OUTCOME-BASED CONCESSIONAL BLENDED FINANCE FOR SUSTAINABLE FINANCING:

Key Lessons and Insights from Latin America

// November 2024

Thematic Analysis

Case Study

TOPICS

- Blended finance
- Technical assistance
- Sustainability-linked finance

This report is based on research from March 2023 to March 2024. More recent data may have become available since the study was completed.

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www.climateinvestmentfunds.org

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EXECUTIVE SUMMARY

The banking and finance sectors are critical components of the global system, and their evolution plays a pivotal role in driving broader systemic advancements. The UN has estimated the annual financing gap to reach the 2030 Sustainable Development Goals (SDGs)—referred to as the sustainable finance[1] gap—at about $4 trillion. Remarkably, bridging this gap would require less than 1 percent of total global finance.[2] Proper finance structures have the potential to incentivize climate action and promote the integration of gender, diversity, and inclusion (GDI) into institutions' operations and policies.

The Climate Investment Funds Technical Assistance Facility (CIF-TAF), as a learning hub and knowledge platform, is leveraging its partnership with IDB Invest to explore the key components of blended finance transactions that can enhance climate action and sustainable practices in financial institutions (FIs) with a view to bridging the sustainable finance gap.

This study looks at the structuring of outcome-based concessional blended finance, supported by Technical Assistance (TA), for enabling the sustainable transformation of FIs. It draws on two case studies of Latin-American FIs: Sicredi's blended financing for small-scale distributed solar generation in Brazil and Produbanco's thematic bond for green lending activities with decarbonization goals. In addition, it uses a framework specifically developed for this study to analyze what factors are at play in the transition of FIs to sustainability.

The Sicredi and Produbanco cases illustrate the evolution of blended financial transactions—from traditional debt structures to more sophisticated mechanisms such as outcome-based incentives and innovative sustainable bonds featuring a bullet payment structure[3] and surcharges for unmet outcomes. Sicredi exemplifies blended finance tied to green portfolio and GDI outcomes. Produbanco's case shows the use of a sustainability bond with a bullet payment as well as a third-party guarantee with decarbonization and climate disclosure and reporting outcomes.

Key Insights and Learnings

The analysis of Sicredi and Produbanco using the framework for sustainable transition of FIs, followed by an introspective comparison, yielded the following insights in structuring blended finance transactions:

- **Link concessional blended finance to outcomes to enhance FI alignment and compliance with international standards, which can further leverage sustainable finance.** Corporate outcomes agreed as part of a transaction can support the alignment with international standards or sustainable finance initiatives, thus contributing to the mobilization of sustainable funds. FIs that comply with such standards build trust with investors, thereby facilitating access to funds targeted for closing the sustainable finance gap.
- **Reward the achievement of outcomes with a below-market interest rate or other cost-saving loan component, which incentivizes an FI's engagement.** The key element of outcome-based concessional finance often is the conditional character of the discounted interest rate.
- **Assess outcomes at the end of the maturity period, which allows for ambitious goals with extended time frames.** Concessional finance that includes deferred payments offers additional flexibility to the borrowing FI. It also enables the FI to implement the complex, structural changes that are often necessary at the organizational level to achieve certain milestones.
- **Align TA to enable the achievement of outcomes, which enhances an FI's capacity and reduces transition costs.** This alignment ensures that the support provided addresses the unique challenges faced by each FI, thereby enhancing their capacity to integrate climate action and GDI into their longer-term plans, operations, and policies.
- **Ensure outcomes are ambitious but also attainable, which fosters engagement among FIs.** Understanding the maturity level of a particular FI and its operating market is crucial for the success of outcome-based concessional blended finance. Defining outcomes that consider a given FI's maturity level ensures that the changes made are embedded in the existing structure and that any changes needed in new or nonstandard practice areas are feasible and set in motion.

The design of outcome-based blended finance transactions continues to evolve. The findings presented in this study serve as foundational steps and contribute to the ongoing efforts to promote sustainable practices within the banking sector and beyond. Continuous innovation, adaptive strategies, and collaboration among various stakeholders are essential to enhance the effectiveness of this type of sustainable finance. These insights should be used alongside other findings and experiences to advance a sustainable financial system.

DETAILS OF PROJECT PARTNERS

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LIST OF ABBREVIATIONS

BRL	Brazilian reals
C2F	Canadian Funds for the Americas
CBI	Climate Bond Initiative
CIF	Climate Investment Funds
CIF-TAF	CIF Technical Assistance Facility
CO_2-eq	Carbon dioxide equivalent
COP	Conference of the Parties
CSR	Corporate social responsibility
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFI	Development financial institution
EE	Energy Efficiency
EIB	European Investment Bank
ESMS	Environmental and social management system
FEBRABAN	Federation of Brazilian Banks
FI	Financial institution
GABV	Global Alliance for Banking on Values
GBP	Green Bond Principles
GDI	Gender, diversity, and inclusion
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse gas
GLP	Green Loan Principles
GRI	Global Reporting Initiative
HR	Human resources
IDB	Inter-American Development Bank
IDB Invest	Private sector arm of the IDB Group
IEA	International Energy Agency
IFC	International Finance Corporation
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
JICA	Japan International Cooperation Agency

KPI	Key performance indicator
LAC	Latin America and the Caribbean
MDB	Multilateral development bank
NDC	National Determined Contribution
NZBA	Net Zero Banking Alliance
PCAF	Partnership for Carbon Accounting Financials
PRB	Principles for Responsible Banking
PRI	Principles for Responsible Investment
PV	Photovoltaic
RE	Renewable Energy
RFA	Rede Financeira da Amazônia
SBTi	Science Based Targets Initiative
SDGs	Sustainable Development Goals
SME	Small and Medium enterprise
TA	Technical Assistance
TCFD	Task Force on Climate Related Financial Disclosures
UNEP-FI	United Nations Environmental Programme - Financial Institutions
We-FI	Women Entrepreneurs Finance Initiative
WEP	Women's Empowerment Principles

All dollar amounts are US dollars unless otherwise indicated.

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1. INTRODUCTION

Public finance alone cannot cover the sustainable finance gap; private financing is also necessary. Blended finance is a known sustainable finance instrument that uses concessional funding to catalyze high-impact projects where risks are too substantial for commercial finance alone.[4]

Complementing blended finance with outcome achievement supported by technical assistance (TA) can enable FIs' transformation toward sustainability and mobilize capital. A review of 270 transactions by Convergence found that TA had been provided alongside concessional capital in 64 percent of blended finance transactions.[5] Engaging FIs in enhanced climate action involves strategic funding partnerships and facilitating their adoption of sustainability, as well as gender, diversity, and inclusion (GDI) practices.

CIF operates in a multilateral climate finance partnership, channeling concessional finance through six multilateral development banks (MDBs) for advisory and investment activities to support climate action. In 2019, CIF established the Technical Assistance Facility (CIF-TAF) to accelerate investments and market development for clean energy and the low-carbon transition. CIF-TAF is a knowledge-sharing hub for partners and stakeholders, supporting operations in 57 countries by deploying concessional finance to lower barriers to market entry and reduce innovation-related risks.

This study leverages the CIF-TAF partnership with IDB Invest to explore the key components of blended finance, supported by TA, to enhance FIs' climate action and sustainable practices. Two IDB Invest transactions are discussed which offer valuable insights for CIF partners and future CIF programs on the design of transactions that foster a sustainable financial sector. While IDB Invest focuses on the economic development of Latin America and the Caribbean (LAC) through the private sector, the principles guiding the design of these transactions may also be applicable in other contexts.

Outcome-based concessional blended finance has the potential to mobilize significant private sector investment and engage FIs toward more ambitious sustainability goals. Outcome-based concessional blended finance is being defined as blended finance with favorable lending terms or other forms of concessional support that is conditional upon the achievement of predefined outcomes. Its potential to mobilize private sector investment and engage FIs in sustainable financing is based on the experience of Sicredi, in Brazil, and Produbanco, in Ecuador which benefited from outcome-based concessional blended finance.

This study aims to provide insights into the use of outcome-based concessional finance in mobilizing and leveraging funds for sustainable investments. The case studies illustrate the evolution of blended finance transactions—from traditional debt structures to more sophisticated ones. The latter includes loans with outcome-based incentives and innovative sustainable bonds featuring a bullet payment structure and surcharges for unmet outcomes.

Sicredi's transaction involved a $110 million traditional loan and outcome-based concessionality, focused on expanding investments in the solar photovoltaic (PV) energy sector and reaching gender diversity outcomes. Produbanco's transaction involved a $50 million sustainability bond with outcome-based concessionality centered on decarbonization efforts; compliance with the Task Force on Climate-Related Financial Disclosures (TCFD) standards; and a green lending portfolio. Sicredi's TA included support for developing a green strategy and for integrating GDI in operations and policies. Produbanco received support for decarbonization and TCFD alignment.

