainable levels. Debt has escalated to around US$5.8 trillion, that is, 117% of the region's gross domestic product (GDP) and up to 140% of the GDP of the five largest economies.

Over the Covid-19 Pandemic, average gross public debt- to-GDP levels had a considerable increase with debt levels 20 percentage points higher than the historical average (2006–2019) and the highest since 2006. Most of this financing was used to overcome imminent issues arising under these abnormal circumstances such as unemployment, food and medical costs. These more pressing demands not only increased the region's countries indebtedness levels, but also diverted existing funds away from conservation. Moreover, the current global context further limits borrowing capacity: the aftermath of the pandemic, the Russian invasion of Ukraine, inflation, rising interest rates worldwide, and the need for tighter monetary policy at the national level are a complex context in which borrowing for conservation takes a secondary position.

Barrier 2. Limited incentives to finance nature-based solutions. There are inherent political economy difficulties to direct long-term funding in a consistent manner to address biodiversity protection and invest in natural capital. Economic cycles and urgent social needs create expenditure pressures that tend to divert resources from the activities required to protect biodiversity in a consistent manner during a long period of time. The COVID-19 pandemic made resource mobilization for Conservation Trust Funds (CTFs) difficult as funds were mostly utilized to respond to emergency needs such as food security and medical support. Resource mobilization from donors will continue to be instrumental given weakened economies and high sovereign debt levels and "CTFs will need to point to the importance of endowments for providing the institutional viability and resilience that have enabled the strongest CTFs to pursue their missions over decades and effectively move ever larger amounts of sinking funds and flowthrough funding to the field"[10], the REDLAC report states. It further says that "The pandemic resulted in US$258 trillion of global debt as of July 2020, which equals 331% of global GDP. Thanks to the U.S.-led debt for nature swap programs of the last two decades, many CTFs have experience with debt restructuring models. Along with the U.S. Tropical Forest and Coral Reef Conservation Act (TFCCA) of 2019, new models for using debt conversions (Box 4-1) are a huge opportunity for CTFs to engage in structuring new deals to support national and international biodiversity and other priorities."[11]

In this respect, creating adequate mechanisms to lock-in long long-term financing and investment in nature is of crucial importance. Channeling resources through externally managed entities such as Conservation Trust Funds (CTFs) with specific governance standards that are aligned with international best practices, can avoid the diversion of funding for other purposes due to political changes. Most CTFs are independent from government control and financing, are mission driven and accountable. The REDLAC report on Conservation Trust Funds 2020 states that "transparent financial and programmatic reporting, quick responses to urgent needs, continuity in conservation programs during government administrative transitions and stability in times of political turmoil, the ability to partner with governments and other actors to achieve national goals, and a long-term focus on conservation" are among the main reasons why CTFs are appealing to donors and other financiers.[12] CTFs are therefore essential institutions for conservation finance in their respective countries and have gained an important voice compared to other civil society organizations.

Barrier 3. Insufficient institutional capacity. The achievement of sustainability and natural capital conservation goals are crucially related to the levels of institutional capacity to design, implement, and monitor policies, including the creation of new protected areas and OECMs. Environmental governance refers to the set of structures and processes related to making and implementing decisions related to the

environment and natural capital. This includes mechanisms that ensure compliance with and enforcement of environmental laws, as well as organizations and practices aimed at improving specific environmental outcomes. Since environmental policy is a cross-cutting issue that involves cooperation and coordination among many organizations and individuals, a sufficient level of relevant capacity is needed to effectively design and implement it. This requires, among other aspects, the existence of a leading institution in charge of the issue; sufficient personnel dedicated to environmental issues in key government institutions; recognition of the issue in the structure of organizations; and institutional arrangements to develop a climate-related strategy. In the case of biodiversity, it is crucial for countries to develop integrated and holistic approaches to biodiversity preservation; to strengthen national biodiversity strategies and action plans; to adequately design country-owned goals and targets; to value their natural assets adequately for better conservation; to ensure that indigenous peoples and local communities (IPLCs) and stakeholders are included in PA planning processes and in consultative or governance processes of CTFs, etc. This is particularly important in the planning, designation, funding, and implementation of PAs and OECMs, which are by their nature complex, multi-sectoral, and which evidence has shown require attention and funding to effective implementation of management plans. The planning processes that establish PAs, management plans, and CTF governance must be inclusive to IPLCs, and traditional cultural and economic users of natural resources. A lack of inclusion in planning can be a barrier to effective and efficient implementation. An effective stakeholder inclusion process will be supported by creating or strengthening CTFs through this facility, as CTFs have managed to engage and partner with a highly diverse group of stakeholders, which is described as one of the three most important success factors of CTFs. A global CTF survey conducted in 2020 shows, that the highest percentage of investments by CTFs participating in the survey are in national NGOs, community-based organizations, national governmental agencies and organizations or associations of indigenous people.[13]

Barrier 4. Limited understanding of innovative financing. Ministries of Environment typically do not have experience with cutting-edge financial products, and, at the same time, Ministries of Finance may not be familiar with conservation finance advancements. A lack of understanding of the characteristics and requirements for Debt for Nature Conversions (DFNC) has prevented these transactions from happening at a faster and larger scale. To date, only 3 multi-party DFCNs have taken place in the region: Belize (2021), Barbados (2022) and Ecuador (2023). There are some misperceptions among governments about DFNC and they are sometimes confused with debt restructuring exercises, which governments are reluctant to implement. Moreover, they are perceived to be expensive to structure, time-consuming and there are doubts about the conservation outcomes achieved through DFNC due to ineffective measuring, monitoring, and evaluation, or to inappropriate indicators (Gockel and Gray, 2011).

The IDB has been supporting LAC countries to overcome these barriers and achieve their biodiversity targets through an innovative use of one of its financial instruments, the Policy Based Guarantee (PBG). Under this instrument, the IDB provides a sovereign guarantee to enable the country (or sub-national government) to obtain financing at more favorable terms, upon the compliance by said country of certain policy reforms aimed at creating an enabling environment for the execution of the transaction and achievement of the conservation commitments. The guaranteed instrument is linked to sustainability and includes step-up/step-down clauses to incentivize timely achievement of conservation targets (see NGI financial structure for more details). The country then uses such cheaper financing enabled by the IDB Guarantee to repurchase more expensive outstanding debt, generating savings on the interest rate coupon and/or the principal in the process that will be channeled to a CTF, ensuring a credible execution mechanism for the use of conservation resources. The CTF will provide grants for conservation or restoration activities via an annual grant award program and will capitalize an endowment that will contribute to generate future resources for conservation activities and ensure long-term sustainability of the project. This debt management exercise is called a Debt for Nature Conversion (DFNC) and allows

countries to exchange their existing debt for new instruments with longer maturities and lower interest rates, without affecting the debt ceiling, while boosting investment in environmental sustainability and biodiversity.

In September 2022, the Government of Barbados, with the support of the IDB and The Nature Conservancy (TNC), structured a DFNC to support the country's marine conservation agenda. The Barbados operation comprised a US$100 million guarantee from the IDB and another US$50 million guarantee from TNC that enhanced a loan provided to Barbados (Blue Loan) to buy back existing debt. Estimated savings amount to US$50 million to be channeled to the Barbados Environmental and Sustainability Fund (BESF) and support the expansion of the country's marine protected areas from virtually zero to approximately 30% and improve management for all marine waters within its jurisdiction. To determine the most coherent allocation of Barbados' more than 186,000 km2 of marine space across all sectors, an inclusive Marine Spatial Planning (MSP) process with a large stakeholder representation will be completed. To help steer the planning process, an MSP Design Guide was developed at a three-day Expert Group[14] consultative workshop and was presented at an MSP kick-off information session for consensus-building.

The outcomes of the MSP will allow Barbados to make informed and coordinated decisions about how to use the marine space and inherent resources more efficiently, such that conflicts are reduced, marine ecosystems are protected, and sustainable development goals are achieved.

More recently, in May 2023, Ecuador completed a DFNC that will allow the country to allocate resources to long-term marine conservation in the Galápagos Islands to promote greater sustainability and improve the quality of life of Ecuadorians. To date, this is the largest DFNC completed in the world. Under this structure, Ecuador obtained a loan of US$656 million that was credit enhanced by an US$85 million IDB guarantee and a US$656 million U.S. International Development Finance Corporation (DFC) political-risk insurance. Ecuador then used that financing, which was obtained at favorable terms, to repurchase US$1.6 billion in outstanding debt, generating savings of about US$1.45 billion, of which US$323 million will be used to create the Galápagos Life Fund (GLF) and finance conservation activities over the next 18.5 years. The project seeks to expand the conservation of Galápagos Islands natural capital and the effective management of its marine reserves. To achieve this, the Government of Ecuador created the Marine Reserve Hermandad adding 60,000 square kilometers to the existing Galápagos Marine Reserve (GMR) and, with the support of key Blue Economy stakeholders[15], developed and approved the management plan for the new MPA[16]. In both cases, Barbados and Ecuador, the IDB played an important role in helping ministries develop and construct conservation commitments, in evaluating, creating, and ensuring good governance standards for CTFs to channel resources, and in developing appropriate environmental monitoring and reporting mechanisms to track implementation of commitments.

This innovative financial and legal structure provides important financial and environmental benefits for all parties as an alternative to the BAU scenario. In the BAU scenario, funding for conservation measures would be significantly lower as it would likely come from donor grants with much lower amounts compared to the savings generated through the DFNC and the additional GEF instrument. Apart from grants as the most likely funding instrument under the BAU scenario, conservation could be financed by traditional loans. Due to the high debt levels of many countries, it has proven and is expected to remain a less probable funding source, especially to finance the magnitude of GEBs defined for this facility. To summarize, under the BAU scenario, substantially less capital for conservation is available and substantially lower conservation benefits would be achieved. Even if a country takes a loan for conservation, the ratio of additional resource mobilization is significantly less as shown further below. In the alternative scenario, there are clear benefits for all stakeholders: For the sovereign issuer, on top of the clear environmental benefits of increased PAs, improved environmental management effectiveness and national capacities, it reduces the

cost of funding, extends average portfolio maturity and can potentially reduce the debt stock. For the guarantor, it is a more efficient use of its capital because it allows for higher private capital mobilization and more ambitious conservation commitments (CC). A recent paper developed by the Blended Finance Taskforce[17] shows that loans mobilize private capital at only 25 cents per dollar of public capital while guarantees mobilize, on average, $1.5 of private capital for every dollar of multilateral development banks' capital, outperforming the average mobilization ratio of loans and equities by 6 times. They estimate that, of the $2.4 trillion yearly financial needs to meet global targets on nature and climate in Emerging Markets and Developing Economies, at least $1 trillion can come from private sources if risk-sharing mechanism (i.e., guarantees) are deployed. Recent DFNC (see table below) showcase how this innovative model can raise conservation funding that promotes sustainable development and can attract international investors' attention, that expressed their interest in contributing to future operations of this type. They also show how conservation funding is secured, without increasing the country's debt, and how long-term sustainability of the program is ensured through the capitalization of an endowment that will contribute to generate future resources for conservation activities. Mobilizing additional resources from the GEF to support DFNCs will improve the financial structure and enhance the capacities of the IDB's operations, increase financial savings for conservation and introduce very powerful incentives to achieve conservation commitments. If conservation commitments are met on time, the GEF risk- mitigation instrument converts into a performance-based grant equivalent to the coupon step-down clause included in Uruguay's SLB. This convertibility feature has the objective of incentivizing timely achievement of conservation commitments and, in the current context of raising interest rates, will be key in some countries in which savings will be lower and even not feasible without the GEF instrument. If we assume that all countries achieve the conservation commitments on time, the GEF funds will convert into a US$39 million performance-based grant that will be disbursed in the selected CTFs, increasing total funds mobilized to the selected CTFs by more than 70% in the 20% savings scenario and more than 50% in the 30% savings scenario (for more details see Justification of Financial Structure Section).

Country	Gabon	Ecuador	Barbados	Belize
Date of the transaction	August 2023	May 2023	September 2022	November 2021
Size of Bond/Loan issuance	US$500 M	US$656M	US$150M	US$364M
Maturity	15 years	18.5 years	15 years	20 years
Credit enhancement	DFC Political Risk Insurance	IDB partial credit guarantee and DFC Political Risk Insurance	IDB and TNC partial credit guarantees	DFC Political Risk Insurance and TNC
Rating without Credit Enhancement	Caa1	Caa1	Baa2	Baa2
Rating with Credit Enhancement	Aaa2 Moody's	Aaa2 Moody's	Aa1/Aa2 Moody's	Aaa2 Moody's

Old Debt Coupon	6.625% and 7%	Yields at around 17%	6.5% Eurobond and 8% Domestic bond	8.5%
New Debt Coupon	6.07% (Treas+200 bps)	6.9%	4.90%	6.10%
Total Savings	almost 1%	US$1.6B	US$50M	US$189M debt stock reduction plus US$200M total debt service reduction over 20 years
Conservation savings	US$163M	US$450M	US$50M	US$180M
CTF funding	US$5M / year	US$12M / year	US$ 1.5M/ year (on average)	US$4.2M / year
Endowment	Endowment to grow to US$88M (est.) by 2038	US$100M endowment to grow to US$227M (est.) by 2041.	US$17M endowment to grow to US$27M (est.) by 2037.	US$23.5 M endowment to grow to US$92 M (est.) by 2041
PAs created or under improved management	30% MPAs	New 11.500 square mile (30,000 sqkm) marine reserve La Hermandad	Aspirational goal of 30% of ocean area under protection by 2030	30% of ocean area under protection by 2026.

