

GEF-8 REQUEST FOR CEO ENDORSEMENT/APPROVAL

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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

Regional

GEF Project ID

11324

Country(ies)

Regional

Type of Project

FSP

GEF Agency(ies):

IADB

GEF Agency Project ID

RG-O1712

Project Executing Entity(s)

IADB (Administrator of funds while it is a guarantee)

Conservation Trust Funds

Project Executing Type

GEF Agency

CSO

GEF Focal Area (s)

Biodiversity

Submission Date

12/20/2024

Type of Trust Fund

GET

Project Duration (Months)

240

GEF Project Grant: (a)

0.00

GEF Project Non-Grant: (b)

40,180,000.00

Agency Fee(s) Grant: (c)

0.00

Agency Fee(s) Non-Grant (d)

3,616,200.00

Total GEF Financing: (a+b+c+d)

43,796,200.00

Total Co-financing

641,280,000.00

PPG Amount: (e)

0.00

PPG Agency Fee(s): (f)

0.00

Total GEF Resources: (a+b+c+d+e+f)

43,796,200.00

Project Tags

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

Project Sector (CCM Only)

Mixed & Others

Taxonomy

Terrestrial Protected Areas, Protected Areas and Landscapes, Focal Areas, Coastal and Marine Protected Areas, Community Based Natural Resource Mngt, Productive Seascapes, Productive Landscapes, Conservation Trust Funds, Financial and Accounting, Conservation Finance, Sustainable Development Goals, Strengthen institutional capacity and decision-making, Influencing models, Demonstrate innovative approach, Deploy innovative financial instruments, Indigenous Peoples, Stakeholders, Community Based Organization, Civil Society, Non-Governmental Organization, Trade Unions and Workers Unions, Academia, Beneficiaries, Local Communities, Capital providers, Private Sector, Large corporations, SMEs, Awareness Raising, Communications, Behavior change, Public Campaigns, Education, Strategic Communications, Information Dissemination, Type of Engagement, Consultation, Participation, Women groups, Gender Mainstreaming, Gender Equality, Sex-disaggregated indicators, Gender-sensitive indicators, Participation and leadership, Gender results areas, Capacity Development, Capacity, Knowledge and Research, Knowledge Generation, Knowledge Exchange, Biodiversity

Rio Markers

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

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. (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 or OECMs, 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 [1] (loan or bond) at more favorable terms and, in line with its medium-term debt management strategy (MTDS)[2], 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, particularly through the strengthening of institutional capacity of RedLAC members and supporting the self-assessment of CTFs with international practice standards, which will help ensure timely achievement of conservation commitments. RedLAC is Latin American and the Caribbean's network of environmental funds and has a role as a community and knowledge-sharing platform. Currently it has 34 members in 20 countries. GEF NCI funds will play an important role in this GEF project, as they will enhance IDB capital by providing an additional guarantee to cover the first coupon payment of the guaranteed instrument in case of default and convert into a grant if pre-agreed conservation commitments are met. This will increase savings for conservation and is a powerful incentive for countries to achieve commitments. It is expected that the Facility will achieve between 21.5M 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] Refers to the loan or bond to be issued by the beneficiary country and guaranteed by the IDB, the GEF and other potential co-guarantors.

[2] 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.

Project Description 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

Component 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 21,5M – 37,7M Ha of terrestrial and/or marine PA created and/or under improved management for conservation and sustainable use and/or land restored.

Component 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 policy coherence analysis and roadmap for improvement.

2.1.2. One Stakeholder Engagement Plan (SEP), including a Stakeholder Advisory Committee (SAC), approved in each participating country.

2.1.3. Institutional capacity of RedLAC's members enhanced and one Conservation Trust Fund (CTF) established or strengthened following Practice Standards in each participating country.

2.1.4. 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.

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

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

3.1.3. One case study published per country.

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

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

M&E

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

Outcome:

Monitoring and evaluation completed.

Output:

4.1.1. Project implementation reports (PIRs) completed. The IDB will develop and submit to the GEF annual PIRs.

4.1.2 One mid-term review (MTR) conducted. The IDB will commission and submit to the GEF the MTR.

4.1.3 One terminal evaluation (TE) conducted. The IDB will commission and submit to the GEF the TE.

Component Balances

Project Components	GEF Project Financing (\$)	Co-financing (\$)
Component 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
Component 2. Enabling environment for a successful use of conservation resources and implementation of conservation commitments	500,000.00	1,000,000.00
Component 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

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, 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.

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 incentives have generally favored expanding economic activity, and often environmental harm, over conservation or restoration[10]. 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”[11], 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.” [12]

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.[13] 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 and OECMs, 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.[14]

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 6 multi-party DFNCs have taken place in the region: Belize (2021), Barbados (2022), Ecuador (2023 and 2024), El Salvador (2024) and The Bahamas (2024). 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 IDB sovereign guarantee. 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.

Table 1. Recent debt-for-nature conversions in LAC

Country	Ecuador Amazon	Bahamas	El Salvador	Ecuador Galapagos	Barbados	Belize
Date of the transaction	December 2024	November 2024	October 2024	May 2023	September 2022	November 2021
Conservation Commitments	Conservation of terrestrial and freshwater ecosystems in the Ecuadorian Amazon	Improved management of the recently expanded network of MPAs	Rio Lempa Conservation and Restoration Programme	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.
Size of Bond/Loan issuance	US\$1B	US\$300M	US\$1B	US\$656M	US\$150M	US\$364M
Maturity	17 years	15 years	20 years	18.5 years	15 years	20 years

Credit enhancement	IDB partial credit guarantee and DFC Political Risk Insurance	IDB partial credit guarantee, Builders Vision collateralized guarantee and AXA XL credit insurance	DFC Political Risk Insurance and Development Bank of Latin America and the Caribbean (CAF) standby letter of credit	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	Baa2	Baa2
Rating with Credit Enhancement				Aaa2 Moody's	a1/Aa2 Moody's	Aaa2 Moody's
Old Debt Coupon				Yields at around 17%	6.5% Eurobond and 8% Domestic bond	8.5%
New Debt Coupon				6.9%	4.90%	6.10%
Total Savings	US\$815M	US\$124M	US\$352M	US\$1.45B	US\$40M	US\$389M
Conservation savings[1]¹	US\$460M	US\$132M	US\$350M	US\$450M	US\$50M	US\$180M
CTF funding	US\$23.5M /year	US\$8.2M /year	US\$16.75M /year	US\$17.5M /year	US\$2.6M /year	US\$4.2M /year + US\$23.5M pre-funded endowment
Endowment	Endowment to grow to US\$137M (est.) by 2041	Endowment to grow to US\$20 M (est.) by 2039	NA	Endowment to grow to US\$227M (est.) by 2041.	Endowment to grow to US\$27M (est.) by 2037.	Endowment to grow to US\$92 M (est.) by 2041

[1] Including return on endowment, except for El Salvador where data on expected endowment by 2044 was not found.

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. The BESF closed its first call for proposals in September 2024 and sixty-one (61) applications were received; twenty-five (25) for large Grants, seven (7) for medium Grants and nine (9) for small Grants. Forty-two (42) proposals received a passing grade of fifty (50), the minimum threshold for passing.

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 is being completed. To help steer the planning process, an MSP Design Guide was developed at a three-day Expert Group [15] consultative workshop and was presented at an MSP kick-off information session for consensus-building. The first meeting of the Stakeholder Advisory Committee (SAC) was held on February 16, 2024 and

the second one in June 2024. The Barbados Marine Spatial Plan (BMSP) officially kicked off its consultation process with an inception meeting held on March 20, 2024, in which the logo and [website](#) were officially revealed. Moreover, from July to November 2024, Listening Sessions were held with the communities of all eleven parishes with the aim of introducing marine spatial planning at the community level and to obtain insights from residents about what they deem to be important within the marine space, how they use the space currently, and how they would like to see the space used and managed in the future. To date, the following activities have been completed: 8 consultations with 191 participants, 12 focus groups sessions with 71 participants, 1802 surveys collected and educational programs involving 777 students and 37 teachers.

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. 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 [16], developed and approved the management plan for the new MPA [17]. During project preparation, DFC led a series of stakeholder engagement activities with the objective of integrating the views and needs of local communities in the Galapagos area into the design of the Hermandad Management Plan. For the implementation phase of the project, a stakeholder engagement plan is being implemented to support the operation of the GLF.

More recently, in December 2024, with the support of the IDB, DFC and TNC, Ecuador completed a DFNC that will generate more than \$800 million in net fiscal savings over the next 11 years, of which \$460 million will be used to finance conservation of terrestrial and freshwater ecosystems in the Ecuadorian Amazon. The savings were the result of exchanging \$1.53 billion in external commercial debt at a large discount for a new \$1 billion loan credit enhanced by a US\$155 million partial credit guarantee from the IDB and a US\$1 billion political-risk insurance from DFC. Most of the conservation funding unlocked by the DFNC will be disbursed through grants from a new independent conservation trust fund, Fondo del Biocorredor Amazónico (BCA Fund). The BCA Fund will focus on the Ecuadorian Amazon and will be run by a local board of directors that includes representatives from the government, indigenous groups, local communities, academia, the finance industry, sustainable development organizations, private enterprise, and TNC. During project preparation, TNC led a series of stakeholder engagement activities with the objective of integrating the views and needs of indigenous populations into the design of the Biocorredor Amazonico. For the implementation phase of the project, a communication plan and stakeholder engagement plan will be implemented to support the operation of the BCA Fund.

In November 2024, The Bahamas launched The Bahamas Debt Conversion for Marine Conservation project that will refinance US\$300 million of The Bahamas' external commercial debt to help the country improve ocean conservation and management of its MPAs to benefit biodiversity and people and lessen the effects of climate change. The operation was funded by a 15-year, fully underwritten US\$300 million loan that benefited from a comprehensive credit-enhancement package: a US\$200 million partial credit guarantee from the IDB, a US\$ 70 million collateralized guarantee from Builders Vision, and US\$30 million in credit insurance from AXA XL. The credit enhancement package allowed The Bahamas to secure a highly favorable annual coupon of 4.7%, significantly lower than outstanding yields on The Bahamas' repurchased debt, generating US\$124 million in nominal cash savings which will be channeled to marine conservation through The Bahamas Protected Areas Fund (BPAF).

In all cases, 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 Global Environmental Benefits (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 and OECMs, 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 [18] 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 milestones. If conservation milestones 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 milestones 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 milestones 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).

If conservation milestones are not achieved on time, the IDB will return the funds to the GEFTF.

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 [19]. 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 [20].

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). Selected CTFs 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 the UNDP/GEF project “Protecting and Restoring the Ocean’s natural Capital, building Resilience and supporting region-wide Investments for sustainable Blue socio-Economic development” (PROCARIBE+) (GEF-ID 10800, 2023-2027) and the GEF/IDB project “Transforming policy and investment through mainstreaming rapid approaches for natural capital assessment and accounting” (GEF-ID 11041, 2023-2025). 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.[21] The agreed collaboration between IDB and REDLAC in the context of this GEF project is foreseen to build on this as it will further strengthen institutional capacities of REDLAC and its members to allow them to implement innovative financing mechanisms for conservation such as DFNCs. This will provide significant added value to future DFNCs under this facility and beyond.

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 and OECMs. 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 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.