The study distills valuable insights for stakeholders seeking to create an enabling environment for a sustainable financial sector. The brief description of the two case studies is followed by an analysis based on a framework for sustainable transition of FIs, developed to better understand the evolution and application of outcome-based concessional blended finance. This framework synthesizes the simultaneous transformation of FIs at the operational, organizational, and sectoral levels to achieve sustainability. The study was further enriched through an introspective comparison, which yielded valuable insights and learnings.

2. BLENDED FINANCE AND TECHNICAL ASSISTANCE

Blended finance refers not only to a finance mix of different sources (public and private) but also of different types (concessional and nonconcessional). It mobilizes resources from various sources, including philanthropic organizations and public institutions, commonly delivered by DFIs,[6] thus leveraging private finance.[7] Blended finance includes instruments such as grants, equity, debt, and guarantees, tailored to sustainable investment needs, enhancing viability, attractiveness, and risk mitigation.[8] Blended concessional finance can offer mechanisms such as flexible payment schedules, grace periods, or discounted interest rates, and plays a crucial role in engaging FIs and mobilizing capital for sustainable financing.[9]

Technical Assistance (TA) plays a crucial role in enabling FIs to efficiently allocate blended finance, achieve key outcomes, and drive systemic internal process transformation. TA can address a range of FI-specific needs, such as closing internal capacity gaps, supporting the implementation of relevant operational processes, or developing strategies to mobilize market demand for financing—tailored to the specific needs of each institution.

Outcome-based concessional blended finance supported by aligned TA aims to link financial incentives with achieving more ambitious climate and GDI goals. This approach, as applied by IDB Invest on the two cases, offers concessionality contingent on meeting specific predefined outcomes (performance targets or business objectives) as part of the payment structure. Targeted TA, in the form of in-house or external advisory services, supports the achievement of these outcomes. Its aim is to alleviate the cost of structural changes by providing concessional finance and technical support to reach climate and GDI goals. This support significantly reduces the transaction costs associated with changes to BAU while helping FIs understand new market segments, enabling a long-lasting and more ambitious transformation of FIs into sustainable entities.

Table 2.1 showcases the types of outcomes and corresponding TA scope applied to blended finance transactions, as developed by IDB Invest.

TABLE 2.1 Blended Finance Goals/Outcomes and Corresponding TA Scope

THEMES	USE OF PROCEEDS[a]	PORTFOLIO OUTCOMES	CORPORATE OUTCOMES
GOAL OR OUTCOMES	• Use of proceeds in accordance with the MDB Common Principles for Climate Mitigation Finance Tracking[b] • Smart cities • Electric mobility • Circular economy • Smart agriculture • Biodiversity • Sustainable infrastructure • Climate adaptation	• Support climate-friendly portfolios with incremental ambition to contribute to the global climate agenda and alignment with sectoral commitments and priorities in the respective NDCs. • Define specific outcomes for incremental ambition regarding green or social lending over the life of the financing.	• Establish frameworks for thematic financial products • Upgrade policies and practices: • Equivalent TCFD[c] • Net-zero strategies • Paris alignment • Support inclusive transition
TA SCOPE	• Work with FIs to create green and social portfolios by **identifying, segmenting, and analyzing the climate and social impact of portfolios**, and develop frameworks, as well as **verify and certify any thematic bond issuances.** • Support FIs in **building climate portfolios with green financial products.** This includes segmenting their portfolios, innovative use of proceeds to define and finance sub-portfolios with a high climate impact in various sectors, including smart cities, e-mobility, circular economy, smart agriculture, biodiversity, and sustainable infrastructure. • **Support an inclusive transition by applying an inclusion lens.** This means focusing on including more women, indigenous peoples, underserved communities, youth, people with disabilities, and other vulnerable groups.	• Build capacity among banks to **create ambition** within their institutions to contribute to the global climate agenda, including supporting the financing needed to execute the sectoral commitments and priorities mentioned in the NDCs. • Support financial institutions in creating a **green vision**, sustainable finance strategies, and corporate roadmaps, helping them assess their starting point, and then guiding them to design and implement a customized but ambitious sustainable finance strategy.	• Provide support with action plans to develop or strengthen their ESMS, the introduction and elaboration of green, blue, and resilience financial products and lines but also more advanced topics such as evaluation, analysis, and upgrading of policies and practices such as the equivalent **TCFD**, and preparedness for the low-carbon economy through **net-zero and decarbonizations strategies** (e.g. PCAF, NZBA, Paris Alignment). • Development of **gender, diversity, and inclusion (GDI) strategies** by clients: diagnostic, action plans with outcomes and KPIs, leadership programs tailored to women and minority needs, recruitment strategies to capture diverse talent, pay equity strategies and mentoring programs, among others.

Source: IDB Invest Advisory Services

Note: This list is not exhaustive. ESMS = environmental and social management system; KPIs = key performance indicators; NDCs = Nationally Determined Contributions; PCAF = Partnership for Carbon Accounting Financials; NZBA= Net-Zero Banking Alliance; TCFD = Task Force on Climate-Related Financial Disclosures.
a. Consistent with blended finance donor mandate.
b. This report is available at https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf.
c. The Financial Stability Board (FSB) created the Task Force on Climate-Related Financial Disclosures (TCFD) in 2015 to improve and increase reporting of climate-related financial information. Following the release of the Task Force's 2023 Status Report, upon request of the FSB, the TCFD was disbanded. The FSB has asked the IFRS Foundation to take over the monitoring of the progress of companies' climate-related disclosures (source: https://www.fsb-tcfd.org/).

3. METHODOLOGY

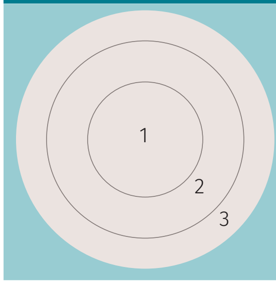
This study derives valuable insights from two cases of outcome-based blended finance transactions supported by TA. Collated data were taken from TA and blended finance transaction documentation; stakeholder interviews; and publicly available sustainability reports, news articles, and publications. Semi-structured interviews, accompanied by the CIF team, were held with multiple actors involved in the transactions of Sicredi and Produbanco—including bank staff, consultants, and IDB Invest's Blended Finance and Advisory Services teams. Interviews with project team leaders covered several topics—among others, the institution's sustainability strategy and goals, main activities and flow of advisory services, the rationale for the blended finance structure, and outcomes beyond the duration of the transaction.

These outcome-based blended finance transactions resulted in a wide range of changes at the FIs, which were analyzed using a framework developed specifically for the sustainable transition of these institutions. This framework synthesizes the changes that FIs need to implement at the operational, organizational, and sectoral levels to succeed in the transition to sustainability. The operational level reflects the FIs' portfolios and allocation of financial resources, supported by internal processes and tools. The organizational level is defined by the FIs' structures and the strategies they pursue. The sectoral level represents the grouping of FIs in initiatives, alliances, and associations designed to support the systemic transformation of the financial sector. Table 3.1 illustrates and describes the three levels of FIs' sustainability that underpin the financial sector's transformation into a sustainable sector.

The study was further enriched through an introspective comparison. This methodological approach was used to scrutinize the internal experiences of the two financial institutions analyzed and contrast them with one another, yielding additional insights.

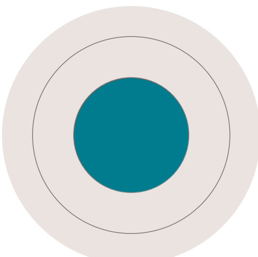
TABLE 3.1 Framework for Sustainable Transition of Financial Institutions

LEVELS OF SUSTAINABLE TRANSITION IN FIs:



1. Operational level, reflects the FIs' portfolios and allocation of financial resources
2. Organizational level, defined by the FIs' structures and the strategies they pursue
3. Sectoral level, the grouping of FIs in initiatives, alliances, and associations designed to support the systemic transformation

Operational level



FIs align portfolios with sustainable finance criteria of national or regional sustainable finance taxonomy, or principles of international bodies, such as the Climate Bonds Initiative (CBI) and/or the SDGs.

Financial resources are channeled through diverse financial instruments such as dedicated loans, thematic bonds, and bonds and loans linked to sustainability indicators. **Dedicated loans** are designed for the specific **use of proceeds** (e.g., green loans for RE initiatives), while **thematic bonds** incorporate strict requirements (eligibility criteria for the use of funds, indicators, goals, impacts, reports, audits, etc.) to enhance transparency on the allocation of resources, specifically measuring the impact on the thematic area they are issued for (e.g., sustainability-linked loans or social bonds).

FIs require internal organizational resources to manage sustainable portfolios, often in the form of tools, frameworks, and processes. These resources serve to identify, segment, analyze, and quantify the impact of portfolios and verify and certify any thematic bond issued.

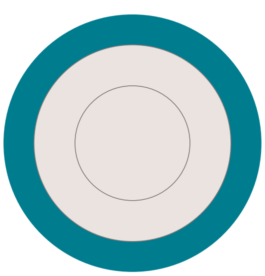
Organizational level

FIs align with sustainable finance at an organizational, structural, and strategic level by adopting a sustainability vision, managing climate risks, developing sustainable finance strategies and corporate plans, and publicizing a commitment to sustainability.