In addition, these operations are attractive for private investors for the following reasons. First, the new debt issued by the country as part of the DFNC is linked to sustainability and the debt enters into an Environmental, Social and Governance (ESG) category, attracting private investors who value ESG factors and who seek to diversify their investment portfolio. Moreover, within the ESG market, there are very few biodiversity/natural capital investments available. Finally, the reputation of stakeholders (such as IDB, GEF, reputable NGOs, among others), the credible execution mechanism for the use of resources and the ambitious conservation commitments aligned with national policies and international targets, give investors comfort about the success of the project and environmental results.

DFNC can be important contributors to long-term financing in the context of Project Finance for Permanence (PFP) initiatives. This is well illustrated by Gabon's recent announcement that it would pursue a PFP approach, including a DFNC, to finance the goal of protecting 30 percent of its ocean and land by 2030. PFP is an approach designed to secure the policies, capacity, institutional arrangements and full funding for the effective and long-lasting protection of our planet's important natural places[18]. There are 4 ongoing initiatives in LAC: Amazon Region Protected Areas for Life (Brazil), Forever Costa Rica (Costa Rica), Heritage Colombia (Colombia), and Peru's Natural Legacy (Peru). Heritage Colombia (HeCo), the latest PFP initiative launched in the region, will facilitate significant progress toward Colombia's 30X30 target to protect 30% of its land and 30% of its seas by 2030 and locks in a regional cluster of PFP initiatives that, together, provide permanent protections for approximately 12% of the entire Amazon rainforest[19].

Conservation Trust Funds (CTFs) play an important role in conservation finance and in the context of the DFNC transactions. The REDLAC report describes CTFs as essential players in mobilizing resources, creating new business models and practices with the private sector and in mainstreaming biodiversity concerns into broader government policies. The report further states that "the organizational investments in CTFs over the past few decades have created many experienced proven institutions capable of channeling global resources to local venues, often with endowments that help guarantee needed and flexible operational funding. As CTFs strengthen and diversify their mix of conservation instruments, they are increasingly able to scale their impact to sea- and land-scape levels, by, for example, investing in incubators to accelerate investment-ready sustainable business solutions, building transformative production models with multiple partners, and linking global capital to local institutions and communities. Moreover, rather than expecting governments and multilaterals to invest in new special purpose vehicles, and the difficulty and expense of building new institutions, many CTFs stand ready to take on these challenges."

The GEF, the IDB, NGOs and many national governments have supported the creation and strengthening of CTFs across the region resulting in a robust network of institutions and knowledge sharing platform within REDLAC. When scoping projects, existing CTFs that have already been supported and meet the required governance standards and technical requirements of the project will be preferred as vehicles for the management of DFNC savings. In the case that a new CTF needs to be created, it will be in line with international best practices and will take into account lessons learned from REDLAC as was the case of the three CTFs supported by the IADB: Fondo Naturaleza Chile, Barbados Environmental and Sustainability Fund (BESF) and Galapagos Life Fund (GLF). New CTFs, if any, will be encouraged to join REDLAC.

As described in the Coordination and Cooperation with Ongoing Initiatives and Project's Section, the Facility is aligned with several ongoing regional initiatives supported by the GEF such as PROCARIBE+ and NCAA project. Moreover, as included in the Selection Criteria, the IDB will review specific ongoing investments in the selected countries when seeking concurrence of the CEO for each underlying project and will clearly explain how this project builds on ongoing/previous experiences.

The objective of this Project, which would include IDB ordinary capital and potentially other funds mobilized and GEF funds, is to establish a Regional Facility to support biodiversity conservation and restoration in at least 3 LAC countries by: (i) enabling long-term financing for conservation, restoration, and sustainable management without affecting the debt ceiling; (ii) introducing very powerful incentives to timely achieve conservation commitments; and (iii) strengthening national institutional frameworks to support natural resources management. It is aimed at improving management effectiveness and expanding the number of hectares of land/sea under conservation or restoration, through PAs and OECMs, with the final expected goal of preserving species and ensuring provision of ecosystem services. In addition to PAs, the Facility will support projects that seek to implement sustainable management, conservation, or restoration in buffer zones, working lands, or mosaic landscapes, if adequate monitoring and evaluation frameworks and performance indicators can be established to measure environmental impact. This objective supports goals A, B, and D of the Global Biodiversity Framework, and multiple targets, with particular relevance to Targets 1, 2, 3, and 19. It is also aligned with the recent initiatives to maximize development financial institution programming to support nature, climate and fiscal goals discussed in Paris by global leaders in June.

In addition to the financial additionality of GEF resources described above, there are several other benefits. The facility will allow for a more rapid replication of this innovative structure in other countries in LAC by sharing knowledge on the benefits, feasibility and functioning of the DFNCs in a systematic

manner. Having GEF as a stakeholder with a highly credible reputation on environmental issues and extensive track-record with CTFs partner with IDB on these game- changing deals, will increase the comfort of countries and private investors in these operations even further.

By 2008, GEF had contributed almost 20% of the capital raised for CTFs worldwide and has been involved in the creation of at least 50 CTFs worldwide. The GEF has been a CTF donor, co-funder of other projects, has leveraged support from other sources, and has strengthened organizational capacity through GEF projects.[20] The lessons learned from GEF as major catalyst and funding source for CTFs as described in the REDLAC report will be highly valuable and will complement IDBs own knowledge and experience of creating CTFs in the design and implementation of sub-projects under the facility. The IDB will also consider how lessons learned and experiences with Project Finance for Permanence approaches such as from Costa Rica por Siempre (Forever Costa Rica), Bhutan for Life, ARPA for Life, Great Bear Rainforest, Heritage Colombia or Peru's Natural Legacy can be useful for the design and implementation of CTFs to be financed through the DFNCs and will make use of the detailed guide on securing sustainable financing for conservation areas published by WWF and authored by WWF and World Bank.

Furthermore, the preparation of this blended finance facility with its convertibility features triggered internal dialogue on new ways of using existing instruments and mechanisms at the IDB and with its unique structure incentivized conversations on operational innovation for these and similar transactions.

Extensive stakeholder engagement will be key for securing success in the designation, implementation and management of PAs. Involving stakeholders at every stage of the planning process ensures that their perspectives, knowledge, and support are included. The Facility will draw from previous experiences in Barbados, Ecuador and similar operations and ensure that all persons, groups and organizations that will be impacted by the country-specific projects – including IPLCs, women, girls, men and boys and representatives of other vulnerable groups – will be actively involved in the planning and execution process to guarantee that equitable consideration is given to all relevant sectors. Relevant sectors will be identified in each country and considering the specific area that is being protected (land/ocean). For example, for marine spatial planning (MSP), relevant sectors usually include tourism, fisheries, shoreline protection, forestry, maritime affairs, agriculture, higher education and research, cruising and yachting. In the case of forest land protection projects, relevant sectors are agriculture, forestry, academia, civil society, indigenous communities. Gender mainstreaming will be integrated throughout the process considering that women and men and members of different vulnerable groups: (i) use and manage ecosystems differently; (ii) have specific knowledge, capabilities and needs related to natural resources; and (iii) feel the impacts of degraded ecosystems in different ways.

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[11] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 103

[12] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 16

[13] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 35

[14] Ministry of Maritime Affairs and the Blue Economy (Coastal Zone Management Unit and Fisheries Division), Ministry of Environment and National Beautification (Policy Research Planning and Information Unit, Environmental Protection Department, Natural Heritage Division), Ministry of Tourism and International Transport, Ministry of Finance, Economic Affairs and Investments, The Nature Conservancy, University of the West Indies (Centre for Resource Management and Environmental Studies - CERMES), Barbados National Union of Fisherfolk Organization (BARNUFO), Inter-American Development Bank, UNDP-PAGE

[15] *Colectivo ciudadano Más Galápagos, Fundación de Conservación Jocotoco, Asociación de Atuneros del Ecuador (ATUNEC), Fundación Tuna Conservation Group* (TUNACONS), *Federación Nacional de Cooperativas Pesqueras del Ecuador (FENACOPEC), Corporación de Organizaciones de Pesca Artesanal de Galápagos* (CORPAG), *Universidad San Francisco de Quito*, World Wildlife Foundation, WWF Ecuador, Conservation International, CI Ecuador), *Fundación Charles Darwin.*

[16] Plan de Manejo Reserva Marina Hermandad (2022).

[17] Blended Finance Taskforce (2023). "Better guarantees, better finance",

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[19] https://wwf.panda.org/wwf_news/?5909466/Colombia-WWF-and-partners-announce-245M-%20agreement-to-permanently-protect-vital-systems-of-nations-protected-areas

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B. PROJECT DESCRIPTION

Project description

This section asks for a theory of change as part of a joined-up description of the project as a whole. The project description is expected to cover the key elements of good project design in an integrated way. It is also expected to meet the GEF's policy requirements on gender, stakeholders, private sector, and knowledge management and learning (see section D). This section should be a narrative that reads like a joined-up story and not independent elements that answer the guiding questions contained in the PIF guidance document. (Approximately 3-5 pages) see guidance here

The objective of this Project is to establish a Regional Facility to support biodiversity conservation and restoration in at least 3 LAC countries by: (i) enabling long-term financing for conservation, restoration, and sustainable management without increasing the debt ceiling; (ii) introducing very powerful incentives to timely achieve conservation commitments; and (iii) strengthening national institutional frameworks to support natural resources management. It is aimed at improving management effectiveness and expanding the number of hectares of land/sea under conservation or restoration, through PA and OECMs, with the final expected goal of preserving species and ensuring provision of ecosystem services.

Although participating countries have not been confirmed yet, several borrowing member countries have expressed their interest in receiving IDB support to implement a DFNC. Due to the large extension of land/sea that is projected to be protected through potential country-specific projects, it is anticipated that the IDB will contribute US$641 million from the Bank's ordinary capital and potentially other resources mobilized. Because of the large size of the ordinary capital to be expected for each deal and to add significant value, IDB is requesting US$40,18 million risk-mitigation instrument from the GEF under the Blended Finance Global Program to support at least 3 LAC countries. As explained above, the convertibility feature of the GEF risk-mitigation instrument has the objective of incentivizing timely achievement of conservation commitments. To have the desired effect, the financial incentive (step-down) needs to be big enough. Moreover, in the current context of raising interest rates, the performance-based grant might be an enabling factor in those countries where savings will be lower, and the swap benefits might be limited.

The selection and allocation criteria will be the following:

Selection Criteria

To be eligible to receive support under this Facility, LAC countries must comply with the following selection criteria:

1. request a PBG from the IDB to support a DFNC.
2. be eligible GEF countries and submit a Letter of Endorsement by the GEF OFP ahead of the CEO concurrence.
3. be parties to the Kunming-Montreal Global Biodiversity Framework.
4. have solid environmental policies in place such as National Development Plans with environmental commitments as one of the central pillars, Nationally Determined Contributions (NDCs) with biodiversity actions, and/or active National Biodiversity Strategies and Action Plans (NBSAPs).
5. commit to achieve ambitious conservation commitments aligned with national plans and priorities, including the ambition to implement restoration or conservation goals in line with the Global Biodiversity Framework (GBF), using territorial development plans with prioritization of areas of environmental importance (defined as containing one or more IUCN Key Biodiversity Areas or areas of critical habitat for endangered species) contributing to GEF-8 Global Environmental Benefits targets in the areas of Conserving and sustainably using biodiversity and Sustainably managing and restoring land. While developing conservation commitments, IDB will review existing/previous initiatives in the project target area to ensure alignment between specific ongoing investments and those supported by the facility.

6. financial savings generated through the DFNC must be at least 20% of the guaranteed amount.

7. 100% of the savings generated by the GEF funds and at least 50% of savings from IDB guarantee will be channeled to conservation or restoration activities.

8. have an adequate governance structure in place (or be willing to create one) for a successful channeling of conservation resources through a CTF or other similar mechanism, based on international guidance[1]. Existing CTFs that have already been supported and meet the required governance standards and technical requirements of the project will be preferred as vehicles for the management of DFNC savings. In the case that a new CTF needs to be created, it will be in line with international best practices and will take into account lessons learnt from REDLAC. New CTFs, if any, will be encouraged to join REDLAC.

The IDB will be the Administrator of the facility and, as such, will validate potential individual projects against the selection and allocation criteria of the facility. In particular, the IDB will estimate potential savings, will review existing policies and ongoing investments to ensure alignment with the investments supported by this facility, and will conduct a capacity assessment and gap analysis of existing CTFs. CTFs, as executing agencies after convertibility of the GEF risk-mitigation instrument, will have to comply with IDB policies regarding executing agencies. In particular, they must be legally established entities and must be within one of the following categories: (i) borrowing member countries, including national and sub-national institutions with legal capacity to enter into legal agreements with the Bank; (ii) regional and sub-regional agencies established by the same countries; (iii) international or regional cooperation agencies; (iii) private companies eligible to receive non-reimbursable and reimbursable financing from the Bank; or (iv) not-for-profit institutions, including civil society organizations and associations.