- [1] [Living Planet Report 2022](#)
- [2] [IPBES \(2018\): Regional Assessment Report on Biodiversity and Ecosystem Services for the Americas](#)
- [3] [Dimensions and examples of the gender-differentiated impacts of climate change, the role of women as agents of change and opportunities for women](#)
- [4] [IPBES \(2018\): Regional Assessment Report on Biodiversity and Ecosystem Services for the Americas](#)
- [5] [C. L. Gray et al., Nature Communications. 7, 12306 \(2016\).](#)
- [6] [Kendall R. Jones et al., One-third of global protected land is under intense human pressure. Science360,788- 791\(2018\).](#)
- [7] UNEP-WCMC (2023). Protected Area Profile for Latin America & Caribbean from the World Database on Protected Areas, February 2023. Available at: www.protectedplanet.net
- [8] <https://www.cbd.int/gbf/targets/>
- [9] [United Nations Environment Programme \(2021\). State of Finance for Nature 2021. Nairobi.](#)
- [10] [IPBES \(2019\): Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.](#)
- [11] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 107
- [12] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 103
- [13] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 16
- [14] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 35
- [15] 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
- [16] 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.
- [17] [Plan de Manejo Reserva Marina Hermandad \(2022\).](#)
- [18] [Blended Finance Taskforce \(2023\). “Better guarantees, better finance”.](#)
- [19] <https://www.worldwildlife.org/publications/securing-sustainable-financing-for-conservation-areas>
- [20] https://wwf.panda.org/wwf_news/?5909466/Colombia-WWF-and-partners-announce-245M-%20agreement-to-permanently-protect-vital-systems-of-nations-protected-areas
- [21] https://www.fmcn.org/uploads/publication/file/pdf/CFA_10YearReview-En-201112_.pdf, page 74

B. 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 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 or through resource mobilization. Because of the large size of the ordinary capital to be expected for each transaction and to add significant value, IDB is requesting US\$39 million risk-mitigation instrument from the GEF under the Blended Finance Global Program to support at least 3 LAC countries and US\$1,18 million technical cooperation (TC). 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 and might be an enabling factor in those countries where savings are lower.

The selection and allocation criteria will be the following:

Selection Criteria

To be eligible to receive support under Component 1 of this Facility, LAC countries must comply with the following selection criteria:

1. request a guarantee (PBG or IG) from the IDB to support a DFNC.
2. be eligible GEF LAC countries and submit a Letter of Endorsement by the GEF OFP ahead of the CEO concurrence.
3. 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).
4. 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) and the United Nations Convention to Combat Desertification's (UNCCD) Land Degradation Neutrality (LDN) targets, using territorial development plans with prioritization of areas of global 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.
5. have an equitable and inclusive governance structure in place (or be willing to create one) that incorporate laws, policies, and decision-making arrangements (formal and informal) in support of IPLCs living in, or near the PA the project supports, and to ensure an independent and transparent use of conservation resources, based on international guidance as per CFA and / or REDLAC best practice guidelines. If the country has a CTF that meets the required governance standards and technical requirements of the project,

it will be the preferred vehicle for the management of DFNC savings. If 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.

6. Estimated financial savings generated through the DFNC must be at least 20% of the guaranteed amount at Quality and Risk Review (QRR) of the operation's approval process stage[2].

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 aligned with GEF policies.

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 QRR Stage of the IADB internal approval process, IADB will seek concurrence from GEFSEC in each proposed investment by submitting investment proposals including: (i) evidence that all selection criteria are met; (ii) a country-specific theory of change aligned with the Facility's theory of change including drivers of change, social structures such as gender, cultural values and norms that characterize the social-ecological system, and impact pathways; (iii) a Results Framework for each sub-project; (iv) documentation of the selected CTF for the transaction; (v) estimated GEBs and core indicators for each sub-project; (vi) geolocation (for newly created areas it will be at provincial or ecosystem level); (vii) updated termsheet; (viii) conservation milestones that need to be met to trigger a convertibility event and calendar/sequencing of GEF grant disbursement to the CTF if the convertibility event is triggered; (ix) updated expected reflows on a base case/bull case and bear case scenario; (x) documents to ensure compliance with GEF Policies: a detailed Gender Analysis and Action Plan, an ESS Screening and ESS Management Plan, and a detailed Stakeholder engagement Plan; and (xi) description of the contractual structure.

For the US\$1,18 million non-reimbursable TC funds, the IDB is requesting advanced delegation of authority; IDB will approve TC funds following IDB's policies and without direct consultation to the GEF, as long as the approved TCs fulfill the requirements included in this document. In particular, the GEF TC funds will be used to finance the following:

(a) strengthen the institutional capacity of RedLAC and its members in order to ensure an adequate governance structure for the use of the conservation resource by: (1) strengthening RedLAC's institutional capacity by supporting the Executive Secretary in the management of the network; (2) updating the Practice Standards for CTFs to include issues related to CTF roles in channeling funds from financial transactions; (3) supporting the implementation of the recommendations for improvement derived from the self-assessment evaluations in individual members of RedLAC; and (4) providing capacity building trainings for RedLAC members to meet international standard practices. It should be noted that IDB will expand the scope of this TA work by allocating additional GCF funds under IDB management to support additional CTFs in the Amazon Basin.

(b) the design and implementation of a systemic MRV system that will enable tracking progress against policy triggers and conservation commitments across the full IDB DFNC portfolio; and

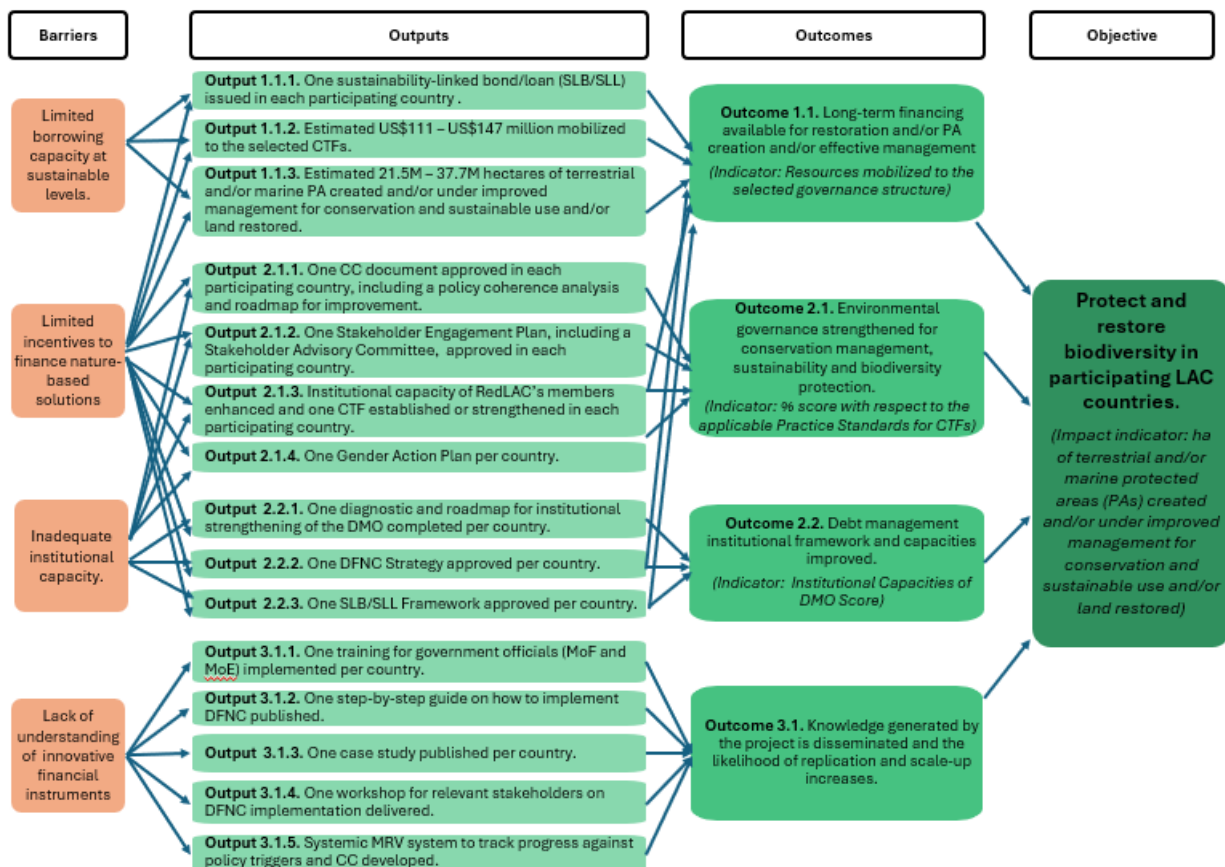
(c) the mid-term review and terminal evaluation. Allocation criteria

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 and in total not exceeding US\$39M, equivalent to the Component 1 of the facility. 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



Assumptions:

1. If the market is willing to enter into buyback operation, private capital mobilization and more ambitious CC can be achieved through DFNCs with its underlying debt issuances.
2. If there are no barriers to structuring the conservation payments as a contractual payment obligation for the term of the loan/bond, the savings will be channeled to a CTF and used to finance conservation/restoration activities.
3. If stakeholders are willing to participate in the spatial planning process, their perspectives and knowledge will be considered in the designation of PA and long-term success of the process will be ensured.
4. If other countries have interest in DFNC and apply lessons learned, DFNCs have the potential to become a widely used approach for financing conservation by sovereigns.

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[3].

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, Ecuador 2023 and 2024, Gabon 2023, The Bahamas and El Salvador 2024) 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 its sovereign guarantee instrument, either a Policy-Based Guarantee (PBG) or an Investment Guarantee (IG) [4].

Once the government complies with a set of reforms agreed upon with the IDB -which are included as conditions precedent to the issuance of the guarantee- 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.

Both Investment Guarantees (IGs) and Policy Based Guarantees (PBGs) can be used for Debt for Nature Conversion transactions under this Facility. With both guarantee instruments, it will be possible to buy financial assets in the context of a liability management for the repurchasing of sovereign debt to generate savings to finance biodiversity conservation. The financial structure and execution will be the same

regardless of the instrument used, including the repayment risk, and for both the policy conditions will be included as conditions precedent to the issuance of the guarantee in the counter-guarantee contract and the selected governance structure, responsible for the execution of the savings and the GEF performance-based grant, must comply with IDB policies. The difference between IGs and PBGs is that PBGs are programmatic and require a policy matrix with agreed policy reforms, while IGs do not require a policy matrix. However, for DFNCs, IDB will equally require policy conditions for IGs, which will also be included as conditions precedent to the issuance of the guarantee. In both cases the use of the savings is identified and governed through a governance mechanism and its operational rules.

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 \(BT FEC\)](#), [FMCN](#), [CBF](#), [BIOFUND](#), and CTFs created through PFP models.[4] 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".[5] 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.[6]

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 milestones 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. If conservation milestones are not achieved on time, the IDB will return the funds to the GEFTF.

[Output 1.1.3. Estimated 21.5M – 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 21.5M 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 and/or OECMs 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[7].

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. If carefully planned and well managed, the protection of natural values can also provide a range of outcomes beyond biodiversity conservation, benefiting diverse stakeholders. These beneficial outcomes are commonly referred to as the provision of ecosystem services and are classified in four categories (see Figure 2) [8]: (i) Provisioning services: food security is supported by PA through sustainable extraction inside their boundaries, as a result of spillover of healthy populations (particularly fish) in PA into places outside where they can be harvested, and through the conservation of crop and livestock wild relatives used by agronomists for breeding. Water security is boosted because some natural ecosystems (particularly tropical mountain cloud forests and

Andean paramos) increase net water flow; (ii) Regulating services: 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; (iii) Cultural services: are the benefits that people derive from visiting PA such as recreation and tourism, aesthetic values, intellectual development, spiritual enrichment,; and (iv) Supporting services: such as soil, primary production and nutrient cycling.