Internal resources include a sustainability department, climate risk management tools supported by an environmental and social management system (ESMS) adopted across the organization, and a well-developed internal capacity to channel financial instruments and manage pertinent climate risks.

An FI that has an advanced organizational structure regarding sustainable finance integrates climate risk management and prepares reports aligned with international frameworks, such as the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI), or other standards.

Sectoral level



Several initiatives exist at the sectoral level in the finance industry to foster and nurture the transition toward sustainable finance. They range from local to global actions, such as national sustainable finance round tables, the UN Global Compact, Women's Empowerment Principles (WEP), and the Climate Disclosure Platform (CDP).

FIs demonstrate sectoral-level engagement through voluntary commitments and participation in initiatives, networks, and alliances. Networks recognized worldwide include Principles for Responsible Investment (PRI), Principles for Responsible Banking (PRB), the Net-Zero Banking Alliance (NZBA), the Glasgow Financial Alliance for Net Zero (GFANZ), the Global Alliance for Banking on Values (GABV), the Partnership for Carbon Accounting Financials (PCAF), and the Science Based Targets Initiative (SBTi), among others.

Source: Original figure for this publication.
Note: FI = financial institution; RE = renewable energy; SDGs = Sustainable Development Goals.

4. MOBILIZING CLIMATE INVESTMENT AND REACHING GENDER GOALS: SICREDI

Sicredi, the largest cooperative financial institution in Brazil,[10] boasts over 7.5 million members with more than 2,600 branches and over 100 cooperatives nationwide.[11] Founded in 1902 in Rio Grande do Sul, Sicredi achieved a 30.1 percent compound annual growth rate from 2019–22.[12] The institution is committed to promoting social and economic development among its members and local communities. In 2023, Sicredi reported 51 billion Brazilian reais (BRL) in products and services supporting a green economy,[13] including BRL 5.8 billion for renewable energy (RE) development.[14] The key elements of the Sicredi case study are presented in table 4.1.

TABLE 4.1 Overview of Sicredi Case Study

Bank, location:	Sicredi, Brazil
Funding partners:	IDB Invest, C2F Phase II
Transaction date:	December 2019
Transaction amount:	Total of $110 million, including $10 million from C2F Phase II
Concessional finance structure:	Traditional loan debt structure with semi-annual repayments and outcome-based incentives in the form of a reduced interest rate and a two-year grace period. The transaction was accompanied with TA services for outcome achievement.
Objective Sicredi:	Contribute to the expansion of distributed generation of PV solar energy in the Brazilian market.
Outcomes:	*Portfolio outcome:* PV solar energy financing growth in cooperatives with a low market penetration or a small PV portfolio and increased share of PV solar energy financing in total funding (*PV portfolio outcome*). *Corporate outcome*: Training on diversity and inclusive HR processes and the implementation of its GDI action plan resulting in increased women representation on the board, and the identification and reduction of the gender pay gap (*GDI outcome*).
Scope of TA:	*Green strategy:* The external TA involved identifying green assets in Sicredi's portfolio; preparing guidelines for drafting a sustainable business strategy; developing a tool for green portfolio impact measurement; and creating a green bond framework for future bond issuances. *GDI integration:* IDB Invest's in-house advisory services provided guidance on the GDI outcome achievement.

Note: C2F = Canadian Climate Fund for the Americas; GDI = gender, diversity, and inclusion; HR = human resources; PV = photovoltaic; TA = technical assistance.

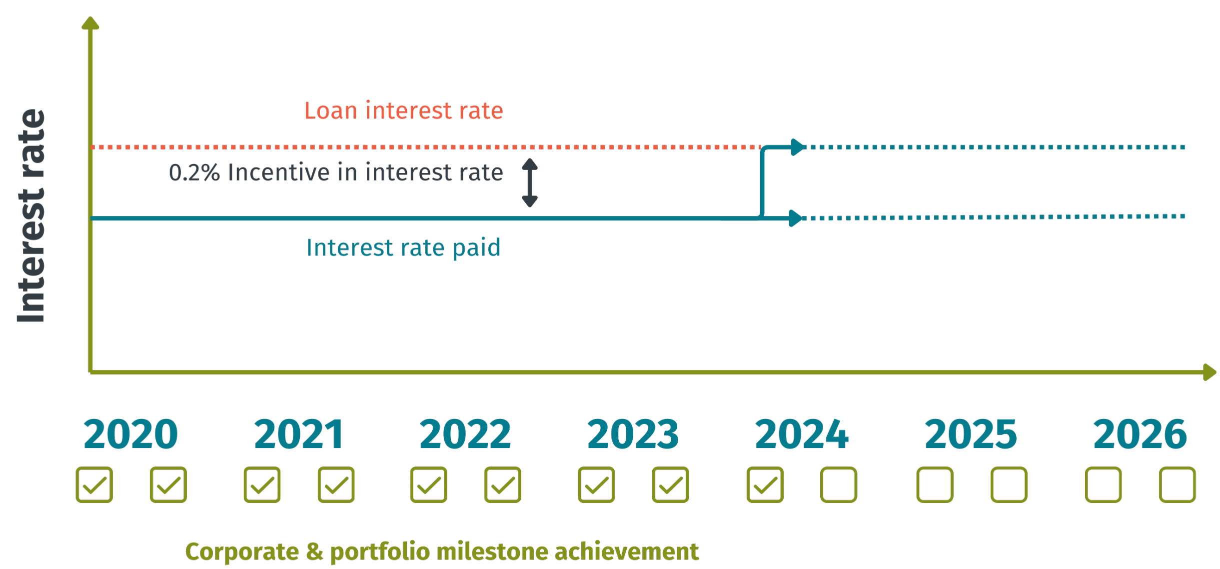
4.1. Structure of the blended finance transaction

In 2019, Sicredi received a BRL loan equivalent to $110 million from IDB Invest with outcome-based concessional blended finance supported by advisory services. The transaction included a $10 million blended finance component[15]—a senior loan[16] provided by the Canadian Climate Fund for the Americas (C2F). The IDB Invest loan is structured as traditional debt financing with semi-annual principal and interest repayments at a benchmark interest rate and a two-year grace period. Outcome-based targets for a given year underpin two outcomes—one related to climate goals and one to GDI. These outcomes are applied to the concessional finance tranche. The achievement of outcomes is accompanied with TA, both in-house IDB Invest advisory services and external services (see section 4.2 for details). IDB Invest has the option to waive Sicredi's obligation to meet a particular target.

If the share of PV solar energy financing increases and the gender-related gap is reduced, Sicredi is rewarded with a discounted interest rate. The loan aims to promote access to financing for small-scale PV solar energy systems by cooperatives with a relatively low penetration in the solar market, thereby increasing the share of solar PV financing in Sicredi's total financing. This objective is reflected in the *PV portfolio outcome*. The transaction also incentivizes Sicredi to address gender-related gaps in the institution, which is captured in the *GDI (corporate outcome)*. The latter encompasses training on diversity and inclusive human resources (HR) processes, the development of a GDI action plan, increasing female representation on the board, and reducing the gender pay gap. The concessional element provides a 0.2 percentage point reduction in the loan's interest rate if both these outcomes are achieved.

Figure 4.1 illustrates how this incentive-based financial transaction is structured. It also shows that all loan repayments made to date have benefited from the discounted interest rate.

FIGURE 4.1 Schematic of Outcome-Based Component of Financial Transaction with Sicredi



Source: Based on IDB Invest material.
Note: The corporate outcome refers to the GDI outcome. Each check mark represents a loan repayment made by Sicredi at the discounted interest rate, having achieved the pertinent outcomes. Principal and interest repayments are due twice a year.

4.2. Advisory services support

As part of the transaction, IDB Invest helped Sicredi bridge the gender-related gap and strengthen its green operations through in-house and external TA. The external TA[17] included identifying green assets in Sicredi's portfolio; supporting the development of a sustainable business strategy; developing a tool for green portfolio impact measurement; and designing a green bond framework for future bond issuances. The IDB Advisory Services Team helped Sicredi integrate GDI into the institution's business strategy and organizational structure. These combined efforts contributed to Sicredi enhancing its sustainability practices and achieving the blended finance outcomes.

IDB Invest guided Sicredi on the gender-related efforts, ensuring GDI outcome alignment with internal competencies. Certain aspects of Sicredi's organizational structure, such as board composition and compensation, are subject to the cooperative voting process. While this aspect only became evident after the transaction had been set up, the IDB Invest Advisory Services Team acknowledged this when reviewing the business objectives defined under the GDI outcome.

Sicredi proceeded by creating communication material on inclusion, diversity, and equity, which details the bank's sustainability principles regarding gender and diversity. These materials were disseminated internally by Sicredi's HR staff, which facilitated the achievement of the GDI outcome and inspired the development of financial products with a positive social impact.