At Quality and Risk Review (QRR) Stage of the IADB internal approval process, IADB will seek concurrence from GEFSEC in each proposed investment by submitting investment proposals documenting that all selection criteria are met, documentation of the selected CTF for the transaction, conservation conditions that need to be met for converting GEF guarantee into a conservation grant; the calendar/sequencing of GEF grant disbursement to the CTF, estimated GEBs for each investment, reflows and relevant financial aspects, Letter of Endorsement and all necessary additional information in alignment with the CEO endorsed project.

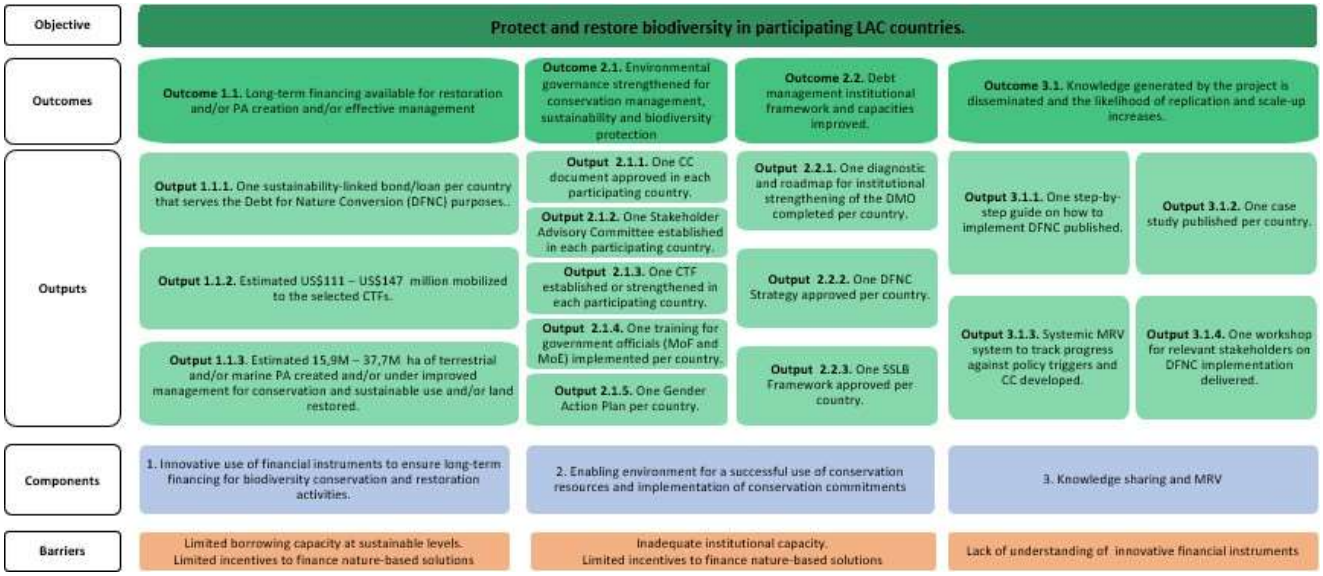
Allocation criteria

Each participating country will be allocated an amount equal to the first annual coupon under the guaranteed instrument with a cap of US$15 million. This will improve the financial structure of the DFNC by expanding the guarantee coverage of the transaction and allowing for additional resources for conservation or restoration.

Project components and expected GEBs

Each country-specific project will be structured around two main components that will be tailored to its specific characteristics and needs. Moreover, a third component will be included at the Facility level, to disseminate the knowledge generated to ensure the replication and scale-up of this innovative use of financial instruments.

Figure 1. Theory of Change



Component 1. Innovative use of financial instruments to ensure long-term financing for biodiversity conservation and restoration activities.

Component 1 will address Barriers 1 and 2 by enabling long-term financing for protected areas effective management and/or expansion and land restoration. It will achieve this through an innovative use of financial instruments. The IDB, the GEF and, potentially, other institutions would provide a sovereign guarantee to cover a debt instrument issued by the country in connection with a DFNC with the objective of financing nature conservation or restoration activities. As mentioned above, a DFNC is a liability management exercise where the country issues a guaranteed instrument (linked to the conservation commitments of the respective country) at more favorable terms and with the proceeds buys back outstanding more expensive sovereign debt, generating savings on the interest rate coupon and/or the principal in the process that will be channeled to a CTF with the objective of providing long-term financing for conservation or restoration activities[2].

DFNC have existed in one form or another since the late 1980s, but early deals were small in value and difficult to scale up. The first transactions can be grouped in two types of models: (i) bilateral swaps, where a creditor country forgives a portion of the public bilateral debt of a debtor nation in exchange for environmental commitments from that country; and (ii) three-party DFNC, where a non-governmental organization (NGO) acts as the donor and purchases debt titles from commercial banks on the secondary market and then transfers the debt title to the debtor country in exchange for environmental commitments from that country. In both cases, there is debt relief in the form of a grant, either from the creditor country or from the NGO, and this makes it difficult to scale-up these transactions. In this regard, the latest transactions (Belize 2021, Barbados 2022 and Ecuador 2023) and the ones to be supported under this Facility, will be different from previous transactions and will include an innovative use of guarantees to reduce the cost of the new debt and with, the proceeds of such new debt, buy back outstanding more expensive sovereign debt, resulting in better terms and conditions of financing from the issuing country thanks to credit enhancement, lengthening of the maturity and maintaining or even reducing the debt stock if repurchased debt is trading below par. The use of guarantees allows for private capital mobilization through the issuance of sustainability-linked debt, increasing the size of the transaction and the expected environmental benefits. To date, the transaction in Ecuador is the largest DFNC completed in the world and is the first time that a multilateral institution such as IDB combined its guarantee

with political-risk insurance provided by DFC to mobilize resources from different actors towards conservation. It is an example of how the LAC region is not only tackling global challenges but is also being part of the solution – pioneering innovative approaches and instruments that can be replicated and scaled globally.

Outcome 1.1. Long-term financing available for restoration and/or PA creation and/or effective management.

Output 1.1.1. One sustainability-linked bond/loan per country that serves the Debt for Nature Conversion (DFNC) purposes.

It is anticipated that each country-specific project under this Regional Facility will be structured as follows: To support DFNCs, the IDB uses a PBG, an instrument in which a series of policy reforms are agreed with the government, and once the government complies with these reforms the IDB extends a sovereign guarantee to support a debt instrument issued by the Government. This credit enhancement contributes to the reduction of the cost of the guaranteed instrument issued by the Government. The proceeds of such guaranteed instrument are used to finance a DFNC and hence, the operation does not increase the debt stock.

The guaranteed instrument (loan or bond) is linked to sustainability and key performance indicators (KPIs) and step-up/step-down clauses will mirror those included in the conservation agreements (see NGI financial structure for more details). The Conservation Commitments Agreement establishes, among others, the conservation commitments (milestones) and the process for determining whether these are met or not, the terms and conditions of the annual conservation payments to be made to the CTF, and the applicable incremental payments in case of non-compliance. Non-achievement of a milestone shall, subject to the defined and agreed grace periods and waivers, trigger the payment of a conservation incremental payment amount by the Government into the CTF. These incremental payments will be adequately reflected in the guaranteed instrument documentation and are equivalent to the coupon step-up clauses included in Chile and Uruguay's SLBs. However, unlike Chile and Uruguay's SLBs, incremental payments will not be paid to investors, but directed to the CTF and invested in conservation activities. Moreover, the GEF risk-mitigation instrument is equivalent to the coupon step-down clause included in Uruguay's SLB and is used to incentivize timely achievement of conservation commitments. It will be essential for CTFs to receive the GEF grant at an early stage in the operation because it will also help further capitalization through other potential donors. As highlighted in the REDLAC report, CTFs with the largest amount of capital tend to be those which manage to mobilize initial large funds from donors. Examples are MAR Fund, Bhutan Trust Fund for Environmental Conservation (BTFEC), FMCN, CBF, BIOFUND, and CTFs created through PFP models.[3] There is evidence, that lack of sufficient capitalization poses significant challenges especially to the start-up phase of a CTF. The REDLAC report states that: "While all CTFs are concerned about covering operating costs, those with little financial flexibility carry a heavier burden in addressing overhead challenges".[4] Injecting capital early - at the foreseen time of the convertibility event- will therefore also help the CTFs to sufficiently cover operating costs, staff, administrative and other overhead expenses, thereby ensuring resilience and longevity of the Trust Fund. An example of how this can strengthen a CTF's capability to execute its activities, mobilize funding, and innovate is the BIOFUND in Mozambique.[5]

Output 1.1.2. Estimated US$111 – US$147 million mobilized to the selected CTFs.

As explained above, the credit enhancement derived from the IDB and GEF guarantees, contributes to the reduction of the cost of the guaranteed instrument issued by the Government. This cheaper financing is used to substitute outstanding more expensive debt, generating financial savings. Given the requirement that eligible projects must generate at least 20% of financial savings from the DFNC, it is expected that the US$679 million (US$640 million from the IDB guarantee plus US$39 million from the GEF) will generate at least US$136 million savings, of which at least 50% of savings generated by the IDB guarantee (US$64 million) and 100% of the savings generated by the GEF funds (US$7,8 million) will be channeled to conservation or restoration activities.

However, as shown in the Table provided in the Project Rationale Section, in some cases the savings generated through the DFNC can be much higher than 20% of the guaranteed amount (i.e., as in Ecuador) and the Government might decide to use 100% of the savings for conservation (i.e., as in the case of Barbados). Because of this, we simulate an alternative scenario in which the three DFNC supported by the Facility generate 30% of financial savings. In this case, the US$679 million will generate at least US$204 million savings, of which at least 50% of savings generated by the IDB guarantee (US$96 million) and 100% of the savings generated by the GEF funds (US$11,7 million) will be channeled to conservation or restoration activities.

If we assume that all countries achieve the conservation commitments on time, the GEF funds will convert into a US$39 million performance-based grant that will be disbursed in the selected CTFs, increasing total funds mobilized to the selected CTFs to USD111 million in the 20% savings scenario and USD147 million in the 30% scenario. Final conservation savings will depend on the market conditions at the moment of the transaction, that will determine the cost of the old and new debt, and on the negotiations with the governments that will determine the percentage of total savings channeled to conservation (lower bound: 50% of total savings). The proposed financial structure enhances the use of the GEF funds due to the potential double role of the GEF contribution. It is expected that the US$39 million GEF contribution will generate at least US$7,8 million additional savings from the DFNC. Moreover, if the guarantee is not called and CC are met on time in all countries, the US$39 million from GEF convert into a performance-based grant that will be disbursed to the selected CTFs, unlocking at least US$46,8 million for conservation or restoration activities (US$7,8 million savings generated through the DFNC plus the US$39 million performance-based grant), which represents an increase in estimated funding for conservation of more than 30% with respect to the total savings of the DFNC guaranteed only by the IDB.

Output 1.1.3. Estimated 15,9M – 37,7M hectares of terrestrial and/or marine PA created and/or under improved management for conservation and sustainable use and/or land restored.

The main aim of this Facility is to improve management effectiveness and PA expansion, with the final expected goal of preserving species and safeguarding provision of ecosystem services. For estimation purposes, a set of five potential countries were identified based on an initial assessment using the eligibility criteria and ongoing confidential discussions with IDB clients. Although five potential countries were identified, it is anticipated that the Facility will only be able to support 3 LAC countries. In this regard, we consider two alternative scenarios: (i) a conservative scenario in which we expect to protect 15,9M Ha; and (ii) an ambitious scenario in which we expect to protect/restore 37,7M Ha.

In countries where the Government has a clear view on the areas where new marine/terrestrial PAs will be established, on the location of existing PAs that require improvements for effective management, and/or on the target of Ha of land that need to be restored, the numbers of hectares to be protected/restored were established using the figures provided by the Government. In countries where the Government does not have a plan for expansion of PAs or improvements in effective management at this time, estimates of numbers of hectares were established based on the number of hectares needed to meet the 30% target from the existing baseline in the ecosystem (marine or terrestrial) where the majority of work needs to be done to reduce the delta between existing hectares of terrestrial and marine PA and the 30% target of the GBF using data from the Protected Planet Database[6].

The designation and effective management of PA are the most powerful tools for biodiversity conservation and ecosystem services preservation. Defining natural areas as reserves for the conservation of forests, wetlands, oceans, grasslands and other types of habitats ensures the preservation of species and their populations. PA allow the maintenance of natural cycles such as carbon storage, water and air purification, evaporation and water infiltration. Those services are essential to mitigate the effects of climate change and achieve the commitments of the Paris Agreement and the Convention on Biological Diversity (CBD). Additionally, actions that seek to restore habitats have high impacts for climate change mitigation creating new carbon sinks, directly

linked to atmospheric carbon sequestration during plant growth and soil recovery.

Component 2. Enabling environment for a successful use of conservation resources and implementation of conservation commitments.