Figure 2. Ecosystem Services



Although there are many benefits from PA, the distribution of these benefits is not always equitable among all stakeholders. Some groups will be negatively impacted by PA while others will benefit from them. Because of this, engaging with diverse local stakeholders and understanding how they will be impacted is key for the establishment of a successful PA management regime that provides for both biodiversity and people (see Output 2.1.1 and Stakeholder Engagement Plan).

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, once the government complies with a set of policy reforms aimed at strengthening environmental governance and debt management capacity, the IDB will provide a sovereign guarantee to participating countries. This guarantee -in the form of PBG or IG- will support a debt instrument issued by the government in connection with a DFNC, with the objective of financing natural conservation activities that contribute to the country’s implementation of the GBF.

The policy reform program is financed through an IDB TC or government budgets and is aimed at ensuring an adequate institutional capacity for Conservation Trust Funds to harmonize and comply with international practice standards, to result in lower transaction costs and greater biodiversity protection and conservation impact, to validate the country’s CC and manner of their implementation, to ensure policy coherence and 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, including the strengthening of CTFs to support greater harmonization of international donor rules, standards, and policies divided in seven key core areas: 1. Governance, 2. Institutional Effectiveness, 3. Programs, 4. Administration, 5. Asset Management, 6. Resource Mobilization, and 7. Risk Management and Safeguards; (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 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 policy coherence analysis and roadmap for improvement.

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 development of Conservation Commitments and achievement of them will build on existing national-level priorities, and in line with the country's NBSAP and/or national conservation targets. Additionally, the conservation commitments should include clear descriptions of the national contributions towards the Kunming-Montreal Global Biodiversity Framework, particularly taking into consideration well-governed effective management and planning of protected areas and other areas of particular importance for biodiversity and ecosystem functions and services.

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. Spatial planning is a tool to support the identification and prioritization of areas for protection, including potential future protected areas (PA) and other effective area-based conservation measures (OECMs), with the objective of integrate PAs into broader land and seascapes in relevant sector planning and strategies. This spatial planning exercise shall be participatory, aligned with national environmental commitments and goals, evidence-based, incorporate environmental and economic analysis, and analyze impacts on ecosystems and human activities. Stakeholder consultations with a variety of different stakeholder groups will be conducted early on, in the eligibility phase of the project, for each country to ensure an inclusive process and promote transparency. 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 (see Output 2.1.2).

Moreover, the Conservation Commitments document will include as a milestone the commitment to conduct a policy coherence analysis to understand the impact of existing policies on biodiversity conservation policies

and ensure GEBs, once achieved, are not undermined or negated due to misaligned policies that allow leakage, reduce the durability of the GEBs, or even result in investment in damaging behaviors. The assessment and roadmap will utilize a framework based on Nilsson et al. (2012), which involves: (1) inventorying policy objectives related to environment, finance, and development; (2) screening interactions between these objectives and sectoral policies; and (3) mapping key interactions in depth, analyzing synergies and conflicts at the levels of policy objectives, instruments, and implementation. Both horizontal (within governance levels) and vertical (across governance levels) interactions will be examined. Additionally, indicators to track progress, such as political commitment, policy integration, and stakeholder participation, will be reviewed to assess potential opportunities and challenges for implementing debt-for-nature conversion projects in each country. The analysis and roadmap will consider and build upon any biodiversity finance planning process supported by UNDP BIOFIN or the GEF-8 Umbrella programme for the development of Biodiversity Finance Plan in each country. IDB will follow up on policy coherence activities with the countries as part of its continuous dialogue and will seek GEF and / or other donor funding, as appropriate and needed, for the implementation of activities.

Moreover, as mentioned above, the resources of the transaction will be channeled to a CTF, which ensures an inclusive governance structure.

Output 2.1.2. One Stakeholder Engagement Plan (SEP), including a Stakeholder Advisory Committee (SAC), approved in each participating country.

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 identify relevant stakeholders and will present a range of targeted strategies and activities to encourage full participation by as many stakeholders as possible.

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 and 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.

The SEP will be included in the Concurrence package to GEF SEC and will include a summary of consultations undertaken with dates, roles and results. It will include the stakeholders, their relevant interests, and reasons for

their inclusion, the steps and actions to achieve meaningful consultation and inclusive participation, including information dissemination, roles and responsibilities for implementation of the Plan, the timing of the engagement throughout the project cycle, the budget for stakeholder engagement throughout the project cycle and, where applicable, for related capacity-building to support this engagement and key indicators of stakeholder engagement during project implementation, and steps that will be taken to monitor and report on progress and issues that arise.

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 spatial planning 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. Institutional capacity of RedLAC's members enhanced and one Conservation Trust Fund \(CTF\) established or strengthened following Practice Standards\[9\] 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. As highlighted by REDLAC, one of the three most important success factors of CTFs, is their ability to engage and partner with a highly diverse group of stakeholders. 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 has the largest network of environmental funds, RedLAC, which started in 1999. Over the past two and a half decades, the network has achieved that 34 individual funds and 3 regional ones located in 20 countries join and work together. RedLAC members work on the conservation of 50% of global rainforest, 41% of total mammals, 33% of reptiles, and 50% of birds. Through the work of CTFs, there are 754 terrestrial protected areas (100 million ha), 156 marine protected areas (56 million ha) and 10m beneficiaries. As such, RedLAC holds a great potential to scale up finance for conservation in the region. The network is also a knowledge-sharing platform, and it incentivizes sharing best practices among its members, while providing training and building capacity. RedLAC is keen in promoting the strategic dialogue among the different CTFs, since there are different levels of maturity and different compliance levels of international standards within the network and sharing lessons learned is one of the network's objectives. If they are not already members, selected CTFs will be encouraged to join REDLAC.

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, if needed. 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 to ensure compliance with international standards 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 because the country does not have a CTF.

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. These activities will tie in with the technical assistance objectives agreed between REDLAC and IDB, for which IDB is requesting a grant of US\$500,000 from GEF.

The TC has the aim to strengthen the institutional capacity of RedLAC and its members in order to ensure an adequate governance structure for the use of the conservation resource. It will do so through the following four components: (1) strengthening RedLAC's institutional capacity by consolidating a team to support the Executive Secretary in the management of the network; (2) supporting the implementation of the recommendations for improvement derived from the self-assessment evaluations of individual members of RedLAC; and (3) providing capacity building trainings for RedLAC members to meet international standard practices that allows them to implement innovative finance mechanisms.

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 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.

Given that a Gender Action Plan is highly context specific and countries benefitting from the Facility still need to be selected, it was agreed in the PIF that at the CEO endorsement stage, IDB will present a document detailing the methodology and approach that will be applied for the Gender Analysis and Actions Plans at country level. It was further agreed that, ahead of GEF CEO concurrence for each sub-project, a detailed Gender Analysis and Action Plan in each participating country will be conducted to ensure gender and diversity mainstreaming in the 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 CTFs 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 Project Implementation Reports (PIRs), Mid-term review and Terminal evaluation. The costs for the Gender Action plans will be covered by the 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 the best outcomes. In this line, the IDB developed a methodology[10] 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. High priority reforms will be included as conditions precedent to the issuance of the guarantee in the counter-guarantee contract.

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 [11]. 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 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 3.1.2. 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 3.1.3. 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 and to provide transparency to these transactions. 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 3.1.4. 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.

Output 3.1.5. 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 [12], 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.

Several key outputs under Components 2 and 3 are designed to support adaptive management and strengthen resilience throughout the project's implementation. These outputs will enable the project to respond effectively to future uncertainties while remaining aligned with its overarching goals.

Active and continuous stakeholder engagement will play a critical role in ensuring the project remains responsive to evolving needs and priorities. The MRV framework will serve as a vital mechanism for identifying deviations from planned outcomes and facilitating timely adjustments.

Capacity-building efforts targeting Ministries and CTFs will equip key stakeholders with the skills and knowledge necessary to manage change effectively. For instance, certain practice standards emphasize the responsibility of CTFs to establish policies and procedures that meet donor requirements for financial projects. Additionally, risk management and safeguard standards call for the development of robust policies to help organizations achieve their objectives while navigating uncertainty. One of the main characteristics of a robust governance structure is their ability to ensure continuity in conservation programs despite government changes or national priorities shifting, ensuring continued financing for conservation priorities. Their independence from government budgets provides flexibility and agility to deploy funds towards conservation-related topics. By strengthening the Funds' compliance with the standards, their resilience, adaptation and autonomy of the CTFs will be reinforced.

Finally, the project's knowledge agenda promotes iterative learning, creating opportunities to refine and adapt future DFNCs based on changing environments and conditions.

Component 4. Monitoring and Evaluation (M&E).

Outcome 4.1. Monitoring and evaluation completed.

Output 4.1.1.: Project Implementation Reports (PIRs) completed.

The IDB will develop the annual Project Implementation Report (PIR), including major milestones achieved through overall project implementation and progress towards facility-level outcomes. For management effectiveness projects, baseline and target Management Effectiveness Tracking Tool (METT) scores will be incorporated into the PIRs whenever the scores are available. For PA expansion, geolocation of the new PAs will be included in the corresponding PIRs once the spatial planning process is finalized, and the new PAs are established. Moreover, after the convertibility event and once the IDB disburses the performance-based grant into the selected CTF, the details of the call for proposals and the selected projects will be reported in the corresponding PIRs. The IDB will submit the corresponding PIRs one year after the DFNC contract signature between IDB and the respective country for the first sub-project, and every year thereafter until the project is closed.

Output 4.1.2.: Mid-term Review (MTR) conducted.

The objective of the MTR is to determine the challenges, successes, and tasks remaining to ensure project completion and achievement of expected results, determine any potential risks to sustainability, and to suggest ways and means to complete the project as efficiently and effectively as possible during the final project period. The IDB will commission its Mid-term Review two years after the date of convertibility of the first sub-project or after the CEO concurrence of the second sub-project, whatever occurs first. At CEO Endorsement Stage, it is not possible to forecast the exact year of the MTR since this depends on the approval of the sub-projects.

Output 4.1.3.: Terminal Evaluation conducted.

The Terminal Evaluation will provide an independent assessment of project performance (in terms of relevance, effectiveness and efficiency), and determine the likelihood of impact and sustainability. It will have two primary purposes: (i) to report the milestones achieved so far and assess the likelihood of achieving expected targets by the end of the project and, whenever possible, indicators to assess the impact on biodiversity preservation and provision of ecosystem services; and (ii) to promote learning, feedback, and knowledge sharing through results and lessons learned among IDB, GEF, beneficiary countries, executing partners and other stakeholders. The direct costs of the evaluation will be charged against the project evaluation budget. The IDB will commission its Terminal Evaluation, two years after the date of convertibility of the third sub-project since at this point, all the project funds will be executed or returned.

[1] This percentage might change based on market conditions at the time of closing. However, the team will monitor market conditions to ensure that when the buy-back takes place, the 20% threshold is met.

[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] The financial structure and execution will be the same regardless of the instrument used. The policy conditions will be included as conditions precedent to the issuance of the guarantee in the counter-guarantee contract and the selected governance structure, responsible for the execution of the savings and the GEF performance-based grant, must comply with IDB policies.