The external TA supported Sicredi in formulating a sustainable business strategy—assisting with the development of guidelines, including for green portfolio tagging, and the drafting of a green bond framework based on international standards for bond issuance. Since 2016, Sicredi has annually published its green and sustainable portfolio in accordance with the National Banks Federation methodology, which includes the financing of agriculture, environment, and sustainable energy projects and sectors. Sicredi's portfolio assessment identified energy efficiency (EE) and RE projects as green assets, based on the international standards of Green Loan Principles (GLP) and *Green Bond Principles (GBP)*. The Green Bond Framework was drafted in compliance with GLP and GBP international standards and technical criteria, enabling Sicredi to start issuing green bonds.

The external TA also delivered an impact measurement tool to track and report the GHG emission reductions derived from green financing. The latter includes six preselected RE and EE technologies: solar PV, electric motors, lighting, refrigeration, water heating, and waste-to-energy biogas technology. The results per investment are expressed in tonnes of CO2e emission reductions, energy generation or savings (per year and for the lifetime of the technology), estimated financial savings, and simple pay-back period.

Training of Sicredi staff improved their technology assessment skills and ensured widespread commitment to data collection and adoption of the impact measurement tool.

The TA also provided a user manual and training on the tool itself. Sicredi's sustainability finance Team acted as a multiplier—conducting training sessions for all cooperatives and strengthening their internal capacity regarding these business processes vital to sustainable financing. While the various cooperatives were entrusted with data collection, the responsibility for measuring and reporting was centralized to ensure consistent and reliable measurement of the green lending impact.

4.3. Sustainable transition by level – Sicredi

The changes made possible by the outcome-based concessional blended finance for Sicredi were evaluated using the framework for sustainable transition of FIs (see section 3) and are summarized below.

Operational level:

- **Increased green portfolio:** The blended finance transaction raised the financial resources allocated to sustainable finance initiatives by BRL 433 million,[18] particularly solar PV projects incentivized by the *PV portfolio outcome*. The 47 cooperatives that had been identified as candidates for PV portfolio growth have consistently expanded their investments in PV solar energy since Sicredi received the concessional blended finance, benefiting a total of 7,090 projects and representing 115 MW of installed energy capacity. These projects have jointly generated over 200,000 MWh of electricity and avoided 9,347 tCO2e of emissions annually.[19] The overall green portfolio has continued to grow, reaching BRL 51 billion in 2023.
- **Enhanced transparency and reporting:** The development of an impact measurement tool allowed the emission reductions, installed energy capacity, and energy production or savings derived from RE and EE financing to be quantified. The data collection needed as input for the tool was integrated into Sicredi's IT system after the TA's conclusion. This systematized and facilitated project tracking, measurement of PV portfolio outcome parameters, and reporting.
- **Foundation for green bond issuance:** The TA supported the drafting of a framework for the issuance of green bonds aligned with international standards of the GLP and GBP. Sicredi published its *Green Bond Framework* in November 2021,[20] which was used to issue bonds in another IDB Invest transaction in early 2022. The framework was updated in 2022 to include social aspects and renamed the *Sustainable Finance Framework*. It has since been used to issue social and green bonds (see appendix A).
- **Scaled blended finance fundraising with sustainability-related goals:** Since the publication of the *Green Bond Framework* in 2021, Sicredi has engaged with various DFIs to secure sustainable loans and bond issuances. As of December 2023, Sicredi had raised $525 million through five transactions—with the International Finance Corporation (IFC), the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Proparco, IDB Invest, BNP Paribas, and others—involving finance related to climate change and GDI. In June 2023, an additional €200 million loan was obtained from the European Investment Bank (EIB) for PV solar energy in households, small and medium enterprises (SMEs), and rural properties in Brazil (see appendix A for a list of transactions).

Organizational strategic level:

- **Increased internal capacities and ownership of advisory service outputs:** Sicredi integrated the data collection for the impact measurement tool into its IT system and gave cooperatives in-house training. The *Green Bond Framework* drafted during the TA was expanded into a *Green Finance Framework*, also published in 2021.

- **Progress was made on the integration of GDI aspects into the organizational structure and business strategy:** A program to prepare women for leadership positions in cooperative banks was launched, *Comitê Mulher*[21], and the commitment to reduce the gender pay gap was included in the HR procedures. The increased awareness of GDI topics has also given Sicredi a leading edge in the development of financial products for women-led enterprises, including funding from IDB Invest blended with resources from the Women Entrepreneurs Finance Initiative (We-Fi).[22]

- **Organizational restructuring to accommodate the increasing demand for sustainable finance and blended finance operations:** Until 2021, sustainability topics had been handled by the Corporate Social Responsibility (CSR) and HR Department. After the TA, sustainability and DFI transactions were formally integrated into Sicredi's business model by creating the "Structured Operations and Sustainable Finance Unit" within the Treasury Division. In February 2024, this unit was merged with the wholesale funding teams to create the "Sustainable Finance and Financial Institutions Department." This department's staffing needs have more than doubled since 2020.

Sectoral level:

- **International showcasing:** Sicredi participated in two United Nations Climate Change Conferences—COP27, in Sharm El-Sheik, to present the RE program, and the women-led SME financing initiative in 2022.[23] At COP28 in Dubai, Sicredi became a founding member of the Rede Financeira da Amazônia (RFA), launched by IDB Invest and IFC.[24]

- **Recognition and awards:** Sicredi received the *Sustainability Bond of the Year* prize, and an honorable *Best Financier for Women Entrepreneurs* mention by the Global SME Financing Forum 2023. Sicredi was also recognized in 2023 as the *Lender of the Year* at the International Environmental Finance Impact Awards for its significant green lending activities.[25]

5. INTEGRATING CLIMATE STRATEGY INTO THE BUSINESS: PRODUBANCO

Produbanco, an Ecuadorian bank headquartered in Quito and part of Grupo Promerica, operates nationwide, offering various financial products and services to individuals and businesses. As of March 2021, Produbanco held an 11.4 percent market share in Ecuador, with $5.5 billion in assets, a $3.5 billion loan portfolio, and $443 million in equity.

Produbanco is committed to sustainability and green financing, being a signatory of the Principles for Responsible Banking (PRB) and a member of the working group that established the Partnership for Carbon Accounting Financials (PCAF)[26] Additionally, Produbanco is a founding member of the Net Zero Banking Alliance (NZBA).[27]

TABLE 5.1 Overview of Produbanco Case Study

Bank, location:	Produbanco, Ecuador
Funding partners:	IDB Invest, C2F Phase II
Transaction date:	March 2022
Transaction amount:	$50 million sustainable bonds, including $10 million blended finance from C2F
Concessional finance structure:	Sustainable bonds with a partial bullet payment structure that has outcome-based concessionality applied at maturity in the form of a reduced equivalent interest rate. The transaction was accompanied with TA services for outcome achievement.
Objective Produbanco:	Finance the post-pandemic recovery of SMEs; fund green financing, which will help Produbanco improve its performance regarding the commitments and goals of the Net-Zero Banking Alliance (NZBA).
Outcomes:	*Corporate (decarbonization) outcome:* Set emission reduction targets for financed initiatives and develop a decarbonization plan. *Corporate (TCFD) outcome:* Become a TCFD supporter[a] and issue climate-related financial disclosure reports accordingly. *(Green) portfolio outcome:* Reach a green lending portfolio ≥ $75 million.
Scope of TA:	*Decarbonization:* Calculating a baseline for financed emissions,[b] formulating a roadmap for net-zero emissions by 2050, setting emission reduction targets for prioritized sectors, and developing a decarbonization strategy (aligned with NZBA). *TCFD alignment:* Performing a TCFD gap analysis and developing an action plan based on TCFD recommendations.

Note: C2F = Canadian Climate Fund for the Americas; SMEs = small and medium enterprises; TFCD = Task Force on Climate-Related Financial Disclosures.
a. The outcome-based blended finance transaction and TA occurred before the disbandment of the TCFD and adoption of its recommendations by the International Sustainability Standards Board (ISSB). The reference to TCFD continues throughout the case study discussion, considering the time frame of the activities described and consistency with the documents reviewed.
b. Financed emissions refers to the GHG emissions associated with financial activities or portfolio impact.