Component 2 will address Barriers 2 and 3 by strengthening governance and institutional framework to ensure an enabling environment for a successful use of conservation resources and implementation of CC. As explained above, the IDB will provide participating countries with a PBG to support: (i) a policy reform program to strengthen environmental governance; and (ii) a sovereign guarantee to support a debt instrument issued by the Government in connection with a DFNC with the objective of financing natural conservation activities that support a country's implementation of the GBF. The policy reform program is financed through IDB Technical Cooperation or government's budget and is aimed at ensuring an adequate institutional capacity for biodiversity protection, to validate the country's CC and manner of their implementation, and to ensure a sustainable debt path that is in line with, and contributes to, the country's CC through the ability to incorporate new and complex financial instruments that enable this purpose. It will contribute to: (i) strengthening the environmental commitments for sustainability and biodiversity, especially those related to the Targets of the GBF; (ii) improving the debt management institutional framework; (iii) developing new debt instruments to improve sustainability; and (iv) strengthening the institutional capacities to (a) manage conservation and sustainability financing, (b) improve data collection/management, (c) strengthen capacities on spatial planning and (d) integrate gender considerations into the institutional and policy framework. A diagnostic and roadmap of institutional strengthening will be developed in each participating country and specific policy reforms will be proposed accordingly. Some reforms that will be implemented in all countries since they are necessary for the implementation of the project.

Outcome 2.1. Environmental governance strengthened for conservation management, sustainability and biodiversity protection.

Output 2.1.1. One Conservation Commitments document approved by the country's relevant authorities in each participating country, including a Stakeholder Engagement Plan.

Conservation commitments are a vital part of the transaction and are co-developed by the Government, the IDB and representatives from NGOS, IPLCs, and economic and social interest groups. They must be ambitious, aligned with the country's policies and with international commitments, and objectively verifiable. The Conservation Commitments document establishes the milestones and expected implementation timelines and is approved by the country's relevant authorities. It is drafted carefully to ensure that the parties' expectations are clear, there is a sound evidence base for the commitment, milestones are achievable and can be confirmed objectively with information and data. Conservation commitments are developed with clear language and measurable outcomes - milestones - with clarity on the standard(s) by which outcomes are judged and whether they have been met or not met. In most cases, conservation commitments are based on a spatial planning exercise, which can be undertaken prior to the development of the conservation commitments, or as one of the components of the conservation commitments. This spatial planning exercise should be participatory, aligned with national environmental commitments and goals, evidence-based, incorporate environmental and economic analysis, and analyze impacts on ecosystems and human activities.

To guarantee success in the designation, implementation and management of PA, each project will ensure that all persons, groups and organizations – including IPLCs, women, girls, men and boys and representatives of other vulnerable groups – that will be impacted by the project are actively involved in the planning an execution process and that their perspectives, knowledge, and support are considered to guarantee that equitable consideration is given to all relevant sectors. Relevant sectors will be identified in each country and considering the specific area that is being protected (land/ocean). For example, for MSP, relevant sectors usually include

tourism, fisheries, shoreline protection, forestry, maritime affairs, agriculture, higher education and research, cruising and yachting. In the case of forest land protection projects, relevant sectors are agriculture, forestry, academia, civil society, indigenous communities.

Stakeholder involvement in the spatial planning process will be conducted early, often and in a manner that is sustainable over time. Consideration of the requirements of all stakeholders can help identify potential conflicts and address them at an early stage to ensure long-term success of the process.

During the planning stages of the spatial planning process, both the setting of objectives and the selection of management measures are decided in consultation with the stakeholders. It is not enough to simply have stakeholders' attend meetings and workshops, but they must be empowered to participate effectively and to adequately represent their interests. In this regard, the country-specific projects will ensure a gender-sensitive and inclusive consultation and decision- making process, create safe and inclusive spaces for different groups of women and men, indigenous people, afro descendants and other diverse groups to voice their concerns and share their knowledge, and collect and analyze sex-disaggregated data to evaluate needs, opportunities and how certain activities affect men and women differently.

As part of the conservation commitments, a robust stakeholder engagement plan (SEP) will be designed in each country to outline the best suited activities and processes to support genuine, accessible, and transparent involvement in planning exercises, project design, issue resolution and project support. It will detail how stakeholders will be identified and will present a range of targeted strategies and activities to encourage full participation by as many stakeholders as possible.

Moreover, as mentioned above, the resources of the transaction will be channeled to a CTF, which ensures an inclusive governance structure. As highlighted by REDAC, one of the three most important success factors of CTFs, is their ability to engage and partner with a highly diverse group of stakeholders.

Output 2.1.2. One Stakeholder Advisory Committee (SAC) established in each participating country.

A successful implementation of the SEP requires guidance from local actors and experts who are closely familiar with the country's social landscape and who possess positive influence and reputation among project stakeholder groups. In this regard, a Stakeholder Advisory Committee (SAC) will be constituted in each participating country to provide advice and recommendations related to the stakeholder engagement process for the project. This will include the development of a communications plan, outreach and educational products, and an appeal process for the SP component. The SAC will be comprised of individuals from IPLCs, government, private sector parties and civil society organizations and academia, each of whom represents a critical sector relevant to the project. Representation of women and other diverse groups will be considered for the constitution of the SAC to enhance their agency and their ability to make decisions. Members will represent both the users and managers of the resources within the sector and will be nominated to serve by the entities/sectors they represent. Members will possess high levels of interest in the process, excellent knowledge of their sector, and strong influence and reach with their constituents. It is expected that Members will generate a deeper understanding about sector specific issues and the challenges faced by the constituents they represent.

Output 2.1.3. One Conservation Trust Fund (CTF) established or strengthened following Practice Standards[7] for CTFs in each participating country.

A key element for the success of the project is having a credible execution mechanism for the use of proceeds and CTFs can provide this. CTFs are commonly defined as legally independent, private, grant- making institutions that provide sustainable financing for biodiversity conservation and related sustainable development (Spergel and Tayeb, 2008). CTFs have emerged to overcome the challenges faced by governments with limited financial and technical resources to manage their natural resource base. They have contributed to strengthening the governance of natural resources and mainstreaming biodiversity by mobilizing funds from a range of sectors, thereby initiating, and strengthening inter-sectoral collaboration, building institutional capacity, and

creating decentralization, accountability, and transparency in managing conservation funds. CTFs generally do not carry out conservation activities directly; rather, they are designed to mobilize funds from a range of sectors to redistribute to a range of stakeholders. The structures and strategies of CTFs and the ways in which they are established vary considerably according to purpose, legal and political context, human resource capacity, and donor requirements. Nevertheless, the key building blocks of a CTF are the institutional structure, fund generation, and fund delivery mechanisms (Norris, 2000). LAC counts with a network of 27 environmental funds in 19 countries organized in the REDLAC network. The network share best practices, provides training and builds capacity amongst its members.

CTFs have an important role to play in DFNC, but, as stated above, their governance and missions can vary. Hence, one of the main activities to be supported under this component is the assessment of the CTF using international standards, and to provide support for governance reforms or creation of new funds. To determine if a country has adequate structure in place, the IDB usually follows these steps: (a) if there is an existing CTF, a preliminary assessment will be completed following international standards, such as the application of the Practice Standards for CTFs to ensure equitable access to funding; representative participation of IPLCs, women and other stakeholders in the fund governance; transparent and accountable funding awards; compliance with social and environmental safeguards; robust conservation monitoring and audited financial reporting. Special emphasis will be placed on aspects related to access of finance for women and equitable access of people with all gender identities. Based on the results of this assessment, the IDB and the relevant Government will determine if: (i) the existing CTF can be used for the transaction; (ii) small amendments are needed so that the existing CTF can be used; or (iii) a new CTF needs to be established due to the magnitude of the required reforms or reputational risk; and (b) if there is no existing CTF, the IDB will provide support for the establishment of a new CTF ensuring compliance with international standards.

In cases where a CTF requires strengthening, governance adjustments, or where a new CTF needs to be created following the analysis above, technical assistance will be provided to the CTF, or in the case of the creation of a new fund to the founding committee, to do so. Typically, this technical assistance will be used to fund the drafting of by-laws, regulations, project selection guidance documents, to train board members and staff, develop fiduciary human resources, safeguards, and other manuals, and for legal costs. A US$500,000 grant is requested from GEF to support this work.

Finally, in some limited cases IADB may pursue a DFNC with a sub-national government, or pursue a project where funds are channeled through a public trust fund that meets similar governance eligibility requirements to those defined in this document.

Output 2.1.4. One capacity building training for government officials from the Ministry of Finance and Ministry of Environment implemented in each participating country.

Governments are usually not familiar with DFNC and the several elements necessary for its success. To ensure an adequate execution of the transaction and a larger sustainability agenda, government officials from the Ministry of Finance and Ministry of Environment and CTF's staff will be trained (of which an estimated 50% will be women). The course content will be adjusted based on each country's needs and CC and will be validated by the government.

In addition, the Facility aims to strengthen the institutional framework and the institutional capacity in each eligible country including capacity-building activities on spatial planning with a gender perspective, and on the integration of gender considerations into the institutional and policy framework.

Output 2.1.5. One Gender Action Plan per participating country.

A literature review by WWF and CARE found that environmental governance and outcomes improve when women actively participate in natural resource and climate related decision making and leadership. The challenge however remains, that women are still not sufficiently represented in decisions making - globally,

nationally and locally - due to institutional, social, and cultural structures.

The Kunming-Montreal GBF states that a successful implementation of it will depend on ensuring gender equality and empowerment of women and girls and reducing inequalities, and sets the following goals:

(i) ensuring the full, equitable, inclusive, effective and gender-responsive representation and participation in decision-making, and access to justice and information related to biodiversity by women and girls, children and youth, and persons with disabilities as well as by indigenous peoples and local communities, respecting their cultures and their rights over lands, territories, resources, and traditional knowledge, and ensuring the full protection of environmental human rights defenders (Target 22), and

(ii) having a gender-responsive approach where all women and girls have equal opportunity and capacity to contribute to address biodiversity loss, restore ecosystems and protect indigenous rights, including by recognizing their equal rights and access to land and natural resources and their full, equitable, meaningful and informed participation and leadership at all levels of action, engagement, policy and decision-making related to biodiversity (Target 23).

The Facility will ensure the active participation of women, girls, men and boys, indigenous people, afro descendants, gender advocates and women's civil society organizations, civil society organizations representing other diverse groups, local and national authorities, academia, and representatives from the private sector for the design and implementation of a SP at landscape and/or seascape scale to protect the biodiversity in each participating country. Moreover, the project will support activities aimed at the valuation of economic benefits/impacts of PAs for the different stakeholders, especially for women and IPLC, and to design transition mechanisms for those negatively impacted.

At the CEO endorsement stage, since countries for sub-projects are not selected yet, IDB will present a document detailing the methodology and approach that will be applied for the Gender Analysis and Actions Plans at country level. A detailed Gender Analysis in each participating country will be conducted, and Gender Action Plans will be developed to ensure gender mainstreaming in the project, ahead of GEF CEO concurrence for each sub-project. The Action Plans will be designed in a way to strengthen and integrate gender perspectives and gender responsive measures in all relevant outputs and activities, particularly in relation to the Establishment and / or Strengthening of Conservation Trust Funds and aspects related to access of finance and equal participation as well as the guidance on how to implement DFNCs.

Specific gender activities will be further defined based on the results of the gender analysis and specific gender-sensitive indicators will be determined accordingly. The Gender Action Plans will be reported on during project implementation in the PIRs, midterm and final evaluations. The costs for the Gender Action plans will be covered with GEF agency fees.

Outcome 2.2. Debt management institutional framework and capacities improved.

Output 2.2.1. One diagnostic and roadmap for institutional strengthening of the Debt Management Office completed per participating country.

Public debt management is one of the most crucial functions of a government and thus requires a proper institutional functioning to help warrant best outcomes. In this line, the IDB developed a methodology[8] to assess the Institutional Capacities of DMOs from a comparative perspective. This analysis will be completed in each participating country to comparatively assess the country's DMO's institutional capacities, providing an insight into the different features that constitute an optimal debt management office and strategy.

Output 2.2.2. One DFNC strategy approved per participating country.

A DFNC strategy will be approved in each participating country, including: (a) adequate timing and main workflows, (b) expected prices and benefits; and (c) risk mitigation strategies for natural disasters or pandemics. The strategy will be discussed in two working groups, one on conservation led by the Ministry of Environment

(MoE), and one on the financial transaction led by the Ministry of Finance (MoF). Representatives of both MoEs and MoFs will participate in both working groups to ensure coordination and policy coherence.

Output 2.2.3. One Sovereign Sustainability Linked Bond (SSLB) Framework and Reporting Guidelines approved per participating country.

The new debt issued by the country as part of the DFNC transaction is linked to the conservation commitments of the respective country. An SSLB framework outlining the main elements of the SSLB issuance program of the Government will be approved in each participating country, including: (a) key performance indicators (KPIs) and associated Sustainable Performance Targets (SPTs); (b) bond characteristics, including step-up/step-down mechanisms; and (c) reporting and verification mechanisms. The SSLB framework aims to provide investors with greater transparency and accountability on the country's commitments to preserve and maintain its natural capital, linking a portion of the cost of its funding with the performance on its conservation goals. SSLB frameworks will be financed with government's budget or through IDB's issuers support program.

Component 3. Knowledge generated by the project is disseminated and the likelihood of replication and scale-up increases.

The objective of the third component is to generate knowledge for the replication and scale-up of this innovative use of financial instruments. New mechanisms can adopt successful strategies from existing efforts, but learning from past efforts requires increased transparency and more systematic monitoring and evaluation of performance[9]. Better information about the financial and environmental performance of DFNC will attract new actors and accelerate the growth and scale-up of these operations.

Outcome 3.1. Knowledge generated by the project is disseminated, increasing the replication and scale-up.