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- [4] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 89
- [5] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, page 62
- [6] https://redlac.org/wp-content/uploads/2021/04/CTF2020_Final.pdf, case study 1, page 111
- [7] [Protected Planet](#)
- [8] [Stolton, S., Timmins, H. and Dudley, N. \(2021\). “Making Money Local: Can Protected Areas Deliver Both Economic Benefits and Conservation Objectives?”, Technical Series 97, Secretariat of the Convention on Biological Diversity, Montreal.](#)
- [9] Best practice standards for trust fund governance established by both Conservation Strategy Fund, and Latin American and Caribbean Network of Environmental Funds (REDLAC).
- [10] [IDB \(2022\), ‘Institutional Capacities of Debt Management Offices in the Latin American and Caribbean Region’.](#)
- [11] https://www.citigroup.com/rcs/citigpa/akpublic/storage/public/innovative_financing_for_development.pdf
- [12] [Striking the Right Note: Key Performance Indicators for Sovereign Sustainability-Linked Bonds. World Bank \(2021\)](#)

Institutional Arrangement and Coordination with Ongoing Initiatives and Project.

Please describe the Institutional Arrangements for the execution of this project, including financial management and procurement. If possible, please summarize the flow of funds (diagram), accountabilities for project management and financial reporting (organogram), including audit, and staffing plans. (max. 500 words, approximately 1 page)

The IDB, through the Connectivity, Markets and Finance Division (IFD/CMF) and Climate Change Division (CSD/CCS), will be the Administrator of the Facility and, as such, will validate potential individual projects against the eligibility and allocation criteria of the Facility. If CC are met and the GEF funds are used to capitalize the selected governance structure (i.e., a CTF), and this governance structure will be the executing agency of the GEF funds.

To ensure the selected governance structure has the adequate capacity to be the executing agency, the GEF will provide a USD500,000 grant to support the completion of a capacity assessment of each CTF following international standards (see Component 2), 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. As part of due diligence, the IDB team will review each selected CTF’s procurement manuals to ensure they comply with IDB’s policies and procedures. In cases where a CTF requires strengthening, governance adjustments, or where a new CTF needs to be created following the capacity assessment, 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.

The provisions governing program execution are established in the Operations Manual (OM) that has been developed to systematize the implementation arrangements of the Facility, including the role of executing agencies. The OM will guide the operational management of the Facility. Each individual project’s specific institutional arrangements will be defined as part of the country DFNC.

The contracting of consulting services and the procurement of goods and related services financed with the Facility's resources will follow the Bank's procurement policies and procedures established in IDB's

Procurement "Policies for the Selection and Contracting of Consultants financed by the Bank" (GN-2350-15), and "Policies for the Procurement of Goods and Works (GN-2349-15). Financial management of the Facility's resources will follow the Bank's Financial Management Guidelines (OP-273-12).

Will the GEF Agency play an execution role on this project?

Yes

If so, please describe that role here and the justification.

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 guarantee (PBG or IG) from the IDB to support a DFNC; (ii) be eligible GEF countries and submit a LoE ahead of concurrence; (iii) have solid environmental policies in place with focus on BD; (iv) commit to achieve ambitious conservation commitments in line with the GBF and the UNCCD's LDN targets; (v) have an equitable and inclusive governance structure in place (or be willing to create one) that incorporate laws, policies, and decision-making arrangements (formal and informal) in support of IPLCs living in, or near the PA the project supports, and to ensure an independent and transparent use of conservation resources, based on international guidance; (vi) estimated financial savings generated through the DFNC must be at least 20% of the guaranteed amount at the approval stage; and (vii) 100% of the savings generated by the GEF funds and at least 50% of savings from the IDB guarantee will be channeled to conservation or restoration activities aligned with GEF policies. 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 milestones 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 address 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 reforms supported by the IDB guarantee or necessary as conditions precedent in an IG, are 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.

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 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.

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 (max. 500 words, approximately 1 page)

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 reforms - as part of the policy matrix for PBGs or required for IGs as conditions precedent to the issuance of the guarantee - 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 policy reforms included in the counter-guarantee contract.

Among the policy reforms included in the counter-guarantee contract, 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, IDB and REDLAC developed concrete plans for engagement, including capacity building for REDLAC members to bridge gaps and prepare them to be potential suitable partners in DFNC transactions. The alliance between IDB and REDLAC aims to strengthen knowledge management and best practices for CTFs in the context of DFNC transactions and increase exchange of information on DFNCs among the REDLAC network to enhance access to and knowledge on the DFNC financial mechanisms. Further details are included in the Knowledge Management Plan.

Core Indicators

Indicate expected results in each relevant indicator using methodologies indicated in the GEF-8 Results Measurement Framework Guidelines. There is no need to complete this table for climate adaptation projects financed solely through LDCF and SCCF.

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	487397	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	311847	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	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	175550	0	0

Name of the Protected Area	WDP A 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	175,550.00					

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	27918570	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	15597000	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	15,597,000.00		
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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	12321570	0	0

Name of the Protected Area	WDP A 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	12,321,570.00					

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	187500	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	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 5 Area of marine habitat under improved practices to benefit biodiversity (excluding protected areas)

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

	9,266,500.00		
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Indicator 5.1 Fisheries under third-party certification incorporating biodiversity considerations

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

Type/name of the third-party certification

Indicator 5.2 Large Marine Ecosystems with reduced pollution and hypoxia

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

LME at PIF	LME at CEO Endorsement	LME at MTR	LME at TE

Indicator 5.3 Marine OECMs supported

Name of the OECMs	WDPA-ID	Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)
			9,266,500.00		

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	271,005		
Male	155,055	273,525		
Total	310,737	544,530	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 and/or OECMs 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 number 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.

Two alternative scenarios, with 3 countries each, are considered: (i) a conservative scenario in which we expect to protect 21.5M Ha disaggregated in the following way: MPAs newly created: 12.2M Ha | Marine OECMs supported: 9.3M Ha; and (ii) an ambitious scenario in which we expect to protect/restore 37,8M 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: 12.3M Ha | Marine OECMs supported: 9.3M Ha | Restored land: 187K Ha. This is the range reported in output 1.1.3.

Because in the core indicator table it is not possible to present ranges, at PIF stage we presented the sum of the five countries considered in both scenarios. However, the team concluded that this approach is not realistic and was therefore adjusted at CEO endorsement stage. Now, in the core indicators table the ambitious scenario for 3 countries is reported.

The Conservative Scenario was revised from 15.9M Ha to 21.5M Ha because the estimations presented at PIF stage included 1,6M Ha of Terrestrial PA under improved management that are expected to be supported by Ecuador's new DFNC to protect part of the Amazon rainforest. Because this transaction has already closed, 1,6M Ha of Terrestrial PA under improved management were removed from the estimations and replaced by 7M Ha of new Marine PA in another potential beneficiary country. Moreover, at PIF stage, the hectares of one country were included in both scenarios under indicator 2.2. MPAs Under improved management effectiveness, but this area is not actually an MPA but OECMs, so 9M Ha were taken from sub-indicator 2.2 and included under sub-indicator 5.4. Marine OECMs supported.

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 restoration activities are expected, beneficiaries were estimated assuming an average of 0.5 jobs created per hectare [1]. For those countries where the site has not been determined yet and the number of Ha was estimated based on the need to reach 30% of marine space protected, it is assumed that the beneficiaries are 1/3 of those living within 10 km of the coastline. Hence, the number of beneficiaries was estimated based on world estimates showing that about 12% of the world population lives within 10 km of the coastline[2]. This approach is different from the estimation methodology presented at PIF stage, where the number of beneficiaries were estimated based on relative size of the country to Barbados; we assumed the number of beneficiaries should probably be limited to 1/10 of the population. This proportion was applicable to that specific country, while this new approach applies to any potential country that aims to protect 30% of its marine space. 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.

In the process of refining the estimation methodology for the number of beneficiaries, we identified that the coastal population of some areas was not considered in the estimation. This estimation inaccuracy was solved leading to a higher estimate of beneficiaries compared to the PIF.

In terms of reporting, one year after the DFNC contract signature between IDB and the respective country for the first sub-project, and every year thereafter until the project is closed, the IDB will submit the corresponding PIRs. Two years after the date of convertibility of the first sub-project or after the CEO concurrence of the second sub-project, whatever occurs first, the IDB will prepare its Mid-term Review. In the unlikely situation that the 3 sub-projects are developed and approved in parallel, the IDB will seek concurrence from GEFSEC to waive the Mid-term Review as the recommendations and lessons learned will not be useful to improve the design of future projects. Finally, the IDB will prepare its Terminal Evaluation two years after the date of convertibility of the third sub-project, since at this point all the funds will be executed or returned. At this stage the IDB will report the milestones achieved so far and will assess the likelihood of achieving expected targets by the end of the project.

[1] Raes, L., Mittempergher, D., Piaggio, M. and Siikamäki, J. (2021). Nature-based Recovery can create jobs, deliver growth and provide value for nature. Technical Paper No. 3, IUCN Nature-based Recovery Initiative. Gland, Switzerland: IUCN

[2] Reimann L, Vafeidis AT, Honsel LE. Population development as a driver of coastal risk: Current trends and future pathways. Cambridge Prisms: Coastal Futures. 2023;1:e14. doi:10.1017/cft.2023.3

NGI (only): Justification of Financial Structure

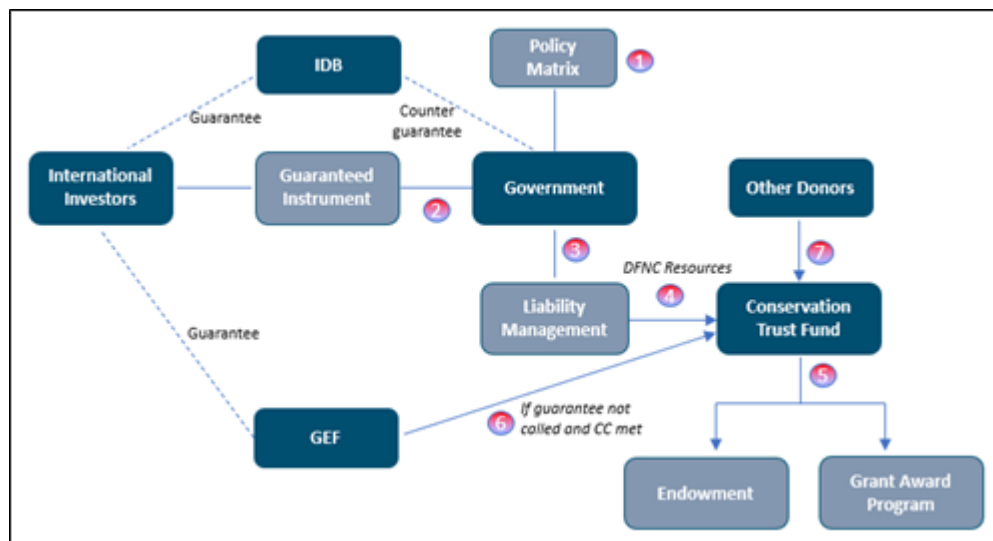
Please describe the financial structure and include a graphic representation. This description will include the financial instrument requested from the GEF and terms and conditions of the financing passed onto the Beneficiaries.

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. The GEF first-loss guarantee will be complemented by the IDB guarantee which will function as a second loss guarantee, designed to cover defaults once the GEF guarantee is exhausted. If the GEF guarantee has not been called in full and the country complies with the conservation milestones (triggers), 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 milestones.