5.1. Structure of the blended finance transaction

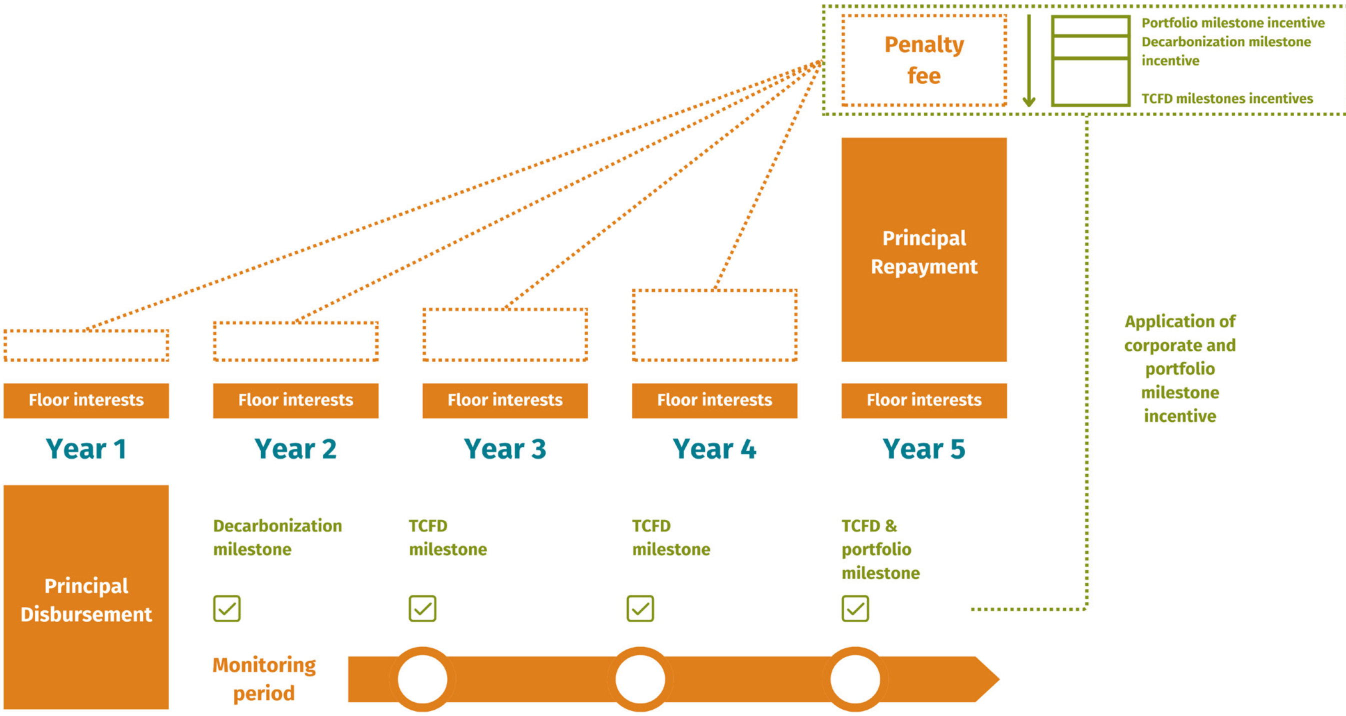
In March 2022, Produbanco issued Ecuador's first sustainable private sector bond, worth $50 million, fully subscribed by IDB Invest, in a transaction that includes outcome-based incentives. The bond issuance was structured in two tranches, each maturing in 1,800 days. The first tranche, a Class A bond, comprises $40 million primarily to support SMEs. The second tranche, a Class B bond, comprises $10 million designated for green financing—investments in efficient agricultural technologies, RE, EE, and resource efficiency. For the Class B tranche, C2F provided $10 million of blended finance in the form of an internal guarantee, with IDB Invest as the beneficiary.[28]

The blended finance component incentivizes Produbanco to comply with KPIs that are aligned with Produbanco's climate strategy and green lending outcomes. Compliance with these KPIs will be ensured by assessing three relevant outcomes: (1) the (corporate) *decarbonization outcome*, which involves setting emission reduction targets for its lending portfolio, following NZBA guidelines, and developing an action plan to achieve those targets; (2) the (corporate) *TCFD outcome*, which requires compliance with TCFD standards (e.g., issuing climate-related financial disclosures per TCFD recommendations before a bond's maturity); and (3) the *green portfolio outcome* (growth to at least $75 million). The outcomes are accompanied with TA services to enable their achievement (see section 5.2 for details).

However, if Produbanco fails to meet these three outcomes, the issuer has to pay a penalty fee. The outcome-based blended finance component of the bond features a partial bullet payment structure[29] and a concessional interest rate coupon. The noncompliance surcharge (penalty fee) incorporated into the bond structure, to incentivize the achievement of outcomes, is only payable at maturity. This penalty fee implies a retroactive application of the market benchmark interest rate, which can be adjusted if the outcomes are achieved. This approach thus provides liquidity over the financing tenor against a concessional interest rate floor, with the payments of the principal and eventually the penalty fee only due at maturity; the total amount of the financial repayments depends on the achievement of the agreed outcomes.

Figure 5.1 illustrates how this outcome-based incentive is structured: the release of the principal to Produbanco; the concessional interest rate floor applied throughout the whole period; and bullet repayment of the principal at maturity, eventually increased by the penalty fee.

FIGURE 5.1 Schematic of Outcome-Based Component of Financial Transaction with Produbanco



Source: Based on IDB Invest material.
Note: TCFD = Climate-Related Financial Disclosures. Only the final (2026–27) performance evaluation will consider the TCFD and portfolio outcomes as a whole. The earlier evaluations look at specific targets (KPIs) that underpin the respective outcomes. Reaching the agreed targets means meeting the "interim outcomes." In this particular case, the balance of the principal represents the principal in its entirety as the bond has a bullet payment structure (see endnote 32).

5.2. Advisory services support

As part of the transaction, IDB Invest provided advisory services through external TA, supporting Produbanco in developing a comprehensive net-zero strategy and an action plan, fully aligned with TCFD recommendations. The TA[30] included establishing a baseline for financed emissions and setting emission reduction targets for prioritized sectors, in accordance with decarbonization and net-zero scenarios, starting in 2022 (more details are given in the next paragraph). In addition, the TA entailed performing a TCFD gap analysis and preparing a plan for implementing the TCFD recommendations and the decarbonization strategy.

The TA delivered pioneering work in Latin America on setting net zero–aligned decarbonization targets for financed emissions. As a signatory to NZBA, Produbanco was required to set emission reduction targets for prioritized sectors by October 2022, following the Guidelines for Climate Target Setting.[31] Given the limited examples available at the time, Produbanco took an innovative approach to developing targets tailored to Latin America from scratch.[32]

Produbanco generated its unique curve for reaching net-zero emissions by 2050, aligned with the country's NDC, IEA Net Zero by 2050 scenarios, and the IPCC 1.5°C pathway.

This resulted in intermediate decarbonization goals[33] based on carbon monetary intensity[34] objectives to 2030 (baseline 2021) for five prioritized sectors: fisheries and aquaculture (24 percent); electrical power supply (36 percent); farm support activities (18 percent); food processing (24 percent); and agriculture, livestock, hunting, and others (24 percent).

The TA conducted a gap analysis assessing Produbanco's compliance with the TCFD recommendations, which resulted in an action plan to address gaps in governance, strategy, risk management, and targets and metrics. IDB Invest's tool for the TCFD gap analysis supported the thorough review of Produbanco's policies and practices, generating a list of recommendations that were transformed into an action plan.

The analysis enabled Produbanco to prepare and publish its first TCFD-aligned report the following year, enhancing transparent climate-related financial reporting.

Produbanco's senior management embraced and committed to the action plan developed through TA, demonstrating strong engagement on the path to sustainability. The TCFD action plan and the net-zero strategic plan were meticulously structured—specifying the steps to be taken, responsibilities, and timelines. These plans were integrated into a roadmap co-created by Produbanco's internal and advisory service teams, aiming to embed sustainable finance principles in all its operations.

5.3. Sustainable transition by level – Produbanco

The changes made possible by the outcome-based concessional blended finance transaction for Produbanco were evaluated through the three-level framework for sustainable transition of FIs (see section 3) and are described below.

Operational level:

- **Increased sustainability portfolio:** By December 2023,[35] the sustainable portfolio consisted of $30.9 million (41 percent) in green loans and $44.4 million (59 percent) in social-focused loans. The main beneficiary sectors are manufacturing, agriculture, livestock, forestry, fishing, commerce, construction, services, hospitality, transportation, and storage. Full outcome achievement will be assessed at bond maturity. In 2023, the sustainable portfolio totaled $911 million, representing 18 percent of Produbanco's portfolio.

- **Scaled blended finance fundraising with sustainability-related goals:** Between November and December 2022, IFC provided Produbanco two sustainable loans totaling $160 million to support the blue economy[36] and SMEs, especially those owned by women, and other sustainable projects. This transaction was blended with $10 million from Blue Orchard (toward the loan's subordinated component). The Japan International Cooperation Agency (JICA) provided an additional $50 million in March 2023, raising the total financing amount to $210 million.[37]

Organizational strategic level:

- **Increased internal capacities and ownership of TA outputs:** Besides playing a key role in peer exchanges on financed emission reduction targets during the implementation of the TA, in 2023, Produbanco independently measured financed emissions, reflecting the improved internal capacities regarding the GHG mitigation process and increased output ownership.
- **High-level management engagement and support:** Produbanco's senior management actively embraced the TCFD adherence action plan and decarbonization strategy. Sustainability processes became a regular topic during board meetings, with members seeking updates from the dedicated roadmap implementation team.
- **Becoming a TCFD supporter and enhancing sustainability reporting:** On June 14, 2022, Produbanco became a TCFD supporter, and, in 2023, it issued its first TCFD-aligned financial report and its Sustainability Report 2022.[38] The integration of TCFD recommendations in these annual reports enhanced governance, strategy, climate risk management, metrics, and measurements, and positioned Produbanco to meet the TCFD outcome of the blended finance transaction.