Output 3.1.1. One step-by-step guide on how to implement DFNC published.

A how-to guide, including best practices and lessons learned, will be published to guide future projects that are willing to implement a DFNC. The expected timeline of the transaction and the key elements will be described, including, among others: risk mitigation instruments and buy-back operation, approval of CC, importance of spatial planning and stakeholder involvement, guidance on how to design a gender action plan including a gender analysis, gender differentiated impacts and gender-responsive measures to address differences taking account the elements described under Output 2.1.5, establishment or strengthening of the CTFs. The project will ensure that gender equality aspects will be considered in the distribution of and access to the guide.

Output 3.1.2. One case study published per country.

A case study will be published for each participating country, to illustrate how to apply the guide in practice. The how-to guide and the case studies will complement each other and are aimed at guiding countries through the process and facilitating the implementation of DFNCs.

Output 3.1.3. Systemic MRV system to track progress against policy triggers and conservation commitments developed.

A systemic Monitoring, Reporting and Verification (MRV) system will be developed to track progress against policy triggers and conservation commitments (including commitments in sustainability-linked bond emissions related to transactions) across the full IDB DFNC portfolio so that countries, investors, GEF, CBD and others can track implementation. This MRV system would capture progress against GEF global environmental benefits targets and could publish this progress on platforms such as the IDB's Green Bond Transparency Platform, which promotes the harmonization and standardization of green bond reporting to increase investors' confidence in the green bond market and facilitate green investments in the region. This MRV system will not only increase transparency of DFNC's operations but will be a particularly useful tool for future projects since

it facilitates the identification of relevant KPIs, associated SPT and calculation methodologies. As highlighted by the World Bank[10], it is important to ensure that targets are sufficiently ambitious to be taken seriously by the market. A key challenge is how to assess the ambition of targets and one of the potential options is benchmarking with comparable countries. Hence, having a public database with standardized indicators that have a clear and transparent calculation methodology and are comparable across countries allows to assess ambition and increases confidence in the indicator. IDB requests US$500,000 in Technical Assistance Funding from GEF to enable this activity.

Output 3.1.4. One workshop for relevant stakeholders on DFNC implementation delivered.

The complexity of DFNCs, due to the number and variety of entities involved, requires a high level of coordination. In this regard, a workshop for relevant stakeholders (governments, MDBs, NGOs, financial institutions, CTFs, etc) on DFNC implementation will be delivered. The objective is to present the roles of each entity during the different stages of the project, the expected activities, and the alternative mechanisms for coordination and communication among the different stakeholders.

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[1] As per CSF and or REDLAC best practice guidelines

[2] These activities could include but are not limited to spatial planning with important environmental areas prioritization, marine/land conservation and surveillance (creation of new areas and management improvements of existing PA), biodiversity preservation (habitat restoration), waste management improvements, incorporation of sustainability practices in business associated with the blue/green sustainable economy, among others. The biodiversity criteria for the selection of areas will be associated with land/ocean use plans or other national instruments that prioritize important biodiversity areas (including criteria such as connectivity, endangered or endemic species, relevant watershed, etc.).

[3] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 89

[4] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 62

[5] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, case study 1, page 111

[6] Protected Planet

[7] Best practice standards for trust fund governance established by both Conservation Strategy Fund, and Latin American and Caribbean Network of Environmental Funds (REDLAC).

[8] IDB (2022), 'Institutional Capacities of Debt Management Offices in the Latin American and Caribbean Region'.

[9] https://www.citigroup.com/rcs/citigpa/akpublic/storage/public/innovative_financing_for_development.pdf

[10] Striking the Right Note: Key Performance Indicators for Sovereign Sustainability-Linked Bonds. World Bank (2021)

Coordination and Cooperation with Ongoing Initiatives and Project.

Does the GEF Agency expect to play an execution role on this project?

Yes

If so, please describe that role here. Also, please add a short explanation to describe cooperation with ongoing initiatives and projects, including potential for co-location and/or sharing of expertise/staffing

As explained in Section B. Project Description, under the proposed structure, the GEF would provide a convertible risk-mitigation instrument to at least 3 LAC countries. To be eligible under this Facility, countries must comply with the following selection criteria: (i) request a PBG from the IDB to support a DFNC; (ii) be eligible GEF countries and submit a LoE ahead of concurrence, (iii) be parties to the Kunming-Montreal GBF; (iv) have solid

environmental policies in place; (v) commit to achieve ambitious conservation commitments; (vi) financial savings generated through the DFNC must be at least 20% of the guaranteed amount; (vii) 100% of the savings generated by the GEF funds and at least 50% of savings from IDB guarantee will be channeled to conservation or restoration activities; and (viii) have an adequate governance structure in place (or be willing to create one) for a successful channeling of conservation resources through a CTF or other similar mechanism. For more details see the selection criteria section under 'Project description'.

Initially, the GEF contribution will be used as a first-loss guarantee to cover default of payment of interest/principal of the guaranteed instrument, and IDB will serve as an administrator of the funds at this time. If conservation commitments are met and the performance-based grant is disbursed into the CTF, the CTF will be the executing agency of the GEF contribution and will allocate the funds to conservation and restoration projects following its own procurement policies and regulations. Channeling resources through externally managed entities such as CTFs with specific governance standards that are aligned with international best practices, ensures a credible execution mechanism for the use of conservation resources and can avoid the diversion of funding for other purposes due to political changes.

Moreover, Component 2 is designed to addressed Barriers 2 (Limited incentives to finance nature-based solutions) and 3 (Insufficient institutional capacity) by strengthening governance and institutional framework to ensure an enabling environment for a successful use of conservation resources and implementation of conservation commitments (CC). The policy reform program supported by IDB PBG is aimed at promoting an adequate institutional capacity for biodiversity protection, an inclusive governance of conservation resources, to validate the country's CC and manner of their implementation, and to ensure a sustainable debt path that is in line with, and contributes to, the country's CC through the ability to incorporate new and complex financial instruments that enable this purpose.

Regarding cooperation with ongoing initiatives, the program's design will benefit from the experience and lessons learned from Barbados' and Ecuador's recent DFNC transactions aimed at supporting marine conservation. In particular, the importance of: (a) adequate and prompt engagement in financial structuring to procure a highly competitive process to optimize the pricing for the government; (ii) sound adaptation of the IDB sovereign guarantee product (in terms of guarantee coverage) to the particular needs of the country with regards to pricing and expected resource mobilization, for instance, by offering the alternative of guaranteeing a loan or a bond; (iii) considering, when feasible, debt acceleration coverage to strengthen the structure of the guarantee and make it more efficient for mobilizing resources in the international markets; (iv) strategic coordination and alignment of workflows between the Policy Matrix and guaranteed instrument issuance; (v) ensuring a solid governance and enabling environment for a successful attainment of the conservation milestones set as targets under the financial scheme as deemed necessary; and (vi) establish an early and frequent coordination with the major government's stakeholders to keep regular track on the conditions included in the Policy Matrix.

Among the policy reforms included in the Policy Matrix, it is standard to require the valuation of the natural capital of the new PA to determine the economic impact of conservation measures and inform the design of economic transition mechanisms for those negatively impacted. Participating countries from the Regional Facility will be able to use the standardized rapid Natural Capital Assessment & Accounting project (NCCA) tools developed within the GEF project "Transforming policy and investment through mainstreaming rapid approached for natural capital assessment and accounting". The fact that these countries use the rapid NCAA tool will be beneficial for the objectives of the NCAA project since it will allow to test the tool with real data and assess the certainty of the results.

Moreover, the Regional Facility is fully aligned with PROCARIBE+ and its predecessors. PROCARIBE+ is a regional initiative for "protecting and restoring the ocean's natural capital, building resilience and supporting region-wide investments for sustainable blue socio-economic development in the CLME+ region". This project will be a very good example of an innovative source of funding and will also contribute to enhancing the protection target of 1,000,000 ha of marine space by creating new MPAs in selected LAC countries following MSP recommendations. Moreover, sharing experiences and lessons learned to the CLME+ region and to the

rest of the world is one of the objectives of this project.

As described in the previous section, Component 3 is aimed at generating knowledge for the replication and scale-up of this innovative use of financial instruments. To guide future projects that are willing to implement a DFNC, a how-to guide and at least 3 case studies will be published and one workshop for relevant stakeholders will be delivered. Moreover, IDB will be developing the DFNC and the expertise by respective staff regarding financial and conservation knowledge and experience will be shared among all subprojects to increase local capacities. Finally, a systemic MRV system will be developed to track progress against policy triggers and conservation commitments, increasing transparency of DFNC's operations and facilitating the identification of relevant KPIs, associated SPT and calculation methodologies for interested parties.

To ensure cooperation with REDLAC on best practices for CTFs governance and operation in the context of DFNC and on CTFs impact reporting, IDB will develop concrete plans for engagement at the facility and country-specific level and will present those at CEO endorsement and concurrence stages.

This project will be implemented with limited delegation of investment authority to the implementing agency as described in the GEF Blended Finance Global Program and Non-Grant instrument policy update GEF/C.63/12. Apart from the fact that this mechanism will ensure high alignment with the GEBs, it will support a timelier agreement with selected countries on details of the transaction including conservation commitments as countries will know that the transaction also depends on GEF CEO concurrence at IDBs Quality and Risk Review Stage, which could help to accelerate negotiations on core aspects of the sub-projects.

Core Indicators

Indicator 1 Terrestrial protected areas created or under improved management

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
2112297	0	0	0

Indicator 1.1 Terrestrial Protected Areas Newly created

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
311847	0	0	0

Name of the Protected Area	WDPA ID	IUCN Category	Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)
		Protected area with sustainable use of natural resources	311,847.00			

Indicator 1.2 Terrestrial Protected Areas Under improved Management effectiveness

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)
1800450	0	0	0

Name of the Protected Area	WDPA ID	IUCN Category	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)	METT score (Baseline at CEO Endorsement)	METT score (Achieved at MTR)	METT score (Achieved at TE)
			1,800,450.00						

Indicator 2 Marine protected areas created or under improved management

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
40630170	0	0	0

Indicator 2.1 Marine Protected Areas Newly created

Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)
19042100	0	0	0

Name of the Protected Area	WDPA ID	IUCN Category	Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)
			19,042,100.00			

Indicator 2.2 Marine Protected Areas Under improved management effectiveness

Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)
21588070	0	0	0

Name of the Protected Area	WDPA ID	IUCN Category	Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)	METT score (Baseline at CEO Endorsement)	METT score (Achieved at MTR)	METT score (Achieved at TE)
		Protected area with sustainable use of natural resources	21,588,070.00						

Indicator 3 Area of land and ecosystems under restoration

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
187500	0	0	0

Indicator 3.1 Area of degraded agricultural lands under restoration

Disaggregation Type	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 3.2 Area of forest and forest land under restoration

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
187,500.00			

Indicator 3.3 Area of natural grass and woodland under restoration

Disaggregation Type	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 3.4 Area of wetlands (including estuaries, mangroves) under restoration

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 11 People benefiting from GEF-financed investments

	Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
Female	155,682			
Male	155,055			
Total	**310,737**	**0**	0	**0**

Explain the methodological approach and underlying logic to justify target levels for Core and Sub-Indicators (max. 250 words, approximately 1/2 page)

For estimation purposes, a set of five potential countries were identified based on an initial assessment using the eligibility criteria and ongoing confidential discussions with IDB clients. In some of these countries, the Government already has a clear view on the areas where new marine/terrestrial PAs will be established, on the location of existing PAs that require improvements for effective management, and/or on the target of Ha of land that need to be restored, In these countries, the ecosystem (marine vs terrestrial) and the numbers of hectares to be protected/restored were established using the figures provided by the Governments. In those countries where the Government does not have a plan for expansion of PAs or improvements in effective management at this time, an analysis was undertaken of where the majority of work needs to be done to reduce the delta between existing quantity of hectares of terrestrial and marine protected areas in these countries and the 30% target of the GBF using data from the Protected Planet Database in order to make an assumption on whether a country would choose a marine or terrestrial project (assuming that a country would choose the ecosystem where they had a larger delta to meet). Estimates of numbers of hectares were then established based on the number of hectares needed to meet the 30% target from the existing baseline. It should be noted that these estimates may change when IDB and countries jointly agree on final selection of areas of conservation following the process described in the eligibility criteria.

The core indicators table includes estimations for the five potential countries. However, due to the large extension of land/sea that is projected to be protected through potential country-specific projects, it is anticipated that the Facility will be able to support only 3 LAC countries. In this regard, we consider two alternative scenarios: (i) a conservative scenario in which we expect to protect 15,9M Ha; and (ii) an ambitious scenario in which we expect to protect/restore 37,7M Ha. Please note that the total Ha presented in the table above is lower than the sum of the 2 scenarios, because one of the countries is considered in both scenarios.

Conservative Scenario: 15,9M Ha disaggregated in the following way: Terrestrial PA under improved management: 1,6M Ha | MPAs newly created: 5M Ha | MPAs under improved management: 9,3M Ha.

Ambitious Scenario: 37,7M Ha disaggregated in the following way: Terrestrial PA newly created> 312K Ha | Terrestrial PA under improved management: 175K Ha | MPAs newly created: 15,6M Ha | MPAs under improved management: 21,6M Ha | Restored land: 187K Ha.