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

Figure 3. Structure of the operation to support a DFNC



- (1) the country complies with the agreed policy reforms, either through the PBG or IG.
- (2) the IDB, the GEF and, potentially, other guarantors, provide a sovereign guarantee that contributes to reducing the cost of the guaranteed instrument issued by the Government. The IDB’s current guarantee fee is 80 basis points, which will be applied for the GEF funds for all sub-projects of this facility.
- (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) Scenario A: if there is an event of 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. Events of default are clearly described in the finance documents and might include but are not limited to: non-payment under the finance documents; and failure to retain good standing with International Monetary Fund (IMF) or IDB.

As agreed between the trustee and IDB in a letter on 'Transfer of Funds for Guarantee Projects', in the case of Guarantee Projects and in accordance with section 4.1 of the Financial Procedures Agreement between the Inter-American Development Bank (the 'IADB') and the International Bank for Reconstruction and Development as trustee of the Global Environment Facility (GEF) Trust Fund dated April 5, 2010 and its Amendment No. 1 dated May 28, 2014 (the 'GEF FPA'), the Trustee will process the Cash Transfer Request as soon as practicable but no later than ten (10) Business Days after the Trustee has confirmed the receipt of all the information required from IADB.

If the GEF guarantee has not been called in full, and once the guarantee coverage provided by the GEF is reduced to zero^[21], an independent verification agent will certify the achievement of the conservation milestones: (i) Scenario B: if conservation milestones are met on time and if the government remains in compliance with the Program agreed to with the Bank, the GEF funds convert into a performance-based grant and the IDB will disburse the GEF performance-based grant into the CTF. If convertibility occurs, the CTF will be the executing agency of the GEF performance-based grant and will allocate it, together with the savings generated through the DFNC, to conservation and restoration projects through a competitive annual grant award program. To be eligible to receive funding, project themes should be aligned with the program/CTF's strategic priority areas and GEF policies. The CTF will allocate the funds to conservation and restoration projects following its own procurement policies and regulations and international and GEF policies and standards. The schedule for disbursement of the performance-based grant into the CTF will be determined for each transaction upon achievement of conservation milestones. 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 milestones; (ii) Scenario C: If conservation milestones are not met if the government is not in compliance with the Program agreed with the Bank, 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 of 80 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 and the country complies with the conservation milestones (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 conservation milestones (triggers). If conservation milestones 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 milestones are met and the performance-based grant is disbursed into the CTF, the CTF will be the executing agency of the GEF contribution (Component 1) 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 conservation milestones 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 conservation milestones, 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 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. For the TC, IADB is requesting advanced delegation of authority from GEF.

As agreed between the trustee and IDB in a letter on 'Transfer of Funds for Guarantee Projects', in the case of Guarantee Projects and in accordance with section 4.1 of the Financial Procedures Agreement between the Inter-American Development Bank (the 'IADB') and the International Bank for Reconstruction and Development as trustee of the Global Environment Facility (GEF) Trust Fund dated April 5, 2010 and its Amendment No. 1 dated May 28, 2014 (the 'GEF FPA'), the Trustee will process the Cash Transfer Request as soon as practicable but no later than ten (10) Business Days after the Trustee has confirmed the receipt of all the information required from IADB.

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- [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.

Key Risks

	Rating	Explanation of risk and mitigation measures
CONTEXT		
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.
Environmental 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: <ul style="list-style-type: none"> • 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 in government priorities and the satisfactory fulfillment of the Policy measures. To mitigate this risk, the policy conditions included in the counter-guarantee contract and CTF establish commitments that go beyond a single legislative period, ensuring that a change in office will not affect their implementation.
INNOVATION		
Institutional and Policy	Low	Before the IDB can enter into the guarantee contract, the government needs to comply with all the policy reforms in the policy matrix in the case of PBGs and requested for an IG, in both cases included in the counter-guarantee contract as conditions precedent for the issuance of the guarantee. They are aimed at strengthening the institutional framework to improve financial and environmental sustainability and to ensure that necessary institutional framework to undertake a DFCT is in place. The policy reforms are linked to the on-going work the IDB is doing in the country, but also include forward-looking specific measures (such as the conservation commitments) that ensure long-term sustainability of the program.
Technological	Low	This project does not incorporate new technologies.

Financial and Business Model	Moderate	<p>The Facility will support an innovative blended finance solution through the use of risk mitigation instruments. Although the first DFNC was implemented in 1987, to date there are only 6 DFNC implemented with credit enhancement structures in the region. There is some criticism in the market about the costs and transparency of DFNC. There is a need to develop a harmonized understanding of the criteria to consider when assessing and implementing credit enhancement intervention in support of DFNC, to increase transparency and scale-up the interventions. In this regard and to address these concerns, the IDB is leading a Task Force on Sustainability-Linked Sovereign Financing for Nature and Climate. As part of its 2024 work program, the Task Force is developing a set of high-level voluntary principles for the deployment of credit enhancements to support sustainability-linked financing for nature and climate. Moreover, as part of the dissemination strategy of this project, three case studies will be published to illustrate how to apply the how-to guide in practice and to provide transparency to these transactions. Each case study will provide a detailed description of the debt conversion strategy, including a description of the credit enhancement structure, the terms and conditions of the new debt resulting from the credit enhancement structure, the estimated costs of the transaction, the composition, amount and price of the re-purchased debt, the savings calculations and the proportion of financial savings that will be invested in biodiversity conservation/restoration and whether an endowment will be build or not, and financial incentives to ensure timely achievement of the Conservation Commitments. Finally, savings are estimated based on prevailing market conditions at QRR stage. However, changes in financial conditions (such as an increase in interest rates) could decrease estimated savings. The team will closely monitor market conditions to ensure that the buy-back takes place when financial conditions enable savings of at least 20% of the guaranteed amount (see eligibility criterion 7).</p>
EXECUTION		
Capacity	Moderate	<p>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.</p>
Fiduciary	Low	<p>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.</p>
Stakeholder	Low	<p>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</p>

		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 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.
Overall Risk Rating	Moderate	The overall E&S risk rating is indicative of the prospective E&S impact at the sub-project level, ie. Category B or C sub-projects as per IDB's Environmental and Social Policy Framework (ESPF), and established as a threshold to exclude the financing of sub-projects that can potentially cause significant negative environmental or social impacts or have profound implications affecting natural resources (Category A).

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

Explain 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.

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.

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

Contribution: Number of hectares effectively managed, including spatial planning, as contribution to Target 1. It is expected that the project will contribute to an estimate of 487,397 ha of terrestrial protected areas and 27,918,570 ha of marine protected areas created or under improved management effectiveness, and 9,266,500 ha of area of marine habitat under improved practices to benefit biodiversity (excluding protected areas) for an estimated total of 37,672,467 ha.

Number of hectares of expanded protected areas or other effective area-based conservation measures (OECM), as contribution to Target 1.

Target 2: ensure that by 2030 at least 30% of areas of degraded terrestrial, inland water, and marine and coastal ecosystems are under effective restoration, in order to enhance biodiversity and ecosystem functions and services, ecological integrity and connectivity.

Contribution: Number of hectares effectively restored, as contribution to Target 2. It is estimated that the project will restore around 187,500 ha of land and ecosystem areas.

Target 3: ensure that by 2030 at least 30% of terrestrial, inland water, and coastal and marine areas, especially areas of particular importance for biodiversity and ecosystem functions and services, are effectively conserved and managed through ecologically representative, well-connected and equitably governed systems of protected areas and other effective area-based conservation measures, recognizing indigenous and traditional territories, where applicable, and integrated into wider landscapes, seascapes and the ocean, while ensuring that any sustainable use, where appropriate in such areas, is fully consistent with conservation outcomes, recognizing and respecting the rights of indigenous peoples and local communities, including over their traditional territories.

Contribution: Number of hectares in terrestrial, inland water, coastal, and marine areas, as contribution to Target 3. It is expected that the project will create an estimate of 311,847 ha of newly terrestrial protected areas, and 15,597,000 ha of marine protected areas, for a total of 15,908,847 ha of newly created areas.

The total area of terrestrial and marine protected areas created or under improved management is estimated around 28,405,967 ha, with 487,397 ha being terrestrial and 27,918,570 marine.

Increase in the number of terrestrial, inland water, coastal, and marine areas of particular importance for biodiversity and ecosystem function and services, through governed systems of protected areas and other effective areas, as contribution to Target 3.

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.

Amount of funds mobilized. It is estimated that the project will channel around US\$107,7 million[1], and up until an additional US\$50,7 million[2] towards conservation activities as contribution to Target 19.

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.

It is also fully aligned with the GEF-8 Biodiversity focal area goal that globally significant biodiversity is 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.

[1] Assuming the Facility generates 30% of financial savings from the DFNC

[2] As long as the guarantee is not called.

D. POLICY REQUIREMENTS

Gender Equality and Women's Empowerment

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

Yes

1) Does the project expect to include any gender-responsive-measures to address gender gaps or promote gender equality and women's empowerment?

Yes

If the project expects to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment, please indicate in which results area(s) the project is expected to contribute to gender equality:

Closing gender gaps in access to and control over natural resources;

Improving women's participation and decision-making; and/or

Yes

Generating socio-economic benefits or services for women.

2) Does the project's results framework or logical framework include gender-sensitive indicators?

Yes

Stakeholder Engagement

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

No

Due to the fact that participating countries have not been identified yet, stakeholders were not consulted during CEO Endorsement development. However, at the end of the Project Rationale Section and in Output 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.

As described under output 2.1.4, IDB will cover the Gender Analysis and Action Plan with GEF Agency fees. We reflected Gender Dimensions in outputs 2.1.2, 2.1.3 and 3.1.1. and described under output

2.1.4 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.

The country-specific Stakeholder Engagement Plan and Gender Analysis and Action Plan will be submitted to the GEF at CEO concurrence and reported on during project implementation in the PIRs, midterm and final evaluations.

Select what role civil society will play in the Project

Consulted only; No

Member of Advisory Body; Contractor;

Co-financier;

Member of project steering committee or equivalent decision-making body ;

Executor or co-executor; Yes

Other (Please explain)

Private Sector

Will there be private sector engagement in the project?

Yes

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

Yes

Environmental and Social Safeguards

We confirm that we have provided information regarding Environmental and Social risks associated with the proposed project or program, including risk screenings/ assessments and, if applicable, management plans or other measures to address identified risks and impacts (this information should be presented in Annex E).

Yes

Please provide overall Project/Program Risk Classification

Overall Project/Program Risk Classification

PIF	CEO Endorsement/Approval	MTR	TE
Medium/Moderate	Medium/Moderate		

E. OTHER REQUIREMENTS

Knowledge management

We confirm that an approach to Knowledge Management and Learning has been clearly described during Project Preparation in the Project Description and that these activities have been budgeted and an anticipated timeline for delivery of relevant outputs has been provided.

Yes

Socio-economic Benefits

We confirm that the project design has considered socio-economic benefits to be delivered by the project and these have been clearly described in the Project Description and will be monitored and reported on during project implementation (at MTR and TER).

We confirm that the project design has considered socio-economic benefits to be delivered by the project and these have been clearly described in the Project Description, at the end of Output 1.1.3. Socio-economic benefits will be monitored and reported at MTR and TER stages.