Sectoral level

- **Leading role in peer exchange sustainability events:** Throughout 2022, Produbanco shared its financed emissions calculation and target-setting process with other banks in the LAC region. As an NZBA founding member and a sustainability frontrunner, Produbanco was featured in UNEP-FI's PRB training and online workshop sessions (held in October 2022) and in-person sessions (held in April 2023).
- **International visibility and relevance:** Produbanco received an honorable mention as *Best Financier for Women Entrepreneurs* from the Global SME Financing Forum 2023[39] and won the *Sustainable Finance Bank Award for Ecuador 2023* from the Global Finance Magazine,[40] highlighting its leadership and international acclaim in sustainable finance.


Credits: IRENA /

6. KEY LESSONS AND INSIGHTS

Linking concessional blended finance to the achievement of outcomes enhance FI alignment and compliance with international standards, amplifying their impact and unlocking more sustainable finance to drive sector-wide transformation. The corporate outcomes agreed as part of blended finance transactions and supported by TA can help FIs become aligned with international standards. FIs that comply with international standards or sustainable finance initiatives build trust with investors, facilitating access to funds targeted for narrowing the sustainable finance gap. This in turn scales up the mobilization of sustainable funds.

Both Sicredi and Produbanco were supported in achieving compliance with international standards, which enhanced their business profile and standing. It also improved their internal capacity to negotiate sound financial deals, allowing them to mobilize additional resources for sustainable finance.

Sicredi enhanced its portfolio segmentation as per GBP and GLP for its *Green Finance Framework*, which was subsequently applied to a green bond issuance. Following an outcome-based concessional blended finance transaction in early 2020, Sicredi engaged in subsequent transactions with blended finance components. In total, $525 million and €200 million were raised through six different transactions—involving IFC, DEG, Proparco, IDB Invest, BNP Paribas, EIB, and others—for sustainable financing related to climate change, SMEs, and GDI.

Produbanco complied with its NZBA commitment by disclosing the emission reduction targets of investments it finances and by aligning corporate reporting with TCFD standards. The reported financed emission reduction targets for specific sectors demonstrate its commitment to decarbonization. Between November 2022 and March 2023, Produbanco raised additional funds through other blended finance transactions of $210 million, which involved IFC, JICA, and Blue Orchard. The transactions were structured to support the blue economy, among others, one of the sectors for which Produbanco has set targets.

Setting the assessment of outcomes toward the end of the pertinent maturity period allows flexibility in implementation and accommodates long lead times and more ambitious goals. Achieving outcomes defined at the organizational level requires a complex set of activities and the engagement of diverse stakeholders within FIs, especially when the goals pursued are ambitious. The time required to achieve these goals is unique to each FI and deferred payments, as part of concessional finance, allow flexibility in the time taken to meet the agreed outcomes. The two case study transactions show that not having to stick to a strict time frame for achieving the outcomes linked to concessional finance increases an FI's ambition and makes sustainable finance transformation goals more easily attainable for FIs.

While Sicredi has a traditional debt financing transaction with semi-annual payments and an outcome-based incentives in the form of an interest rate reduction, Produbanco's transaction is structured with a partial bullet repayment and the imposition of a penalty (interest surcharges) if the outcomes are not met.

Setting a conditional discounted interest rate motivates an FI to achieve the agreed outcomes because doing so will lower its financing costs. Concessional blended finance incentivizes FIs to reach the agreed outcomes because the interest rates are adjusted downward if the outcomes are reached but upward if they are not reached—depending on the approach chosen.

At first glance, Sicredi and Produbanco had agreed to opposite approaches: Sicredi has an incentive to achieve the outcomes, while Produbanco faces a penalty if it fails to achieve them. Sicredi's loan agreement unlocked a lower interest rate once the portfolio and corporate outcomes had been reached. On the other hand, Produbanco's sustainability bond agreement applied a favorable interest rate but will impose a surcharge fee at bond maturity if the

corporate and portfolio outcomes are not reached. Despite these slightly different approaches, both FIs benefit from a lower equivalent interest rate if they achieve the agreed outcomes. This identical outcome demonstrates the effectiveness of concessional finance.

Aligning TA with the outcomes for the blended concessional finance transaction contributes to achieving the underlying targets. By mobilizing TA that addresses the specific hurdles to achieving the agreed (outcome-based) targets, the FI can enhance its capacity to integrate climate action and GDI for long-term change. Targeted TA also reduces the costs and risks associated with new financing models and with starting to invest outside the trodden paths. Lowering the cost of doing business in turn facilitates an FI's transition toward sustainability.

In the case of Sicredi, the *portfolio outcome* centers on green lending, while the *corporate outcome* focuses on gender aspects. The TA outputs for Sicredi included the development of the impact assessment tool integrated into the IT system, enabling the measurement of PV solar energy financing, and achievement of the *PV portfolio outcome*. In the case of Produbanco, both the portfolio and corporate outcomes reflect climate and green objectives. The TA outputs included conducting a TCFD gap analysis, preparing an action plan, and developing a decarbonization strategy. These activities were directly aligned with the *decarbonization outcome* and the *green portfolio outcome*.

Setting outcomes that are both ambitious and attainable fosters partnerships and knowledge-sharing among FIs. Understanding the maturity level of FIs and their operating market is crucial for the success of outcome-based concessional blended finance supported with TA. Pushing for ambitious but realistic outcomes encourage FIs to implement changes in new or nonstandard practice areas, thereby promoting collaboration among FIs.

For Sicredi, reviewing its green portfolio, developing a solar PV impact assessment tool, and drafting its *Green Bond Framework* led to enhanced internal processes and portfolio segmentation. All these activities were of strategic importance for its next step to raising additional funds for sustainable finance—the advisory services provided by IDB Invest allowed the *GDI outcome* to be revised and adjusted to Sicredi's context. For Produbanco, the *decarbonization outcome* was synchronized with its commitment to NZBA, which ensured both effectiveness and efficiency in its transition toward sustainable finance. By adopting TCFD recommendations and improving its management of climate risks, Produbanco met the *TCFD outcome* and increased its climate resilience.

7. CONCLUSIONS

The experiences of Sicredi and Produbanco provide key lessons on the design of outcome-based concessional blended finance to promote sustainable practices in FIs. These cases illustrate the evolution of blended finance transactions—from traditional debt structures to more sophisticated mechanisms. The latter include loans with outcome-based incentives and innovative sustainable bonds featuring a partial bullet payment structure and surcharges for unmet outcomes. From the analysis of these two cases, five key insights have been distilled for the design of outcome-based concessional blended finance with the support of TA:

- **Define corporate outcomes for structural changes toward sustainable FIs:** When outcomes and TA address the need for structural changes, especially when motivated by seeking alignment with international standards, a supportive environment is created—one that is marked by increased internal capacity for further sustainable finance initiatives and transactions.

- **Agree on a flexible time frame for outcome assessment:** Setting the assessment of outcomes at the end of the maturity period (enabled by the concessional finance component) provides a flexible time frame for the implementation of activities; this allows long lead times for complex or new activities and for more ambitious goals.

- **Use incentives or fees to unlock concessionality:** Concessional finance can be structured as rewards or penalties. The underlying principle is the same: equivalent lower interest rates are applied if the agreed outcomes are achieved, which is critical for motivating FIs to embark on the transformation process.

- **Ensure the outcomes are aligned with the TA provided:** TA that is aligned with the agreed outcomes creates an enabling environment characterized by increased capacity and instruments for the successful transformation of FIs into sustainable institutions.

- **Consider the FI's maturity and market conditions:** Tailoring outcomes to the maturity level and market conditions of each FI ensures that targets are ambitious yet attainable, thus fostering greater engagement and commitment.

By integrating TA into concessional finance, FIs can drive broader market participation, promote sustainable financial practices, and undergo a deeper transformation. Accompanying outcome achievement with TA was shown to increase FIs' internal capacity in cross-cutting departments such as treasury, risk, commercial, and sustainability. It also facilitated incorporating systematized processes that streamline operational aspects such as sustainable credit identification and tagging, credit assessment, environmental and social impact evaluation, monitoring, and reporting. Last but not least, TA supported customer engagement by raising awareness of the need for a sustainable transition and by building pipelines of bankable sustainable projects.

The design of outcome-based blended finance transactions supported by TA continues evolving. The findings of this study merely serve as foundational steps and contribute to the ongoing efforts to promote sustainable practices within the banking sector and beyond. These insights should be used alongside findings from other case studies and experiences to further advance a sustainable financial system. Continuous innovation, adaptive strategies, and collaboration with various stakeholders are essential to refine and enhance the effectiveness of blended finance mechanisms combined with TA.

APPENDIX A: TIMELINE OF SICREDI'S HIGHLIGHTS IN SUSTAINABLE FINANCE

2016

- Reported that 18.9 percent of its portfolio was contributing to a green economy when FEBRABAN's methodology was applied. These green contributions include financing sectors of the green economy and products with a specific sustainability purpose—such as low-carbon agriculture and best agricultural practices, as well as micro-credits and other financial products with a specific social and environmental purpose.