For those countries with a clear view on the areas that will be protected/restored, the population of the nearest town/city was considered to estimate the number of beneficiaries, except in the case of extremely rural PAs that exist in areas with no population where the expected beneficiaries were set at zero for now. For those countries where the site has not been determined yet and the number of Ha were estimated based on need to reach 30% of marine space protected, to estimate population, an approach based on IDB's experience in Barbados was used. In Barbados, beneficiaries were estimated as the whole population due to the compact size of Barbados. For the new estimation, based on relative size of the country to Barbados, we are considering, the number of beneficiaries should probably be limited to 1/10 of the population. In all cases, we assume that the proportion of male/female population in the corresponding area is equal to the national ratio using World Bank's database.

The country-specific projects are designed to enable long-term financing and achieve ambitious conservation commitments at the end of the project. The estimated number of hectares of marine/terrestrial protected areas created or under improved management are expected values to be achieved in15-20 years after the transactions are completed in each country, many years after the finalization of this Facility. It is therefore proposed that IDB sends its Terminal Evaluation Report two years after the compliance with the conservation commitments are verified, where IDB will report the milestones achieved so far and will assess the likelihood of achieving expected targets by the end of the project.

NGI (only): Justification of Financial Structure

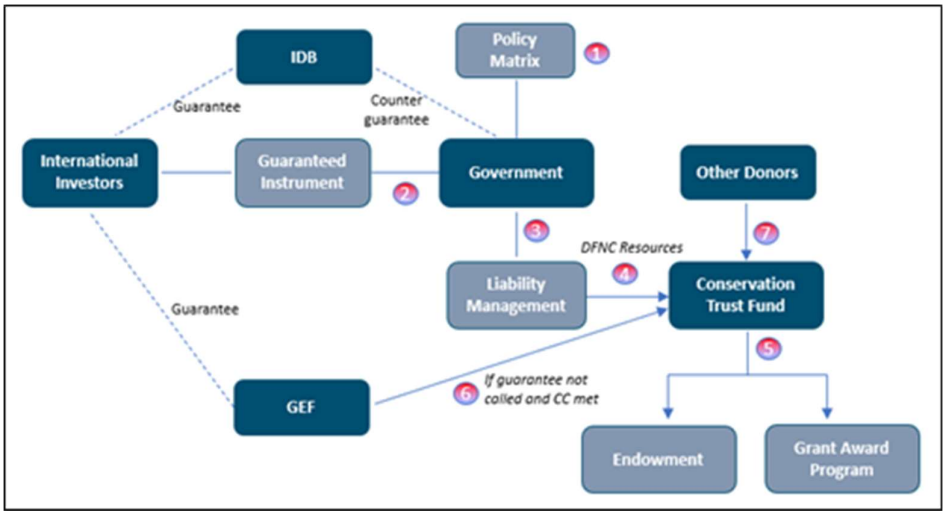
Please describe the financial structure and include a graphic representation. This description will include the financial instrument requested from the GEF and terms and conditions of the financing passed onto the Beneficiaries.

Under the proposed structure, the GEF would provide a USD39 million convertible risk-mitigation instrument to support countries that meet the selection criteria (as described in the Project Description section) to implement a DFNC. To ensure that all investments align with the approved Facility objectives, IDB in its country selection process, will require countries to provide evidence of compliance with each selection criterion.

Initially, the GEF contribution will be used as a first loss guarantee to cover default of payment of interest/principal of the guaranteed instrument, together with the IDB guarantee. If the GEF guarantee has not been called in full and the country complies with the conservation commitments, the GEF funds convert into a performance-based grant that will be disbursed to the CTF. The schedule for disbursement of the performance-based grant will be determined for each transaction upon achievement of conservation commitments.

The sequencing and structure of the DFNC will be as follows:

Figure 2. Structure of the operation to support a DFNC



(1) the country complies with IDB's policy matrix.

(2) the IDB, the GEF and, potentially, other guarantors, provide a sovereign guarantee that contributes to reduce the cost of the guaranteed instrument issued by the Government. The IDB's current guarantee fee is 85 basis points on the covered amount. The GEF funds will be remunerated with an annual premium equal to the IDB's guarantee fee.

(3) the proceeds from the guaranteed instrument are used to substitute outstanding and more expensive debt generating financial savings. The advantage of this liability management exercise is that it creates resources for conservation or restoration activities while improving the debt profile and without increasing the debt stock (and even reducing it if repurchased debt is trading below par).

(4) the Government will channel a portion of the financial savings generated through the DFNC to a CTF, according to the terms and conditions established in certain conservation agreements (i.e., Conservation Commitments Agreement and Conservation Funding Agreement). The Conservation Funding Agreement is an agreement by which the CTF is created and its funding (both the financing for annual activities and its endowment for long term sustainability) is regulated. The Conservation Commitments Agreement is an agreement among, other parties, the country, the conservation project manager and the lender that includes the conservation commitments (milestones), the process for determining whether these are met or not and the applicable incremental payments in case of non-compliance. Non-achievement of a milestone defined under the Conservation Commitments Agreement shall, subject to the defined and agreed grace periods and waivers, trigger the payment of a conservation incremental payment amount by the Government into the CTF (mechanics to be determined). These incremental payments will be adequately reflected in the guaranteed instrument documentation and are equivalent to the coupon step-up clauses included in Chile and Uruguay's SLBs. However, unlike Chile and Uruguay's SLBs, incremental payments will not be paid to investors, but directed to the CTF and invested in conservation activities.

(5) the CTF will provide grants for conservation and restoration activities via an annual grant award program and will capitalize an endowment that will contribute to generate future resources for conservation activities ensuring long-term sustainability of the project.

(6) if there is a payment default under the guaranteed instrument and the GEF guarantee is called, the IDB will make payments under the GEF guarantee for the benefit of the creditors and such funds will not be reimbursable to the GEF (Scenario A). If the GEF guarantee has not been called in full, and once the guarantee coverage provided by the GEF is reduced to zero[1], an independent verification agent will certify the achievement of the conservation commitments: (i) Scenario B: if conservation commitments are met on time, the GEF funds convert into a performance-based grant and the IDB will disburse the GEF performance-based grant into the CTF. The schedule for disbursement will be determined for each transaction upon achievement of conservation commitments. The GEF performance-based grant is equivalent to the coupon step-down clause included in Uruguay's SLB and is included to incentivize timely achievement of conservation commitments; (ii) Scenario C: If conservation commitments are not met, the IDB will return the performance-based grant to the GEFTF.

(7) potentially, other donors are expected to contribute with grants to the CTF.

Under the proposed structure, the GEF would provide a convertible risk-mitigation instrument that will contribute to the reduction of the cost of the guaranteed instrument issued by the Government and will provide very strong incentives to timely achieve conservation commitments. Initially, the GEF contribution will be used as a first-loss guarantee to cover default of payment of interest/principal of the guaranteed instrument, together with the IDB guarantee. During this period, the GEF funds will be remunerated with an annual premium equal

to the IDB's guarantee fee (85 basis points on the covered amount). The co-guarantee provided by the GEF funding will further improve the financial conditions of the guaranteed instrument, which will translate into more savings from the DFNC. By policy, IDB guarantees are irrevocable. If there is a payment default under the guaranteed instrument and the IDB and GEF guarantees are called, the IDB will make payments under the IDB guarantee and the GEF guarantee for the benefit of the creditors under the guaranteed instrument and such funds will not be reimbursed to the GEF. If the GEF guarantee has not been called in full and the country complies with the conservation commitments (convertibility event), the GEF funds convert into a performance-based grant that will be disbursed to the CTF. The schedule for disbursement of the performance-based grant will be determined for each transaction upon achievement of conservation commitments. This performance clause for the GEF funds introduces very powerful incentives to timely achieve conservation commitments because if met, the CTF will receive additional significant funding for conservation or restoration activities. These incentives can make an important difference since the success of conservation and restoration actions is directly linked to the timeframe in which they are implemented. Swift implementation and avoiding delays are therefore key to restoring nature and achieving expected GEBs. An independent verification agent will certify the achievement of the relevant target(s). If conservation commitments are not met, the IDB will notify the GEF that the target was not achieved and will return to the GEF Trust Fund any remaining guarantee funds that have not been called. The structure may include some type of sequencing by which the amount of the grant decreases the longer the country takes to fulfill the conservation commitments. If conservation commitments are met and the performance-based grant is disbursed into the CTF, the CTF will be the executing agency of the GEF contribution and will allocate the funds to conservation and restoration projects following its own procurement policies and regulations. CTFs' have strategic plans with clear goals, outcomes, activities, etc. that relate to the CTF's expected conservation results, that in this project are linked to the conservation commitments from the government (see Output 2.1.1.), and are responsible of monitoring and reporting their impact through the use of indicators. To do so, the grant contract established between the CTF and the grantee, in addition to identifying administrative and financial reporting requirements, also states the requirements for the reporting, monitoring and evaluation of project impacts.

The proposed financial structure enhances the use of the GEF funds due to the potential double role of the GEF contribution. Given the requirement that eligible projects must generate at least 20% of financial savings from the DFNC, it is expected that the US$679 million (US$640 million from the IDB guarantee plus US$39 million from the GEF) will generate at least US$136 million savings, of which at least 50% of savings generated by the IDB guarantee (US$64 million) and 100% of the savings generated by the GEF funds (US$7,8 million) will be channeled to conservation or restoration activities. However, as explained above, in some cases the savings generated through the DFNC can be much higher than 20% of the guaranteed amount and the Government might decide to use 100% of the savings for conservation (see examples provided in Output 1.1.2). Because of this, an alternative scenario in which the three DFNC supported by the Facility generate 30% of financial savings is considered. In this case, the US$679 million will generate at least US$204 million savings, of which at least 50% of savings generated by the IDB guarantee (US$96 million) and 100% of the savings generated by the GEF funds (US$11,7 million) will be channeled to conservation or restoration activities.

Moreover, if the guarantee is not called and CC are met on time in all countries (convertibility event), the US$39 million from GEF convert into a performance-based grant that will be disbursed to the selected CTFs, unlocking between US$46,8 – US$50,7 million for conservation or restoration activities (US$7,8 – US$11,7 million savings generated through the DFNC plus the US$39 million performance-based grant), which represents an increase in estimated funding for conservation of more than 30% with respect to the total savings of the DFNC guaranteed only by the IDB.

To better understand the additionality of the GEF contribution, let us assume a hypothetical case in which the Barbados' DFNC received additional US$7,35 million[2] (see allocation criteria) from this Regional Facility. During the first years, the GEF contribution will be used to further guarantee payments under the loan agreement

and estimations indicate that additional resources derived from the improved financial structure would add to US$4,5 million[3]. Moreover, if the GEF guarantee is not called and an independent verification agent certifies that Barbados achieved the CC, the US$7,35 million GEF contribution will be disbursed into the BESF. Under this scenario, the GEF contribution increases the resources of the CTF by US$11,8 million (US$4,5 million savings generated through the DFNC plus the US$7,35 million performance-based grant). These additional resources represent an increment of more than 20% with respect to the original resources for conservation generated through the DFNC (see Section A) without GEF's support and an increase of 286% in year 5 when Barbados completes the MSP and the GEF grant is disbursed into the CTF. The GEF increment will become available at the same time as Barbados finalizes the development and management plans and financial resources will need to be secured for their implementation.

This project will be implemented with limited delegation of investment authority to the implementing agency as described in the GEF Blended Finance Global Program and Non-Grant instrument policy update GEF/C.63/12. Apart from the fact that this mechanism will ensure high alignment with the GEBs, it will support a timelier agreement with selected countries on details of the transaction including conservation commitments as countries will know that the transaction also depends on GEF CEO concurrence at IDBs Quality and Risk Review Stage, which could help to accelerate negotiations on core aspects of the sub-projects.

[1] This happens after the grace period of the guaranteed instrument ends and the first payment becomes due and payable.

[2] All-in cost of the new financing was 4.9%.

[3] Including a 7% return on endowment. It is assumed that, on average, 44% of gross savings go to capitalize an endowment.

Risks to Project Preparation and Implementation

Summarize risks that might affect the project preparation and implementation phases and what are the mitigation strategies the project preparation process will undertake to address these (e.g. what alternatives may be considered during project preparation-such as in terms of consultations, role and choice of counterparts, delivery mechanisms, locations in country, flexible design elements, etc.). Identify any of the risks listed below that would call in question the viability of the project during its implementation. Please describe any possible mitigation measures needed. (The risks associated with project design and Theory of Change should be described in the "Project description" section above). The risk rating should reflect the overall risk to project outcomes considering the country setting and ambition of the project. The rating scale is: High, Substantial, Moderate, Low.