ANNEX A: FINANCING TABLES

GEF Financing Table

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)

Was a Project Preparation Grant requested?

false

PPG Amount (\$)

PPG Agency Fee (\$)

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	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

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

Confirmed Co-financing for the project, by name and type

Please include evidence for each co-financing source for this project in the tab of the portal

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

Please describe the investment mobilized portion of the co-financing

The IDB intends to contribute US\$641,280,000 in guarantees and grants, 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	Date	Project Contact Person	Phone	Email
GEF Agency Coordinator	12/18/2024	Gmelina Ramirez		gmelinar@iadb.org
Project Coordinator	12/18/2024	Joan Prats		joanp@iadb.org

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

Please attach the Operational Focal Point endorsement letter(s) with this template.

Name of GEF OFP	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

No

ANNEX C: PROJECT RESULTS FRAMEWORK

Please indicate the page number in the Project Document where the project results and M&E frameworks can be found. Please also paste below the Project Results Framework from the Agency document.

General Development Objective

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target ^[1]	Means of verification	Comments
GDO: Protect and restore biodiversity in participating LAC countries.							
Terrestrial Protected Areas (PA) Newly created	Ha	0	2024	2040	311,847	World Database on Protected Areas (WDPA)	This indicator refers to the area newly placed under legal protection

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target ^[1]	Means of verification	Comments
							status.
Terrestrial PA under improved Management effectiveness	Ha	0	2024	2040	175,550	Management Effectiveness Tracking Tool (METT) Score	This indicator refers to the number of hectares of PA whose management has been improved. Any increase in METT score will satisfy the threshold for this indicator.
Marine PA Newly created	Ha	0	2024	2040	15,597,000	World Database on Protected Areas (WDPA)	This indicator refers to the marine area newly placed under legal protection status.
Marine PA under improved management	Ha	0	2024	2040	12,321,570	METT Score	This indicator refers to the number of hectares of marine PA whose management has improved. Any increase in METT score will satisfy the threshold for this indicator.
Area of forest and forest land under restoration	Ha	0	2024	2040	187,500	Report from the Ministry of Environment (MoE)	
Other effective marine area-based conservation measures (OECMs) supported	Ha	0	2024	2040	9,266,500	WDPA	This indicator refers to the number of Ha of OECMs supported by the project. OECMs means a geographically defined area other than a Protected Area, which is governed and managed in ways that achieve positive and sustained long-term outcomes for the in-situ

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target ^[1]	Means of verification	Comments
							conservation of biodiversity, with associated ecosystem functions and services.
Number of beneficiaries	#	0	2024	2040	544,530	Report from the MoE	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, the number of beneficiaries was estimated based on world estimates showing that about 12% of the world population lives within 10 km of the coastline ^[2] .
Number of female beneficiaries	#	0	2024	2040	688,419	Report from the MoE	The number of female beneficiaries was estimated assuming that the proportion of

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target ^[1]	Means of verification	Comments
							male/female population in the corresponding area is equal to the national ratio using the World Bank's database

[1] These are the expected results under an ambitious scenario. In the GEF documentation, an alternative conservative scenario is also considered.

[2] [Reimann, L. et al \(2023\)](#).

Specific Development Objectives

Indicators	Unit of measurement	Baseline value	Baseline year	End of Project	Means of verification	Comments
SDO #1: Ensure long-term financing for biodiversity conservation and restoration activities						
Resources mobilized to the selected governance structure.	Millions of USD	0	2024	111	Governance structure financial statements	This indicator will measure the cumulative funds mobilized to the three selected governance structures. It is estimated that at least US\$1.6 million will be mobilized annually to each governance structure over a 15-year period plus a US\$13 million disbursement if Conservation Commitments (CC) are met on time.
SDO #2: strengthen environmental governance conservation management, sustainability and biodiversity protection.						
% score with respect to the applicable Practice Standards for Conservation Trust Funds (CTF) in each core area	%	0	2024	80%	Letter from the MoE approving the results of the Self Assessment Tool for CTFs to evaluate the compliance with the 2020 Practice Standards for CTFs.	It is expected that the program will strengthen the institutional framework for sustainable finance and natural resources management. In particular, the program will contribute to the establishment or strengthening of one CTF per participating country and will ensure that each of them complies with the Practice Standards for CTFs . Applicable standards vary according to the stage of development of the CTF (i.e., start-up, operational,

Indicators	Unit of measurement	Baseline value	Baseline year	End of Project	Means of verification	Comments
						etc). Because it is expected that in most countries a new CTF will be established, the baseline is set as 0%. The target is set as a minimum score of 80% with respect to the applicable standards in each of the core areas.
Institutional Capacities of Debt Management Offices (DMO) Score.	Score number	20.9	2020	27.3	IDB Survey: Institutional Capacities of DMO Score	It is expected that the program will improve the Institutional Capacities of the DMOs in the participating countries. The target is established based on the assumption that medium and high priority reforms are implemented.

Outputs

Indicators	Unit of measurement	Baseline value	Baseline year	End of Project	Means of verification	Comments
Component 1: Innovative use of financial instruments to ensure long-term financing for biodiversity conservation and restoration activities.						
Sustainability-linked bond/loan (SLB/SLL) issued.	SLB/SLL (#)	0	2024	3	Loan/Bond documentation.	One SLB/SLL issued in each participating country.
DFNC transaction implemented.	Transaction (#)	0	2024	3	Government's offer to purchase outstanding debt, and final results of the auction.	
Component 2: Enabling environment for a successful use of conservation resources and implementation of conservation commitments.						
CC document approved, including a policy coherence analysis and roadmap for implementation.	CC documents (#)	0	2024	3	Official communication from the MoE confirming approval by Cabinet of the CC	One CC document approved in each participating country.
Stakeholder Engagement Plan (SEP) approved.	Plans (#)	0	2024	3	Official communication from the MoE confirming approval of the SEP.	One SEP approved per country.
Stakeholder Advisory Committee (SAC) established.	SAC (#)	0	2024	3	Official communication from the MoE confirming the establishment of the SAC.	One SAC established in each participating country.
CTFs established or strengthened.	CTFs (#)	0	2024	3	Official communication from the MoE confirming non-objection of the CTF's bylaws (for new CTFs) or approval of the gap analysis and roadmap	One CTF established or strengthened in each participating country.

Indicators	Unit of measurement	Baseline value	Baseline year	End of Project	Means of verification	Comments
					report (for existing CTFs).	
Institutional capacity of RedLAC's members enhanced.	Number of RedLAC's members with improved Practice Standards Scores (#).	0	2024	10	Communication from RedLAC reporting for each CTF the baseline and final scores after implementation of the recommendations derived from the self-assessment evaluations.	
Gender Action Plan approved.	Plans (#)	0	2024	3	Official communication from the MoE confirming approval of the Gender Action Plan.	One Gender Action Plan approved per country.
Diagnostic and roadmap for institutional strengthening of the DMO completed.	Diagnostics (#)	0	2024	3	Official communication from the MoF confirming approval of the institutional strategy and roadmap to strengthen the DMO.	One diagnostic and roadmap for institutional strengthening of the DMO completed per country.
DFNC Strategy approved.	Strategies (#)	0	2024	3	Official communication from the MoF confirming approval of the DFNC Strategy.	One DFNC Strategy approved per country.
SLB/SLL Framework approved.	Frameworks (#)	0	2024	3	Official communication from the MoF confirming approval of the SLB/SLL Framework.	One SLB/SLL Framework approved per country.
Component 3: Knowledge generated by the project is disseminated and the likelihood of replication and scale-up increases						
Training workshops for government officials implemented.	Workshops (#)	0	2024	3	Course curricula content and list of attendees.	One training for government officials (MoF and MoE) implemented per country.
DFNC manual published	Manuals (#)	0	2024	1	Link to the webpage where the how-to guide will be published	
Case studies published.	Studies (#)	0	2024	3	Link to the webpage where the case studies will be published.	One case study published per country
Workshop for relevant stakeholders on DFNC implementation delivered.	Workshops (#)	0	2024	1	Agenda and list of attendees.	
MRV system developed.	MRV system (#)	0	2024	1	Link to the webpage where the MRV system will be published.	

Indicators	Unit of measurement	Baseline value	Baseline year	End of Project	Means of verification	Comments
4. Monitoring and Evaluation (M&E)						
Project Implementation Reports (PIRs) conducted	Evaluation (#)	0	2024	19[1]	PIRs submitted to the GEF	
Mid-term review conducted	Evaluation (#)	0	2024	1	Mid-term review submitted to the GEF	
Terminal evaluation conducted	Evaluation (#)	0	2024	1	Terminal evaluation submitted to the GEF	

[1] The IDB will submit the corresponding PIRs one year after the DFNC contract signature between IDB and the respective country for the first sub-project, and every year thereafter until the project is closed. The number of PIRs will depend on date of signature of the first PBG contract and on the date of the Terminal Evaluation. The target number of PIRs reported in the Results Matrix is estimated assuming that the first DFNC contract is signed immediately after the IDB approval of the Facility and that the Terminal Evaluation happens in year 20.

ANNEX D: STATUS OF UTILIZATION OF PROJECT PREPARATION GRANT (PPG)

Provide detailed funding amount of the PPG activities financing status in the table below:

Project Preparation Activities Implemented	GETF/LDCF/SCCF Amount (\$)		
	Budgeted Amount	Amount Spent To date	Amount Committed
Total	0.00	0.00	0.00

ANNEX E: PROJECT MAP AND COORDINATES

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

Please provide any further geo-referenced information and map where project interventions are taking place as appropriate.

Multiple countries in Latin America and the Caribbean.

ANNEX F: ENVIRONMENTAL AND SOCIAL SAFEGUARDS SCREEN AND RATING

Attach agency safeguard datasheet/assessment report(s), including ratings of risk types and overall project/program risk classification as well as any management plans or measures to address identified risks and impacts (as applicable).

Title

FD - Annex II - ESG Filter - ESPF - RG-O1712

ANNEX G: BUDGET TABLE

Please upload the budget table here.

Expenditure Category	Detailed Description	Component (USDeq.)							Total (USDeq.)	Responsible Entity [Executing Entity receiving funds from the GEF Agency] ^[1]
		Component 1	Component 2		Component 3	Sub-Total	M&E	PMC		Responsible Entity
		Outcome 1.1. Long-term financing available for restoration and/or PA creation and/or effective management	Outcome 2.1. Environmental governance strengthened for conservation management, sustainability and biodiversity protection.	Outcome 2.2. Debt management institutional framework and capacities improved.	Outcome 3.1. Knowledge generated by the project is disseminated, increasing the replication and scale-up.					
Works										
Goods										
Vehicles										
Grants/ Sub-grants										
Revolving funds/ Seed funds / Equity	Initially, the GEF risk-mitigation instrument will be used as a first-loss guarantee to cover default of payment of interest/principal of the guaranteed instrument to support a debt for nature conversion. 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 executed by the CTF.	39,000,000				39,000,000			39,000,000	IADB / selected CTF
Sub-contract to executing partner/ entity										
Contractual Services – Individual										
Contractual Services – Company	Develop a robust MRV system to track progress against policy triggers and conservation commitments				500,000	500,000			500,000	IADB
International Consultants	<ul style="list-style-type: none"> • Technical assistance to support the establishment or strengthening of a CTF. • Mid-term review and Terminal evaluation 		500,000			500,000	180,000		680,000	IADB
Local Consultants										
Salary and benefits / Staff costs										
Trainings, Workshops, Meetings										
Travel										
Office Supplies										
Other Operating Costs										
Grand Total		39,000,000	500,000		500,000	40,000,000	180,000		40,180,000	