2017

- Applying the FEBRABAN methodology, Sicredi found a 9 percent increase in the share of funding allocated to the green economy in relation to 2016. This increase resulted primarily from a higher share of products focusing on low-carbon agriculture.

2018

- Reported a 29 percent growth in its green economy portfolio—including financing of solar PV installations, sustainable agricultural practices, and the introduction of RE sources—as part of its support for various environmental and social goals.
- Prepared the GHG emissions inventory for its operations.

2019

- Began reporting aligned with the UN SDGs and started engaging to become a UN Global Compact member.
- Strengthened environmental and social risk assessments.
- Began considering climate risks based on TCFD recommendations.
- Reported a 10.5 percent increase in its green economy portfolio.
- Prepared the second GHG emissions inventory of its operations.
- December: Received $100 million from IDB Invest and $10 million from C2F to invest in SMEs' PV solar energy.[41] Advisory services were included to help identify green assets in Sicredi's portfolio, train employees and clients on sustainability, and develop its Green Bond Framework to prepare for future bond issuances.

2020

- April: Secured $100 million in green finance from JICA and Citibank for the Distributed Solar Power Generation Project.[42]
- Joined the Brazilian GHG Protocol Program; this entails that the GHG emissions inventory should be made publicly available. Sicredi compensated for its emissions by supporting a REDD+ project in Pará State.
- Updated sustainability, social, and environmental risk management policies.
- Joined FEBRABAN's working group on climate risk management.
- Created a Structured Operations and Sustainable Finance Division within the bank's Treasury.

2021

- May: Sicredi secured a first climate loan of $120 million from IFC, dedicated to solar energy projects,[43] in accordance with the principles of the Climate Bond Standard.[44, 45]
- November: Structured an $80 credit line to support female-led Brazilian businesses, securing $40 million from DEG46 and $40 million from PROPARCO.[47]
- November: Sicredi issued its Green Bond Framework for the financing of RE and EE investments by micro, small, and medium-sized enterprises.[48] CICERO independently evaluated the framework and gave it a "dark green shading" score and a governance score of "good."

2022

- January: Issued the first overseas Green Bond with IDB Invest of $100 million to finance eligible RE and EE projects.[49] The issuance is classified as green, per the International Capital Market Association's (ICMA) GBP.
- April: Raised $100 million for female-led Brazilian businesses. The resources were mobilized by IFC, with the participation of BNP Paribas and Sumitomo Mitsui Banking Corporation.[50]
- May: Issued the Sustainable Finance Framework with the eligibility criteria for the financing of green initiatives: renewable energy (RE), environmentally sustainable management of natural resources and land use, green building, EE, and clean transport; and social initiatives: access to essential services, family rural production, and SME financing.[51] Sustainalytics independently assessed the framework[52] as credible and impactful, and aligned with the Sustainability Bond Guidelines 2021, the Green Bond Principles 2021, the Social Bond Principles 2021, the Green Loan Principles 2021, and the Social Loan Principles 2021.
- Launched the first Sustainable Finance Bond ($151.4 million) onto the Brazilian market.
- Prepared the GHG emissions inventory of the bank's operation and compensated emissions by supporting six carbon credit projects in different Brazilian regions.
- November: Present at COP27 in Sharm El-Sheik to showcase the RE program and the women-led SME financing initiative.[53]

2023

- Plan to expand the GHG Emissions Inventory to include financed emissions (portfolio).
- June: Secured a €200 million loan from the EIB for PV solar energy in households, SMEs, and rural properties in Brazil.[54]
- Won the Sustainability Bond of the Year prize and Honorable mention of best financier for Women Entrepreneur by the Global SME Financing Forum 2023.[55]
- Won the international Environmental Finance IMPACT Awards 2023 for Lender of the Year 202356 for its green lending activities, which involves projects in RE and EE; supporting women-led small and micro businesses; and low-carbon agriculture.
- December: At COP 28, Sicredi signs the participation as a founding member of Rede Financeira para a Amazônia, launched by IDB Invest and IFC.[57] The key instrument in this participation is the $30 million loan from IDB Invest to support the growth of its women-owned micro, small, and medium-sized enterprises portfolio in Brazil, with $5 million focusing on the Amazon Region. This transaction includes blended finance through outcome-based incentives for up to $265,000 from the We-Fi Initiative, administered by IDB Invest, subject to achieving annual targets in the WSMEs portfolio in the Amazon Region. It is part of a larger blended finance transaction totaling $125 million with resources from Proparco, DEG, Commerzbank, and Symbiotic.[58]

APPENDIX B: TIMELINE OF PRODUBANCO'S HIGHLIGHTS IN SUSTAINABLE FINANCE

2016

- October: Produbanco became a member of the UN Global Compact – Ecuador Network.[59]
- November: Produbanco became a supporter of the Sustainable Finance Protocol of Ecuador together with the Association of Banks of Ecuador (ASOBANCA)
- Produbanco launched the Green Lines program, aimed at companies that support the evolution of production toward economically, socially, and environmentally efficient and sustainable management.
- Start raising funds from MDB´s to support Green Lines program.

2017

- Registered an increase of almost 70 percent in the allocation of funds in the Green Lines program.

2018

- Produbanco received a $30 million loan from IDB Invest and the Chinese Fund for Co-financing for Latin America and the Caribbean to finance SMEs and green credit lines for SMEs. The loan included TA to provide diagnostic, training, and promotion tools to Produbanco to improve and promote its green lending products.[60]

2019

- September: Produbanco became a founding member of UNEP-FI's Principles for Responsible Banking (PRB) and other banks globally.
- Over the years, Produbanco raised funds from several international sources, such as IDB Invest, FMO (Dutch Entrepreneurial Development Bank), , Proparco (Societé de Promotion et de Participation pour la Coopération Economique), DEG (Deutsche Investitions – und Entwicklungsgesellschaft), and the IFC to support the Green Lines Program, totaling more than $100 million.

2020

- January: Produbanco obtained the certificate of carbon neutrality for the GHG emissions generated by the bank's operation, [61] the first of its kind in Ecuador.

2021

- April: Produbanco became a Net Zero Banking Alliance (NZBA) founding member with other banks worldwide.

2022

- March: Produbanco issued the first sustainability bond with incentives linked to meeting objectives in Ecuador. The $50 million issue was fully subscribed by IDB Invest and made up of two tranches: $40 million destined mainly to support the reactivation and sustainability of SMEs, and $10 million, channeled through IDB Invest with a guarantee issued by C2F—a blended finance component. IDB Invest also provided advisory services to Produbanco to define a roadmap for achieving its commitment to zero net emissions by 2050.
- April: Start of the TA.
- October: Produbanco released its first emission reduction targets for financed emissions, for the prioritized sectors of agriculture, finishing, mining, energy, and food processing.[63] The bank presented its process and methodology for target-setting in online workshops facilitated by UNEP-FI for peer learning.
- November and December: IFC provided Produbanco with two $160 million sustainable loans, primarily to bolster the green and blue economy and uplift SMEs, particularly those owned by women, to which Blue Orchard contributed with $10 million.

2023

- March: Conclusion of the TA with capacity building of Produbanco staff and presentation of the outcomes of the consultancy to high management. An extra $50 million was added by the Japan International Cooperation Agency (JICA), bringing the total to $210 million.[62]
- April: Produbanco presented its approach to NZBA during Brazil's PRB event. This served as a platform to share its lessons learned with other banks and foster peer-to-peer learning within the banking ecosystem.

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ENDNOTES

CLICK ON ANY NOTE TO GO BACK TO THE REFERENCED PAGE

→ 1 Sustainable finance refers to financial activities that consider environmental, social, and governance (ESG) aspects in investment decisions. Its primary goal is to promote economic growth while addressing global challenges such as climate change, social inequality, and environmental degradation. Climate finance, on the other hand, focuses on mitigation, through investments that reduce greenhouse gas (GHG) emissions, and adaptation, by investing in activities and measures taken in anticipation of, or in response to, climate change risks, to avoid or reduce negative impacts.

→ 2 https://unctad.org/publication/financing-sustainable-development-report-2024

→ 3 A bond with a bullet payment structure is a type of debt instrument where the entire principal amount of the bond is repaid as a lump sum on its maturity date rather than in installments.

→ 4 Concessional finance refers to finance that is provided below market rates (or with maturity, grace period, security or rank offered on soft terms, without being priced according to the market), whereas commercial finance refers to resources from private investors seeking market-rate returns, such as equity investments or loans offered at commercial interest rates (source: International Finance Corporation (IFC)). 2021. Using Blended Concessional Finance to Invest in Challenging Markets. https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-blendedfinance-fin-092021.pdf.

→ 5 The Blending with Technical Assistance brief, published by Convergence in November 2023, offers insights into the combination of blended finance and TA in a wide range of projects, not just transactions with FIs. The brief is available only for Convergence members at https://www.convergence.finance/resource/blending-with-technical-assistance-2023/view.