Risk Categories	Rating	Comments
Climate	Moderate	The frequency and intensity of natural disasters has increased in recent years. High exposure to climate hazard events, especially in SIDS, has significant consequences for the economy. Massive reconstruction costs, risk transfer tools (such as insurance) and contingency planning take away or divert scarce resources. To address this risk the project will include measures such as the inclusion of disaster clauses in financial Instruments that allows countries to defer principal payments for a certain

		period of time if a natural disaster occurs. Moreover, protected areas provide nature-based solutions that can help build resilience and reduce the impact of climate-related shocks and stresses such as flooding and drought.
Environment and Social	Moderate	Social conflicts on land ownership and rights could be present in preparation and implementation phases. The spatial plan participatory process will ensure the participation of all actors affected. The aspirational 30% of protected land needs to be carefully planned with all stakeholders. Some natural ecosystems had been severely transformed and would need high economic resources to ensure long term biodiversity conservation. The selection process of priority areas will take this into account to properly distribute the resources into environmentally important areas. A plan with the proposed actions to address potential social conflict on land ownership and rights will be presented ahead of concurrence. Moreover, the IDB will analyze each specific project under the facility following the requirements of the ESPF and its 10 Environmental and Social Standards (ESPSs). More specifically: • Regarding resettlement the most relevant ESPSs are ESPS 1 (Assessment and Management of Environmental and Social Risks and Impacts) and ESPS 6 (Land Acquisition and Involuntary Resettlement). Every project will be analyzed and supervised based on the requirements of these standards. • Regarding indigenous peoples' and local communities' land rights the most relevant ESPSs are ESPS 1 (Assessment and Management of Environmental and Social Risks and Impacts) and ESPS 7 (Indigenous Peoples). Every project will be analyzed and supervised based on the requirements of these standards.

Political and Governance	Moderate	Given that the project contemplates medium-term actions, there is a risk of changes the government's priorities and the satisfactory fulfillment of the Policy measures. To mitigate this risk, the Policy Matrix and CTF establish commitments that go beyond a single legislative period, ensuring that a change in office will not affect their implementation.
Macro-economic	Moderate	Given the scenario of rising interest rates, this could reduce the expected benefits provided by the liability management exercise and, hence, the resources available for nature conservation and restoration activities. Moreover, as countries continue to face the consequences of the pandemic and given the current external macroeconomic conditions, there may be alternative priorities for the governments' budgets. Also, natural disasters can distort priorities and re-direct spending. Should one of these events occur, government's priorities could change affecting the achievement of the project's goals. To mitigate these risks, provisions will be included in the financial instruments such as natural disaster and pandemic clauses that allow the financial focus to be redirected during these events.

Strategies and Policies	Low	There is a low risk that the country does not achieve the conservation commitments and expected global environmental benefits. The country-specific projects are designed to provide very strong incentives for the country to achieve commitments on time (i.e., performance clause and penalties applicable in case the conservation commitments are not met). Moreover, the IDB will support countries with the implementation of the commitments through a Technical Cooperation.
Technical design of project or program	Moderate	The complexity and technical nature of the project's design could affect the timeframe for the proper implementation of the policy and institutional measures of the PBG. IDB will support countries with the implementation through a Technical Cooperation as to ensure there are sufficient technical capacities to undertake the project.
Institutional capacity for implementation and sustainability	Moderate	Operation's requirements could place a strain on the government's institutional capacity to coordinate the institutions responsible for implementing the required policies which could delay the reforms. To mitigate this risk, the IDB will establish working groups with the relevant counterparts to support project preparation and approval and will ensure sustainability is established as a core priority.
Fiduciary: Financial Management and Procurement	Low	The use of a CTF provides a credible execution mechanism for a successful use of conservation resources. The project will have a strong vetting process for CTFs, using international practice standards (Conservation Finance Alliance), and to provides support for governance reforms or creation of new funds to ensure equitable access to funding; transparent and accountable funding awards; compliance with social and

		environmental safeguards; robust conservation monitoring and audited financial reporting.
Stakeholder Engagement	Low	CTF's involve local groups in the boards, through representation of local conservation groups and economic interest groups (like tourism, fishery groups, among others) to enhance their engagement with crucial populations and build local support for programs. By channeling resources through a CTF the project ensures that stakeholders have a voice in the governance and use of funds, in addition to their input in the development of planning exercises and management plans.
Other	Low	There is a very low risk that the country defaults to bondholders since no country has ever defaulted on the IDB. Moreover, there is a low risk of over indebtedness. As explained above, the Facility will provide to each participating country an innovative blended finance solution through the use of guarantees to support a DFNC. A DFNC is a debt management exercise that allows countries to exchange their existing debt for new instruments with longer maturities and lower interest rates, without affecting the debt ceiling.
Financial Risks for NGI projects	Low	There is a low risk that the country does not pay the guarantee fee. To avoid this risk, the country might have to pay the guarantee fee upfront. Moreover, there is a risk of default or non-fulfilment of conservation payments under de Conservation Commitments Agreement. The likelihood of this scenario is very low; no country has ever called an IDB guarantee.
Overall Risk Rating	Moderate	

C. ALIGNMENT WITH GEF-8 PROGRAMMING STRATEGIES AND COUNTRY/REGIONAL PRIORITIES

Describe how the proposed interventions are aligned with GEF- 8 programming strategies and country and regional priorities, including how these country strategies and plans relate to the multilateral environmental agreements.

Confirm if any country policies that might contradict with intended outcomes of the project have been identified, and how the project will address this.

For projects aiming to generate biodiversity benefits (regardless of what the source of the resources is - i.e., BD, CC or LD), please identify which of the 23 targets of the Kunming-Montreal Global Biodiversity Framework the project contributes to and explain how. (max. 500 words, approximately 1 page)

This Facility contributes to the implementation of the GBF and the achievement of several of its targets:

- Target 1: ensure that all areas are under participatory integrated biodiversity inclusive spatial planning and/or effective management processes addressing land and sea use change, to bring the loss of areas of high biodiversity importance, including ecosystems of high ecological integrity, close to zero by 2030, while respecting the rights of indigenous peoples and local communities.Targets 2 and 3: ensure that by 2030 at least 30% of terrestrial, inland water, and costal and marine areas are under effective restoration or effectively conserved and managed.
- Target 19: substantially and progressively increase the level of financial resources from all sources, in an effective, timely and easily accessible manner, including domestic, international, public and private resources, in accordance with Article 20 of the Convention, to implement national biodiversity strategies and action plans, by 2030 mobilizing at least 200 billion United States dollars per year.

The post-2020 GBF also invites MDBs to support countries, and resource mobilization, by: (a) Identifying and reporting investments that contribute to the GBF; (b) Aligning their portfolios and financial flows with the objectives of the Convention by 2030; (c) Simplifying access to financial resources; (d) Increasing biodiversity funding; and (e) Reporting on their progress.

The Facility fully aligns with the recently approved Global Biodiversity Framework Fund (GBFF) and is an ideal example of how MDBs can mobilize private and public sector funds for conservation and biodiversity through innovative blended finance structures without raising countries' debt ceiling. Through the DFNC transactions, IDB and GEF will help countries to improve their debt management capacities and potentially even lower their debt levels. Working through CTFs, the Facility fully supports GBFFs aspiration to continue the establishment and strengthening of CTFs to provide funding that aligns with the goals of the GBF and national conservation and sustainable use priorities, while supporting critical local needs and building long- term in-country capacity. The Facility and previous IDB experience with CTFs can leverage important lessons for future GBFF projects, thereby helping to shape a sustainable biodiversity financing architecture for the LAC region with a potential to be replicated in other parts of the world.

It is also fully aligned with the GEF-8 Biodiversity focal area goal that globally significant biodiversity conserved, sustainably used, and restored. It contributes to the objective of improving conservation, sustainable use, and restoration of natural ecosystems through sustainable PA systems. It provides support to countries to: (i) effectively establish and protect ecologically viable and climate-resilient representative samples of a country's terrestrial and marine ecosystems; (ii) ensure that sufficient and predictable financial resources are available to support PA management costs; and (iii) build individual and institutional capacity to manage PA such that they achieve their conservation objectives. The Facility supports spatial and land/sea-use planning to ensure that land, freshwater, and marine resource use is appropriately situated to optimize production without undermining or degrading biodiversity. It promotes early and continued engagement of stakeholders and supports activities aimed at the valuation of economic benefits/impacts of PAs for the different stakeholders, especially women and IPLC, and to design transition mechanisms for those negatively impacted.

Moreover, the Facility is fully aligned with the Blended Finance Global Program objectives. The GEF financing will be used to support a de-risking mechanism for scaling-up and mobilizing resources through capital markets.

Initially, the GEF contribution will be used to cover payments under the guaranteed instrument together with the IDB guarantee to support a DFNC and, if not called, it will disburse into the CTF upon timely achievement of the agreed CC. This innovative financial structure provides a more efficient use of IDB and GEF's capital allowing for more private capital mobilization and more ambitious CC. The project is designed to allow for ambition to grow and scale-up impact through attracting other international donors and investors in the future, through the inclusion of aspirational targets conditional to additional funding.

D. POLICY REQUIREMENTS

Gender Equality and Women's Empowerment:

We confirm that gender dimensions relevant to the project have been addressed as per GEF Policy and are clearly articulated in the Project Description (Section B).

Yes

Stakeholder Engagement

We confirm that key stakeholders were consulted during PIF development as required per GEF policy, their relevant roles to project outcomes and plan to develop a Stakeholder Engagement Plan before CEO endorsement has been clearly articulated in the Project Description (Section B).

No

Due to the fact that participating countries have not been identified yet, stakeholders were not consulted during PIF development. However, at the end of the Project Rationale Section and in Output 2.1.1. and 2.1.2 a detailed description of stakeholder engagement is provided following Barbados' experience. In particular, the design of a robust Stakeholder Engagement Plan (SEP) and the establishment of a Stakeholder Advisory Committee (SAC) in each participating country. The explained approach will be followed in every country-specific project supported under this Facility and, at the stage of concurrence, a description of stakeholder engagement will be included. As described under output 2.1.5, IDB will cover the Gender Analysis and Action Plan with GEF Agency fees. The Plans will be reported on during project implementation in the PIRs, midterm and final evaluations. We reflected Gender Dimensions in outputs 2.1.3 and 3.1.1. and described under output 2.1.5 that the Action Plans will integrate gender perspectives and gender responsive measures in all relevant outputs, and particularly in relation to the establishment and / or strengthening of Conservation Trust Funds and aspects related to access of finance and equal participation as well as the guidance on how to implement DFNCs.

Were the following stakeholders consulted during project identification phase:

Indigenous Peoples and Local Communities:

Civil Society Organizations:

Private Sector:

Provide a brief summary and list of names and dates of consultations

(Please upload to the portal documents tab any stakeholder engagement plan or assessments that have been done during the PIF development phase.)

Private Sector

Will there be private sector engagement in the project?

Yes

And if so, has its role been described and justified in the section B project description?

Yes

Environmental and Social Safeguard (ESS) Risks

We confirm that we have provided indicative information regarding Environmental and Social risks associated with the proposed project or program and any measures to address such risks and impacts (this information should be presented in Annex D).

Yes

Overall Project/Program Risk Classification

PIF	CEO Endorsement/Approval	MTR	TE
Medium/Moderate			

E. OTHER REQUIREMENTS

Knowledge management

We confirm that an approach to Knowledge Management and Learning has been clearly described in the Project Description (Section B)

Yes

ANNEX A: FINANCING TABLES

GEF Financing Table

Indicative Trust Fund Resources Requested by Agency(ies), Country(ies), Focal Area and the Programming of Funds

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	Grant / Non-Grant	GEF Project Grant($)	Agency Fee($)	Total GEF Financing ($)
IADB	GET	Regional	Biodiversity	NGI	Non-Grant	40,180,000.00	3,616,200.00	43,796,200.00
Total GEF Resources ($)						**40,180,000.00**	**3,616,200.00**	**43,796,200.00**

Project Preparation Grant (PPG)

Is Project Preparation Grant requested?

false

PPG Amount ($)

PPG Agency Fee ($)

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	Grant / Non-Grant	PPG($)	Agency Fee($)	Total PPG Funding($)
Total PPG Amount ($)						**0.00**	**0.00**	**0.00**

Please provide justification

Sources of Funds for Country Star Allocation

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Sources of Funds	Total($)
Total GEF Resources					**0.00**

Indicative Focal Area Elements

Programming Directions	Trust Fund	GEF Project Financing($)	Co-financing($)
BD-2-2	GET	40,180,000.00	641280000
Total Project Cost		**40,180,000.00**	**641,280,000.00**

Indicative Co-financing

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount($)
GEF Agency	IADB	Guarantee	Investment mobilized	640000000
GEF Agency	IADB	Grant	Investment mobilized	1280000
Total Co-financing				**641,280,000.00**

Describe how any "Investment Mobilized" was identified

The IDB intends to contribute 640,000,000 in guarantees, either with IDB's ordinary capital or through resource mobilization, to co-finance this Facility. As it will be explained in the Project Rationale Section, the IDB plays a catalytic role in these transactions, helping the mobilization of resources from third parties by partnering with financial and non-financial institutions, such as The Nature Conservancy (TNC) and U.S. International Development Finance Corporation (DFC), to scale-up the transactions.

ANNEX B: ENDORSEMENTS

GEF Agency(ies) Certification

GEF Agency Type	Name	Date	Project Contact Person	Phone	Email
GEF Agency Coordinator	IADB	9/15/2023	Gmelina Ramirez	+1 225 237 663	gmelinar@iadb.org
Project Coordinator	IADB	9/15/2023	Joan Prats	+1 202 623-3271	joanp@iadb.org

Record of Endorsement of GEF Operational Focal Point (s) on Behalf of the Government(s):

Name	Position	Ministry	Date (MM/DD/YYYY)

NGIs do not require a Letter of Endorsement if beneficiaries are: i) exclusively private sector actors, or ii) public sector entities in more than one country. However, for NGI projects please confirm that the agency has informed the OFP of the project to be submitted for Council Approval

ANNEX C: PROJECT LOCATION

Please provide geo-referenced information and map where the project interventions will take place

Multiple countries in Latin America and the Caribbean.