Please explain any aspects of the budget as needed here

Expenditure Category	Detailed Description	Component (USD eq.)							Total (USD eq.)	Responsible Entity (Executing Entity receiving funds from the GEF Agency)[1] Responsible Entity
		Component 1	Component 2		Component 3	Sub-Total	M&E	PMC		
		Outcome 1.1. Long-term financing available for restoration and/or PA creation and/or effective management	Outcome 2.1. Environmental governance strengthened for conservation management, sustainability and biodiversity protection.	Outcome 2.2. Debt management institutional framework and capacities improved.	Outcome 3.1. Knowledge generated by the project is disseminated, increasing the replication and scale-up.					
Works										
Goods										
Vehicles										
Grants/ Sub-grants										
Revolving funds/ Seed funds / Equity	Initially, the GEF risk-mitigation instrument will be used as a first-loss guarantee to cover default of payment of interest/principal of the guaranteed instrument to support a debt for nature conversion. 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 executed by the CTF.	39,000,000				39,000,000			39,000,000	IADB /selected CTF
Sub-contract to executing partner/ entity										
Contractual Services – Individual										
Contractual Services – Company	Develop a robust MRV system to track progress against policy triggers and conservation commitments				500,000	500,000			500,000	IADB
International Consultants	<ul style="list-style-type: none"> • Technical assistance to support the establishment or strengthening of a CTF. • Mid-term review and Terminal evaluation 		500,000			500,000	180,000		680,000	IADB
Local Consultants										
Salary and benefits/ Staff costs										
Trainings, Workshops, Meetings										
Travel										
Office Supplies										
Other Operating Costs										
Grand Total		39,000,000	500,000		500,000	40,000,000	180,000		40,180,000	

ANNEX H: NGI RELEVANT ANNEXES

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

ANNEX H.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
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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	<ol style="list-style-type: none"> 1. request a guarantee (PBG or IG) from the IDB to support a DFNC. 2. be eligible GEF countries and submit a LoE ahead of the CEO concurrence. 3. have solid environmental policies in place. 4. commit to achieve ambitious conservation commitments. 5. have an equitable and inclusive governance structure in place (or be willing to create one) that incorporate laws, policies, and decision-making arrangements (formal and informal) in support of IPLCs living in, or near the PA the project supports, and to ensure an independent and transparent use of conservation resources, based on international guidance. 6. Estimated financial savings generated through the DFNC must be at least 20% of the guaranteed amount at QRR stage. 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 aligned with GEF policies.
GEF Agency presenting the Project	Inter-American Development Bank (IDB)
Project Financing	<p>A. IDB: U\$D640 million (guarantee) + US\$1,28 million (grant)</p> <p>B. GEF non-grant: USD39 million (convertible risk-mitigation instrument: guarantee - performance based grant)</p> <p>C. GEF grant: USD1,18 million</p> <p>Total Project Financing: USD681,46 million</p>
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.

<p>Financing requested from the GEFTF in the form of Grant for Technical Assistance</p>	<p>USD 1,1 million</p>
<p>Terms and conditions for the financing instruments from GEF</p>	<p>(a) <u>Type of instrument before convertibility event</u>: first loss Guarantee; IDB guarantee (PBG or IG) would be in that respect 'senior' to GEF funding during the life of GEF guarantee before Convertibility Event. Events of default are clearly described in the finance documents and might include but are not limited to: non-payment under the finance documents; or failure to retain good standing with International Monetary Fund (IMF) or IDB.</p> <p>As agreed between the trustee and IDB in a letter on 'Transfer of Funds for Guarantee Projects', in the case of Guarantee Projects and in accordance with section 4.1 of the Financial Procedures Agreement between the Inter-American Development Bank (the 'IADB') and the International Bank for Reconstruction and Development as trustee of the Global Environment Facility (GEF) Trust Fund dated April 5, 2010 and its Amendment No. 1 dated May 28, 2014 (the 'GEF FPA'), the Trustee will process the Cash Transfer Request as soon as practicable but no later than ten (10) Business Days after the Trustee has confirmed the receipt of all the information required from IADB.</p> <p>(b) <u>Conditions precedent to the issuance of the guarantee</u>: (a) the government shall have complied with all the policy reforms agreed upon with the IDB included in the policy matrix for PBGs or requested for IGs (b) the IDB satisfied with the structuring of the Guaranteed Instrument and is in agreement with the terms and conditions of both the Guaranteed Instrument and the Guarantee Contract.</p> <p>(c) <u>Return of the of GEF Financing before Convertibility Event</u>: 80 basis points per annum as premium for the GEF Guarantee on the covered amount</p> <p>(d) <u>Convertibility Event</u>: when at the Date of Convertibility (as defined below), the guarantee has not been called in full, the government remains in compliance with the Program agreed with the Bank and all Conservation Milestones (Triggers) agreed with the GEF have been met.</p> <p>(e) <u>Expected Date of Convertibility</u>: 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.</p> <p>(f) <u>Conservation Milestones (Triggers)</u>: 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 all Conservation Milestones agreed with the GEF 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).</p> <p>(e) <u>New type of instrument after Convertibility Event</u>: performance-based grant</p> <p>(f) <u>Return of the instrument if Convertibility Event occurs</u>: no return</p> <p>(g) <u>Repayment Event</u>: 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</p>

(g) Maturity Date: 20 years from CEO endorsement. All remaining funds of performance-based grants that are not disbursed due to no-achievement of Conservation Commitments will be returned to the GEFTF.

ANNEX H.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	July 2025

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	December 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.	1,560,000
Total reflows to the GEF Trust Fund (Sum A + B) in whole USD	1,560,000

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	July 2025
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	December 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.	1,560,000
Total reflows to the GEF Trust Fund (Sum A + B) in whole USD	40,560,000

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	July 2025
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	December 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.	1,560,000
Total reflows to the GEF Trust Fund (Sum A + B) in whole USD	16,560,000

ANNEX H.3: GEF Agency Eligibility to Administer Concessional Finance

Instructions. 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 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 Ecuador. 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 H.4: Management Capacity of Executing Agency and Governance Structure

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

Not applicable

ANNEX I: RESPONSES TO PROJECT REVIEWS

From GEF Secretariat and GEF Agencies, and Responses to Comments from Council at work program inclusion and the Convention Secretariat and STAP at PIF.

STAP Comment	IDB Answer	GEFSec Comment	IDB Answer
1. STAP understands the project will support countries to generate biodiversity conservation outcomes aligned with the Global Biodiversity Framework's (GBF) targets 1, 2, 3, and 19. The project objective (page 20), and GBF target 3, states a reliance on protected	Thank you for the suggestion. The document was revised to reflect that both PA and OECMs will be supported by the project. Moreover, the indicator "marine OECMs	Cleared	Thank you.

<p>areas and OECMs for managing and conserving biodiversity. STAP recommends rephrasing sections of the proposal to consistently reflect that both conservation approaches are an option.</p>	<p>supported” was included in the core indicators table.</p>		
<p>2. The Facility’s criteria for selecting countries are a critical opportunity to help countries design projects that deliver GEB outcomes. Thus, STAP recommends amending the criteria as follows:</p>			
<p>2.1. STAP is pleased the Facility’s selection criteria includes demonstrating evidence for an enabling environment, under criterion 4. That is, requesting countries to demonstrate commitments to its National Development Plans; the CBD (National Biodiversity Strategies and Action Plans (NBSAPs)), and/or the UNFCCC (Nationally Determined Contributions). In addition to these efforts, STAP recommends encouraging countries to demonstrate a commitment to UNCCD’s Land Degradation Neutrality (LDN) targets because: i) LDN can reinforce countries’ efforts to reduce land use change by avoiding degradation of new areas while rehabilitating, or restoring, land that is already degraded; ii) efforts are being planned to integrate countries’ reporting on NBSAPs with LDN targets in 2024, which ought to further strengthen countries’ enabling environment for biodiversity conservation; and, iii) LDN can complement this project’s efforts on territorial land use planning, as integrated land use planning is a central feature of LDN and valuable for assessing and managing trade-offs that can lead to negative spillovers.</p>	<p>The IDB agrees with the importance of committing to UNCCD’s LDN.</p> <p>Criterion 4 refers to national policies while criterion 5 refers to the ambitious of the commitments supported by the DFNC and their alignment with national policies and international commitments. We have modified criterion 5 to reflect that the commitments need to be aligned with the GBF and the UNCCD’s LDN.</p>	<p>Cleared</p>	<p>Thank you.</p>
<p>2.2. As part of criterion 4, STAP recommends conducting an analysis of policies and regulations that affect biodiversity conservation, which could be an explicit part of IDB’s PBG requirements/technical assistance. Policy misalignment, or perverse incentives, can be responsible for land use change that leads to biodiversity loss. Screening for this misalignment at the subnational, national, and global level (in the case of global commodities, such as beef, soy, cacao, or fisheries) is necessary, therefore, so as not to undermine the impact of blended finance on GEBs. STAP developed advice on policy coherence which can be useful in implementing a policy analysis: https://stapgef.org/resources/advisory-documents/policy-coherence-gef https://stapgef.org/resources/policy-briefs/framing-policy-coherence-gef</p>	<p>A policy coherence analysis and roadmap for improvement to ensure that GEBs created by the project are not undermined is included as a output 2.1.4 under Component 2 and will be included in the IDB Policy Matrix. All policy conditions included in the Policy Matrix need to be fulfilled before the issuance of the IDB guarantee.</p>	<p>This comment is cleared. However, this conn is not reflected in the Term Sheet: “All policy conditions included in the Policy Matrix need to be fulfilled before the issuance of the IDB guarantee.” Please reflect in the term sheet that this is the condition for the issuance of IDB and GEF guarantee.</p>	<p>The conditions precedent for the issuance of the guarantee were added in the termsheet.</p>

<p>2.3. STAP is pleased the CTFs will be assessed using international standards, such as the “Practice Standards for Conservation Trust Funds” (output 2.1.3). To support this project commitment, STAP recommends emphasizing in criterion 8 that it will be necessary for projects to demonstrate equitable, and inclusive, governance structures that incorporate laws, policies, and decision-making arrangements (formal and informal) in support of Indigenous Peoples and Local Communities (IPLCs) living in, or near the protected area the CTF supports. Currently, the criterion is predominantly focused on the financial management system and less on a governance structure that articulates explicitly key actors’ involvement in the co-design, co-implementation, and co-monitoring and evaluation of the CTF. Engaging IPLCs meaningfully throughout the CTF’s governance can result in more durable outcomes. Additionally, because of the importance of governance to enduring GEBs, as well as financial and social benefits, STAP highly encourages for criterion 8 not to be listed last.</p>	<p>Thank you for the suggestions. Criterion 8 was moved to criterion 6, after the commitments, and the need to demonstrate equitable and inclusive governance structures was emphasized. Moreover, the IDB team met with RedLAC and it was agreed that a TC to strengthen RedLAC and its members’ institutional capacity will be approved. More details of the expected outputs are included in the CEO Endorsement document.</p>	<p>Comment is addressed. Please refer to the numbering error in the institutional arrangement section.</p>	<p>Thank you for noticing it. The numbering error was corrected.</p>
<p>3. Because countries have an enormous potential and responsibility to generate GEBs through the CTFs and DFNCs, STAP recommends that countries should be required to include a theory of change and a monitoring and learning plan in their proposals. The purpose is to articulate more precisely, than this overarching project, the logic and learning that should underpin each individual country project. Thus, STAP recommends each proposal articulates the following aspects as part of their theory of change, and learning plan (related to issue v):</p> <p>drivers of change, and the context, influencing biodiversity loss;</p> <p>social structures such as *gender, cultural values and norms that characterize the social-ecological system; (*Gender plans are currently envisioned for each country as part of component 2. In addition to these efforts, STAP strongly recommends that gender be embedded throughout the logic of each country’s proposal.)</p> <p>impact pathways for component 2, which focuses on setting up (if not already in place) and managing the CTF, as well as implementing the country’s DFNC strategy. The development of the impact pathways ought to demonstrate they are based on</p>	<p>It was clarified in the Project Description Section that when seeking concurrence of the CEO for each underlying project, a country-specific theory of change aligned with the Facility’s theory of change will be provided.</p>	<p>Comment is addressed</p>	<p>Thank you.</p>