→ 6 IFC (International Finance Corporation). 2017. DFI Working Group on Blended Concessional Finance for Private Sector Projects SUMMARY REPORT. https://www.ifc.org/content/dam/ifc/doc/mgrt/dfi-blended-concessional-finance-for-private-sector-operations-summary-r.pdf

→ 7 Convergence. "Blended Finance: Why Is It Important?" Accessed July 20, 2024. https://www.convergence.finance/blended-finance#importance

→ 8 IFC. "How Blended Finance Works." Accessed July 20, 2024. https://www.ifc.org/en/what-we-do/sector-expertise/blended-finance/how-blended-finance-works

→ 9 Kwon, T., Panulo, B., McCallum, S., Ivankovik, K., and Z. Essa. 2021. Blended Finance: When to use which instrument? University of Zurich, Center for Sustainable Finance & Private Wealth (CSP).

→ 10 A cooperative financial institution is defined as a financial institution that is owned by its customers and that follows the cooperative principle of one person one vote.

→ 11 A more detailed company profile can be found at https://www.sicredi.com.br/site/home-en/.

→ 12 For additional key indicators, see https://www.sicredi.com.br/media/produtos/filer_public/2023/09/04/credit-opinion-banco-cooperativo-sicredi-sa-31-aug-2023-moodys.pdf.

→ 13 https://www.sicredi.com.br/media/produtos/filer_public/2024/05/21/sustainability-report-23.pdf

→ 14 Sicredi publicly reported on the share of its portfolio contributing to a green economy in accordance with National Federation of Banks (FEBRABAN) criteria and its methodology.

→ 15 This amount was provided by C2F as blended finance (https://idbinvest.org/en/news-media/idb-invest-finances-expansion-solar-energy-brazil-sicredi).

→ 16 The Law Insider defines a senior loan as the loan made or to be made to the issuer under the terms of the IDB Invest Loan Agreement or, as the context requires, its principal amount outstanding over time (https://www.lawinsider.com/dictionary/invest-senior-loan).

→ 17 Documents from the TA reviewed for the present study (documents not publicly available): Guidelines for Sustainable Business Strategy for Sicredi (December 2020); Green Portfolio Analysis Report (March 2021); User Manual – Tool for Green Investment Calculation (April 2021).

→ 18 BRL equivalent of $110 million in 2020.

- 19 Impact numbers provided by Sicredi for the purpose of this study.
- 20 The framework was reviewed by CICERO, Norway's foremost institute for interdisciplinary climate research (https://cicero..no/en/about).
- 21 https://www.sicredi.com.br/site/fundacao/comite-mulher/
- 22 https://we-fi.org/
- 23 https://www.sicredi.com.br/coop/forcadosventos/noticias/sicredi-aborda-credito-para-projetos-esg-na-cop27/
- 24 https://www.sicredi.com.br/site/sobre-nos/noticias/sustentabilidade/sicredi-participa-cop-28-esg-brasileira/ and https://idbinvest.org/es/medios-y-prensa/bid-invest-e-ifc-lanzan-la-red-financiera-de-amazonia
- 25 https://www.sicredi.com.br/site/sobre-nos/noticias/institucional/sicredi-recebe-premio-internacional-projetos-sustentaveis/ and https://www.environmental-finance.com/content/awards/impact-awards-2023/winners/lender-of-the-year-sicredi-bank.html
- 26 https://carbonaccountingfinancials.com/
- 27 The Net Zero Banking Alliance (NZBA) is an industry-led and UN-convened group of leading global banks committed to financing ambitious climate action to transition the real economy to net-zero GHG emissions by 2050 (https://www.unepfi.org/net-zero-banking/).
- 28 https://idbinvest.org/en/news-media/idb-invest-and-produbanco-issue-ecuadors-first-sustainable-bond-target-linked-incentives?language=es.
- 29 A bond with a bullet payment structure is a type of debt instrument where the entire principal amount is repaid in a single lump sum at the end of the bond's term or maturity date. Unlike bonds that have amortizing payment structures, a bullet bond requires no principal repayment until maturity.
- 30 Documents from the TA reviewed for the present study (not publicly available): Strategic Plan for Net Zero (in Spanish, March 2023); Sustainability Action Plan Produbanco (in Spanish, March 2023); TCFD Gap Analysis and Action Plan Produbanco (in Spanish, March 2023); and Methodological Description – First Measurement of Financed Emission Reductions and Target Setting Produbanco (in Spanish, April 2023).
- 31 https://www.unepfi.org/industries/banking/guidelines-for-climate-target-setting-for-banks/
- 32 UNEP-FI's Case Studies on Impact Analysis and Target Setting Report was published later in 2022 and primarily featured US or European bank examples; https://www.unepfi.org/industries/banking/case-studies-on-impact-analysis-and-target-setting/
- 33 https://www.produbanco.com.ec/media/711328/metas-nzba.pdf
- 34 Carbon monetary intensity refers to tCO_2e per US dollar.
- 35 https://www.produbanco.com.ec/media/715785/reporte-bono-sostenible-diciembre-2023.pdf
- 36 The blue economy refers to all economic activities related to oceans, seas, and coasts.
- 37 https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=27479
- 38 https://www.produbanco.com.ec/media/715042/informedesostenibilidad2022__comp.pdf
- 39 https://www.smefinanceforum.org/awards-2023#award-winners
- 40 https://gfmag.com/award/sustainable-finance-awards-2023-latin-america/
- 41 https://idbinvest.org/en/news-media/idb-invest-finances-expansion-solar-energy-brazil-sicredi
- 42 https://www.jica.go.jp/Resource/english/news/press/2020/20200401_11_en.
- 43 https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26349
- 44 https://www.climatebonds.net/files/files/Banco%20Cooperativo%20Sicredi%20S_A_Pre%20issuance%20assurance%20statement.pdf
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- 46 https://deginvest-investments.de/portfolio/banco-cooperativo-sicredi-sa
- 47 https://www.proparco.fr/en/carte-des-projets/sicredi
- 48 https://www.sicredi.com.br/media/produtos/sicredi-green-bond-framework.pdf
- 49 https://www.idbinvest.org/en/news-media/idb-invest-supports-renewable-energy-projects-brazil-through-sicredis-first-green-bond
- 50 https://www.sicredi.com.br/site/sobre-nos/noticias/institucional/sicredi-capta-us-100-milhoes-para-financiar-micro-pequenas-e-medias-empresas-lideradas-por-mulheres/
- 51 https://www.sicredi.com.br/media/produtos/filer_public/2022/05/23/1o_oferta_publica_de_letras_financeiras_sustentav_-_fw_final_version_2.pdf
- 52 https://www.sicredi.com.br/media/produtos/filer_public/2022/05/23/1o_oferta_publica_de_letras_financeiras_sustentave__sicredi_sustainable_finance_framework_second-party_opinion.pdf
- 53 https://www.sicredi.com.br/coop/forcadosventos/noticias/sicredi-aborda-credito-para-projetos-esg-na-cop27/
- 54 https://www.eib.org/en/press/all/2023-215-brazil-eib-grants-eur200-million-to-sicredi-for-smes-and-households-solar-energy-investments
- 55 https://www.smefinanceforum.org/awards-2023
- 56 https://www.sicredi.com.br/site/sobre-nos/noticias/institucional/sicredi-recebe-premio-internacional-projetos-sustentaveis/
- 57 https://www.sicredi.com.br/site/sobre-nos/noticias/sustentabilidade/sicredi-participa-cop-28-esg-brasileira/

and https://idbinvest.org/es/medios-y-prensa/bid-invest-e-ifc-lanzan-la-red-financiera-de-amazonia

→ 58 https://www.proparco.fr/en/actualites/proparco-deg-and-other-lenders-support-womens-entrepreneurship-brazil-sicredi

→ 59 https://unglobalcompact.org/what-is-gc/participants/96511-Banco-de-la-Produccion-S-A-Produbanco

→ 60 https://idbinvest.org/en/news-media/idb-invest-supports-credit-expansion-sme-ecuador-produbanco

→ 61 https://www.produbanco.com.ec/Noticias/articulos/produbanco-primera-entidad-bancaria-del-pais-en-obtener-la-certificaci%C3%B3n-internacional-carbono-neutralidad/

→ 62 https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=27479

→ 63 https://www.produbanco.com.ec/media/711328/metas-nzba.pdf

THE CLIMATE INVESTMENT FUNDS

The Climate Investment Funds (CIF) is one of the largest multilateral climate funds in the world. It was established in 2008 to mobilize finance for low-carbon, climate-resilient development at scale in developing countries. 15 contributor countries have pledged over US$11 billion to the funds. To date CIF committed capital has mobilized more than $64 billion in additional financing, particularly from the private sector, over 70 countries. CIF's large-scale, low-cost, long-term financing lowers the risk and cost of climate financing. It tests new business models, builds track records in unproven markets, and boosts investor confidence to unlock additional sources of finance. Recognizing the urgency of CIF's mission, the G7 confirmed its commitment to provide up to $2 billion in additional resources for CIF in 2021.

CIF CLIMATE INVESTMENT FUNDS

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