ANNEX D: ENVIRONMENTAL AND SOCIAL SAFEGUARDS SCREEN AND RATING

(PIF level) Attach agency safeguard screen form including rating of risk types and overall risk rating.

Title
E&S Screening Filter

ANNEX E: RIO MARKERS

Climate Change Mitigation	Climate Change Adaptation	Biodiversity	Land Degradation
Significant Objective 1	No Contribution 0	Principal Objective 2	Significant Objective 1

ANNEX F: TAXONOMY WORKSHEET

Level 1	Level 2	Level 3	Level 4
Influencing Models	Strengthen institutional capacity and decision-making		
	Demonstrate innovative approaches		
	Deploy innovative financial instruments		

Stakeholders			
	Indigenous Peoples		
	Private Sector		
		Capital providers	
		Large corporations	
		SMEs	
		Individuals/Entrepreneurs	
	Beneficiaries		
	Local Communities		
	Civil Society		
		Community Based Organization	
		Non-Governmental Organization	
		Academia	
		Trade Unions and Workers Unions	
	Type of Engagement		
		Information Dissemination	
		Consultation	
		Participation	
	Communications		
		Awareness Raising	
		Education	
		Public Campaigns	
		Behavior Change	
Capacity, Knowledge and Research			
	Capacity Development		
	Knowledge Generation and Exchange		
	Stakeholder Engagement Plan		
Gender Equality	Gender Mainstreaming		
		Beneficiaries	
		Women groups	
		Sex-disaggregated indicators	
		Gender-sensitive indicators	
	Gender results areas		
		Participation and leadership	

		Access to benefits and services	
		Awareness raising	
		Knowledge generation	
Focal Area/Theme	Biodiversity		
		Protected Areas and Landscapes	
			Terrestrial Protected Areas
			Coastal and Marine Protected Areas
			Productive Landscapes
			Productive Seascapes
			Community Based Natural Resource Management
		Financial and Accounting	
			Conservation Trust Funds
			Conservation Finance
Rio Markers			

ANNEX G: NGI RELEVANT ANNEXES

Please use the most up to date templates per the most recent call for proposals.

Annex G.1: Template for Indicative Financial Termsheet

Instructions. This termsheet to be submitted with the PIF/PFD should include sufficient details to allow a financial expert to understand and judge the financial viability of the proposed investments. Indicative terms and conditions should be used when specific details are not yet available. An equivalent termsheet used for internal Agency purposes is acceptable but must include sections on Currency Risk, Co-financing Ratio and Financial Additionality.

Project/Program Title	Innovative use of financial instruments for Biodiversity Conservation and Restoration in Latin America and the Caribbean
Project/Program Number	11324
Project/Program Objective	To establish a Regional Facility to support biodiversity conservation and restoration in at least 3 LAC countries by: (i) enabling long-term financing for conservation, restoration, and sustainable management without increasing the debt ceiling; (ii) introducing very powerful incentives to timely achieve conservation commitments; and (iii) strengthening national institutional frameworks to support natural resources management.
Country [ies]	At least 3 LAC countries

Selection Criteria	1. request a PBG from the IDB to support a DFNC. 2. be eligible GEF countries and submit a LoE ahead of the CEO concurrence. 3. be parties to the Kunming-Montreal Global Biodiversity Framework. 4. have solid environmental policies in place. 5. commit to achieve ambitious conservation commitments. 6. financial savings generated through the DFNC must be at least 20% of the guaranteed amount. 7. 100% of the savings generated by the GEF funds and at least 50% of savings from IDB guarantee will be channeled to conservation or restoration activities. 8. have an adequate governance structure in place (or be willing to create one) for a successful channeling of conservation resources through a CTF or other similar mechanism, based on international guidance.
GEF Agency presenting the Project	Inter American Development Bank (IDB)
Project Financing	A. IDB: U$D640 million (guarantee) + US$1,28 million (grant) B. GEF non-grant: USD39 million (convertible risk-mitigation instrument: guarantee - performance based grant) C. GEF grant: USD1,18 million Total Project Financing: USD681,46 million
Currency of the Financing	US Dollar
Currency risk	NA
Co-financing ratio	Every GEF USD1 mobilizes USD16 from IDB/other resource mobilization in the form of guarantees and USD16 of investment (bondholders)
Financial additionality and minimum concessionality of GEF resources	The proposed financial structure enhances the use of the GEF funds due to the potential double role of the GEF contribution. It is expected that the US$39 million GEF contribution will generate US$7,8- US$11,7 million additional savings from the DFNC. Moreover, if the convertibility event occurs, the US$39 million from GEF convert into a performance-based grant that will be disbursed to the selected CTFs, unlocking between US$46,8 - US$50,7 million for conservation or restoration activities.
Use of proceeds	The proceeds of the Guaranteed Instrument will be used to repurchase more expensive outstanding debt, generating savings on the interest rate coupon and/or the principal in the process that will be channeled to a Conservation Trust Fund (CTF). CTF resources will be independently and professionally managed and will be used to (i) provide funding for conservation activities to NGOs, community-based organizations, governmental agencies, and the private sector via a competitive and transparent grant award program; and (ii) capitalization of an endowment to support sustainable finance mechanisms in perpetuity.
Financing instruments requested from the GEF TF (other than grants)	Convertible risk mitigation instrument: behaving as a guarantee that covers default of payment of interest/principal of the Guaranteed Instrument until the Convertibility Event; and performance recovery grant that will be disbursed contingent to the achievement of pre-defined Conservation Commitments (CC) as described below.
Financing requested from the GEFTF in the form of Grant for Technical Assistance	USD1,1 million
Terms and conditions for the financing instruments from GEF	(a) Type of instrument before convertibility event: first loss Guarantee; IDB PBG would be in that respect "senior" to GEF funding during the life of GEF guarantee before Convertibility Event (b) Return of the of GEF Financing before Convertibility Event: 85 basis points per annum as premium for the GEF Guarantee on the covered amount (c) Convertibility Event: when at the Date of Convertibility (as defined below), the guarantee has not been called in full and one or more Conservation Commitments (CC) have been met. (d) Expected Date of Convertibility: will be defined on a project by project basis but is not expected to be longer than 5 years from the Guaranteed Instrument issuance date. (e) Conservation Commitments (CC): to be defined for each country-specific project under the Regional Facility and to be agreed with the GEF ahead of GEF CEO Concurrence. The independent verification agent certifies that one or more CC have been met at the time of the Convertibility Event. The schedule for disbursement of the performance based grant will be determined for each transaction upon achievement of CC (milestones). (e) New type of instrument after Convertibility Event: performance based grant (f) Return of the instrument if Convertibility Event occurs: no return (g) Repayment Event: if no Convertibility Event occurs on the Date of Convertibility, any remaining guarantee

	funds that have not been called will be returned to the GEFTF (g) Maturity Date: 20 years from CEO endorsement. All remaining funds of performance based grants that are not disbursed due to not achievement of Conservation Commitments will be returned to the GEFTF.

Annex G.2: Reflows table

Instructions. Any financial returns, gains, interest or other earnings and remaining principal will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. and the GEF Non-Grant Instrument Policy.

1) BEST CASE SCENARIO: in all participating countries: (i) guarantee not called; and (ii) CC met on time

(If, in all participating countries the guarantee is called, the reflow schedule is the same. The key difference is that CC are not achieved in this case)

BEST CASE SCENARIO	
Item	**Data**
GEF Project Number	11324
Estimated Agency Board approval date	October 2024
Investment type description (financial product: debt, equity, guarantee, other)	Convertible instrument to provide long-term financing for conservation activities through: (i) a guarantee that will support a DFNC, and (ii) a performance recovery grant that can be disbursed into the CTF upon achievement of CC.
Expected date for start of investment	January 2025
Amount of investment (USD GEF funds) (include technical assistance and non-grant portions)	Non-Grant: USD39 million Grant (TA): USD1,18 million
Maturity (indicate the grace period if needed)	20 years
First repayment year	2026
Final repayment year	2044
Repayment method description	annual guarantee fee paid to GEFTF
Frequency of reflow payments (if amortized)	annually
A. Total principal amount to be paid- reflowed to the GEF Trust Fund (Please provide actual amount with assumption of exchange rate if applicable) in whole USD.	0
B. Total interest/earnings/premiums amount to be paid-reflowed to the GEF Trust Fund (Please provide actual amount with assumption of exchange rate if applicable) in whole USD.	1,657,500
Total reflows to the GEF Trust Fund (Sum A + B) in whole USD	1,657,500

2) WORST CASE SECENARIO: in all participating countries: (i) guarantee not called; and (ii) CC NOT met on time

WORST CASE SCENARIO	
Item	**Data**
GEF Project Number	11324
Estimated Agency Board approval date	October 2024
Investment type description (financial product: debt, equity, guarantee, other)	Convertible instrument to provide long-term financing for conservation activities through: (i) a guarantee that will support a DFNC, and (ii) a performance recovery grant that can be disbursed into the CTF upon achievement of CC.
Expected date for start of investment	January 2025
Amount of investment (USD GEF funds) (include technical assistance and non-grant portions)	Non-Grant: USD39 million Grant (TA): USD1,18 million
Maturity (indicate the grace period if needed)	20 years
First repayment year	2026
Final repayment year	2044
Repayment method description	annual guarantee fee paid to GEFTF
Frequency of reflow payments (if amortized)	annually
A. Total principal amount to be paid- reflowed to the GEF Trust Fund (Please provide actual amount with assumption of exchange rate if applicable) in whole USD.	39,000,000
B. Total interest/earnings/premiums amount to be paid-reflowed to the GEF Trust Fund (Please provide actual amount with assumption of exchange rate if applicable) in whole USD.	1,657,500
Total reflows to the GEF Trust Fund (Sum A + B) in whole USD	40,657,500

3) MIDDLE CASE SECENARIO: (i) in all participating countries guarantee not called; and (ii) Project 3 (USD15 M) does not meet CC on time

MIDDLE CASE SCENARIO	
Item	**Data**
GEF Project Number	11324
Estimated Agency Board approval date	October 2024
Investment type description (financial product: debt, equity, guarantee, other)	Convertible instrument to provide long-term financing for conservation activities through: (i) a guarantee that will support a DFNC, and (ii) a performance recovery grant that can be disbursed into the CTF upon achievement of CC.
Expected date for start of investment	January 2025
Amount of investment (USD GEF funds) (include technical assistance and non-grant portions)	Non-Grant: USD39 million Grant (TA): USD1,18 million
Maturity (indicate the grace period if needed)	20 years
First repayment year	2026
Final repayment year	2044
Repayment method description	annual guarantee fee paid to GEFTF
Frequency of reflow payments (if amortized)	annually
A. Total principal amount to be paid- reflowed to the GEF Trust Fund (Please provide actual amount with assumption of exchange rate if applicable) in whole USD.	15,000,000
B. Total interest/earnings/premiums amount to be paid-reflowed to the GEF Trust Fund (Please provide actual amount with assumption of exchange rate if applicable) in whole USD.	1,657,500
Total reflows to the GEF Trust Fund (Sum A + B) in whole USD	16,657,500

Annex G.3: GEF Agency Eligibility to Administer Concessional Finance

The GEF Agency submitting the PIF or PFD will demonstrate its capacity and eligibility to administer NGI resources as noted in the NGI Policy, summarized below:

The IDB has a vast experience with the use of sovereign guarantees. In 2018, the IDB approved a US$300 million guarantee that made possible the issuance of the first sovereign social bond for US$400 million from the Republic of Ecuador, to help reduce the housing deficit by providing mortgage loans for affordable housing through intermediate financial institutions. In 2022, the IDB approved a US$200 million guarantee to support the issuance of an international standard sovereign bond by The Bahamas upon the completion of a set of policies aimed at promoting a more productive and healthier ocean in The Bahamas.

Moreover, in September 2022 the IDB approved a US$100 million PBG to support a DFNC in Barbados. The operation leveraged IDB ratings to lower costs of financing and provided better terms and conditions to the

DFNC, while also attracting addition resource mobilization from TNC, which are expected to generate financial savings of ~US$50 million to support environmental and sustainable development actions in Barbados over the next 15 years. This transaction features the first-ever financial instrument to be guaranteed by both a multilateral institution and a non-governmental organization such as TNC and provides the first ever sustainability linked debt framework focused on nature conservation developed by the IDB and Barbados as part of this operation.

More recently, in May 2023, the IDB approved a US$85 million PBG to support a DFNC in Barbados. The operation consists of an $85 million IDB guarantee and an $656 million DFC political-risk insurance to Ecuador to purchase existing public debt at better terms. This liability management exercise will generate lifetime savings of more than $1.45 billion, of which $323 million will be used to create the Galápagos Life Fund (GLF) and finance conservation activities over the next 18.5. Not only is this the largest operation of its kind, but it is the first time that a multilateral institution is combining guarantees with political-risk insurance from DFC to mobilize resources from different actors towards conservation.

This project will be implemented with limited delegation of investment authority to the implementing agency as described in the GEF Blended Finance Global Program and Non-Grant instrument policy update GEF/C.63/12.

Annex G.4: Management Capacity of Executing Agency and Governance Structure

For projects requesting equity instrument, structured finance, or SPVs please provide following information