<p>stakeholder engagement that is inclusive of effective and equitable governance.</p> <p>risks and assumptions along the impact pathways, particularly those that undermine achieving key outcomes. In the case of risks, activities are structured to address resilient outcomes and are informed by simple future narratives. In the case of assumptions, these are formulated as learning questions that will be answered/tested and generate knowledge and learning about the impact of blended finance on biodiversity outcomes in the country, linking this learning to the project's component 3; and,</p> <p>monitoring and learning plans based on adaptive governance, which track progress towards equitable and effective biodiversity outcomes, and linking the results to component 3 of this project.</p>			
<p>4. STAP recommends identifying one, or two, questions based on the key assumptions, that characterize the project logic, and its additionality. For example, these questions/assumptions could be formulated based on this statement that forms part of the additionality: "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)." The questions should be overarching of, and linked to, the assumptions identified in the country proposals.</p>	<p>Four assumptions were included in the ToC diagram.</p>	<p>The 4 questions are indeed Provided in CER and linked to each barrier.</p>	<p>Thank you.</p>
<p>5. STAP notes that the theory of change provided at p.22 is weak at indicating the important impact pathway linkages amongst elements through to delivering GEBs, and at identifying critical assumptions, as noted above. The accompanying text makes it clear that the logical linkages have been mostly thought about well, but STAP would encourage the project to develop a more informative diagram to help communicate the project to changing staff, among other valuable uses which a theory of change presents. In addition, theory of changes for each CTF's specific activities will be essential, as noted above.</p>	<p>The ToC was adjusted and now includes critical assumptions and highlights the impact pathway linkages amongst the different elements.</p>	<p>The comment is cleared in a way that the impact pathways are cleared in CER than PIF with the use of arrows.</p>	<p>Thank you.</p>
<p>6. The text on p.24 notes that the Facility's main aim is to "improve management effectiveness and PA expansion with the final goal of preserving species and</p>	<p>It is not possible to include impact indicators at this stage because countries have not been identified.</p>	<p>Please address: the description of Output 4.1.3. does not have this description: "IDB will</p>	<p>Output 4.1.3 states that the TE will have two primary purposes: "(i) to report the milestones achieved so far and</p>

<p>safeguarding ES” – this is good, but it would be also good to commit to some monitoring of these final goals to ensure that the more proximate actions do lead to these results. This is likely to be different from the GEF GEB core indicators, but necessary for convincing other players to take up this model.</p>	<p>However, it was clarified in Output 4.1.3 (Terminal Evaluation) that the IDB will make its best effort in including indicators to assess the impact on biodiversity preservation and provision of ecosystem services.</p>	<p>make its best effort in including indicators to assess the impact on biodiversity preservation</p> <p>and provision of ecosystem services.”</p>	<p>assess the likelihood of achieving expected targets by the end of the project and, whenever possible, indicators to assess the impact on biodiversity preservation and provision of ecosystem services”. Can you please indicate if additional language needs to be included in Output 4.1.3?</p>
<p>7. Component 3 has commendable intentions, but could be a bit deeper, depending on publications and one workshop – it would help to consider a little more deeply what would motivate both investors and other organizers of such blended finance arrangements into scaling this example – maybe some more proactive engagement during the Facility’s lifetime, or other. At present, it is “push-communications” (project sends, or pushes, information to stakeholders), rather than developing “pull-communications” (dedicated resource of information, like a website, where stakeholders can search for information they are looking for).</p>	<p>The objective of the MRV system is to have publicly available information so that countries, investors, GEF, and others can track implementation of the projects. The MRV system will be available on the IDB website, together with the step-by-step guide on how to implement DFNCs and the case studies. Please see the M&E Plan for further details.</p>	<p>Partially addressed. The component 3.1.5 talks about the MRV system. The section says</p> <p>“countries’ can track implementation”. However, it is not clear if this is publicly available and how this will be utilized for pull communication. M&E plan does not have reference on point. Please review.</p>	<p>The MRV system will be publicly available, and this is clearly stated in Output 3.1.5:</p> <ul style="list-style-type: none"> • 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 (...). • 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. <p>A reference to the MRV system was included in the M&E plan.</p>
<p>8. Whilst appreciating the exploration of an innovative design, it did strike STAP as odd, or confusing, that in the first phase of the project the GEF might find its funding deployed to cover defaults on a country’s ‘guaranteed instrument’ that possibly might not have anything to do with environmental outcomes (for all that the benefits of reducing debt are then ploughed into conservation); this concern is somewhat mitigated by IADB’s assertion (p.44) that “no country has ever defaulted on IADB/called an IADB guarantee” (though this might raise the issue in turn of why these instruments require a publicly-funded guarantee if they are reliable). It would help to clarify if this view is erroneous.</p>	<p>Initially the GEF contribution will be used as a first-loss guarantee to increase the savings from the debt-for-nature conversion (DFNC). Those savings will be invested in conservation activities. In the very unlikely event in which the guarantee is called, the GEF resources will be used to pay the lenders/bondholders, so the only resources for conservation will be the savings generated through the DFNC that was enabled by the IDB and GEF guarantees. The most likely scenario is that in which the guarantee is not called; if this is the case and the country fulfills the conservation commitments, on top of the savings from the DFNC the country receives the performance-based grant.</p>	<p>Addressed. The concern of the STAP is addressed given this is the Policy Based Guarantee and the countries will agree on Policy Reforms/Policy Matrix.</p>	<p>Thank you.</p>

Council Comment

IDB Answer

Comments by Lauren Gisnås, Senior Adviser, NORAD Department for Climate and Environment Section for Nature and Climate, NORWAY, Council, made on 2/9/2024

1. Although there is big potential in this project in terms of finance for nature, there are weaknesses/criticism that has been raised against “Debt for Nature Swaps”. The criticism involves for example the lack of transparency when the deals are

As part of the knowledge activities, the project will implement capacity building training for government officials from the Ministry of

<p>negotiated/finalized, and that the government of the country involved does not have the competence needed to negotiate the deals in the most favorable way for the country.</p>	<p>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. A step-by-step guide on DFNCs will be developed and published, which will include all parts and steps of a DFNC. This intends to increase capacity and competencies needed of government officials to negotiate these transactions. The guide will be complemented by a case study published per country, that not only will illustrate how to apply the guide in practice, but it will also provide transparency to the transactions. Each case study will provide a detailed description of the debt conversion strategy, including a description of the credit enhancement structure, the terms and conditions of the new debt resulting from the credit enhancement structure, the estimated costs of the transaction, the composition, amount and price of the re-purchased debt, the savings calculations and the proportion of financial savings that will be invested in biodiversity conservation/restoration and whether an endowment will be build or not, and financial incentives to ensure timely achievement of the conservation commitments. In addition, a workshop on DFNCs will be held.</p>
<p>2. How is transparency being promoted in this project?</p>	<p>As described in the answer to the first comment, a case study per operation will be published and will provide a detailed description of the DFNC.</p> <p>Moreover, stakeholder consultations with a variety of different stakeholder groups will be conducted early on, in the eligibility phase of the project, for each country to ensure an inclusive process and promote transparency. A detailed stakeholder engagement plan including a summary of undertaken consultations and results will be available at Quality and Risk Review stage of the project and will be included in the Concurrence package to GEF SEC. CTFs will publish their governance and results documents.</p>
<p>3. How will the project strengthen the governments competencies in this area to make sure the deals are negotiated on the most equal terms (as this is not part of the eligibility/selection criteria)?</p>	<p>As described in the answer to the first comment, there will be a series of knowledge and capacity building activities implemented alongside the DFNCs to build capacities of governments on negotiating, designing and implementing those transactions.</p> <p>Moreover, as described in Output 2.2.1., as part of this transaction a diagnostic of the Debt Management Office will be completed in each country and high priority reforms will be included as a policy condition in the IDB Policy Matrix. Policy conditions need to be fulfilled before the issuance of the guarantee.</p>
<p>Efficiency: Another critic against these Debt for Nature is that it is not always the most efficient forms of support for conservation. How shall efficiency be analyzed prior to implementation? This question is also linked to the National Biodiversity Finance Plans that several countries have developed and/or will be developed.</p>	<p>As shown by Chamon, M. et al (2022)^[1], although countries might be better off with concessional climate finance, deep debt relief, or some combination of both, these alternatives might not be available. Moreover, they show that debt-climate swaps could make economic sense when (1) climate adaptation is efficient; and (2)</p>

	<p>fiscal risks are high, but debt is not necessarily unsustainable.</p> <p>IDB assess financial and economic benefits and costs of the DFNC to find the optimal combination and proportion of credit enhancement mechanisms and other structural elements. Moreover, commitments are costed, and the ambition adjusted based on expected financial resources from the DFNC. Whenever available, costing should be in line with the country's Biodiversity Finance Plan (BFP).</p> <p>BFPs assess the feasibility of all proposed finance solutions and include validation of the financial mechanisms by multiple counterparts in the country, including Ministries of Finance, Environment, Agriculture, etc, as well as development banks, private sector, central banks, etc.</p> <p>The type, the scale and the long-term nature of the financing required, make debt for nature conversions especially suited vis a vis other mechanism such as grants or regular loans.</p> <p>Moreover, projects need to achieve a minimum of savings (at least 20% of the guaranteed amount – see eligibility criterion 7) to ensure that the transaction is cost-effective.</p>
<p>4. Monitoring, Evaluation and Learning: Component 3 of the Program (Knowledge component) is important given that we need more information about these kinds of instruments and its financial and environmental performance. Further, linked to previous comments, it is critical that there is an external evaluation looking also at the debated elements of Debt for Nature Swap of relevance for this project to gain more knowledge.</p>	<p>Thank you for your comment. The knowledge management activities of this project will ensure publicly available information and capacity building on DFNC transactions and external evaluations commissioned as part of the GEF monitoring and reporting requirements will ensure that important learnings and lessons will be used for the design of new DFNC operations and promote transparency. A publicly available monitoring, reporting and verification system will be developed to track progress against policy triggers and conservation commitments across the full IDB DFNC portfolio, thereby increasing transparency of DFNCs and providing standardized and benchmarkable indicators.</p>
<p>Comments by Eli Binder, Advisor to the U.S. GEF Council Member, Office of Climate and Environment International Affairs, U.S. Department of the Treasury, UNITED STATES, Council, made on 2/9/2024</p>	
<p>5. All biodiversity is important for nature conservation. There is not an internationally recognized definition for megadiversity and thus it should not be included as a rational for receiving GEF funding</p>	<p>Reference to megadiverse countries was deleted.</p>

[1] Chamon, Marcos, Erik Klok, Vimal Thakoor, and Jeromin Zettelmeyer. 2022. "Debt-for-Climate Swaps: Analysis, Design, and Implementation." IMF Working Paper 2022/162, International Monetary Fund, Washington, DC.