EU-LAC Foundation
Fundación EU-LAC

Call for Proposals for the Study

"Analysis of the Green Bonds Market in Latin America and the Caribbean and its comparison with the European Union market"

Information for applicants

This study is funded by the EU-LAC Foundation. The EU-LAC Foundation is financed by its Members and, in particular for this project, by the European Union, Germany and the Kingdom of the Netherlands.

Federal Foreign Office

Ministry of Foreign Affairs

EU-LAC Foundation
Fundación EU-LAC

1. Introduction

The EU-LAC Foundation is launching a call for proposals for the elaboration of the study "Analysis of the green bonds market in Latin America and the Caribbean and its comparison with the European Union market".

2. Background

2.1 The EU-LAC Foundation

The EU-LAC Foundation is an international organisation created by the Heads of State and Government of the 61 countries of the European Union, Latin America and the Caribbean and by the European Union itself.

The objectives of the Foundation are to a) contribute to the strengthening of the EU-LAC bi-regional partnership process involving participation of civil society and other social actors; b) encourage further mutual knowledge and understanding between the regions; c) enhance the visibility of both regions, as well as of the bi-regional partnership itself. The EU-LAC Foundation's permanent offices are based in Hamburg, Germany.

2.2 The EU LAC work on climate change

The EU-CELAC Action Plan highlights as one of the areas of priority for the strategic partnership the need to confront climate change. Particularly, revised chapter 2 (Brussels, 2018) indicates the need for an "the optimization and scaling up of existing and upcoming networks and programmes in Latin America and in the Caribbean, taking advantage of the opportunities offered by investment facilities, as appropriate. In addition, promote triangular cooperation to leverage the contributions of other actors and resources, as well as innovative sources and mechanisms of additional financing".[1]

The countries of both regions have been the driving force of and have adopted the Paris Agreement on Climate Change, as well as the Sustainable Development Goals (SDGs). Article 9, numeral 3 of the Paris Agreement states: "As part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts."[2]
The SDG 13 has as one of its targets to mobilize USD100bn annually by 2020 from all sources to address the needs of developing countries and fully operationalize the Green

[1] https://www.consilium.europa.eu/en/meetings/international-ministerial-meetings/2018/07/16-17/?utm_source=dsms-auto&utm_medium=email&utm_campaign=EU+-+CELAC+Ministerial+meeting%2c+16-17%2f07%2f2018

[2] Paris Agreement on Climate Change, http://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf

Climate Fund through its capitalization as soon as possible.[3]

In the declaration of the 2nd EU-CELAC Ministerial Meeting (Brussels, 2018)[4], members have reiterated their commitment to address climate change, in particular through the United Nations Framework Convention on Climate Change (UNFCCC), being guided by its principles, including the principle of "Equity and Common but Differentiated Responsibilities and Respective Capabilities", as contained in the Paris Agreement. It was adopted a declaration "Building bridges and strengthening our partnership to face global challenges" which underlines "the need for financial resources from a wide variety of sources, technical cooperation and capacity building to assist developing countries with respect to both mitigation and adaptation actions and the goal of the Paris Agreement to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".

Since 2018 the Annual Work Programmes of the Foundation lists Sustainable Development and Climate Change as one of its priority thematic areas , and includes the realization of this study. The Foundation seeks to support governments and other relevant stakeholders from EU and LAC regions in the implementation of their relevant policies and strategies by providing analysis of issues where limited information is available. The production of such analyses can be complemented with the promotion of a high-level dialogue on the identified subjects so as to review and validate the preliminary results of the analyses and to promote fruitful information exchanges from which both experts and policy makers from both regions can benefit.

2.3 The green bond market

Green bonds are debt instruments used to finance projects that deliver environmental benefits. Green bonds possess the same standard financial characteristics of any other regular bond – a face value, yield, maturity date, and issuer. They differ from regular bonds in that they are labelled as "green" by the bond's issuer. This label entails a commitment from the issuer to use the proceeds of the bond to finance or re-finance climate-sensitive projects (ECLAC 2017).

The Green Bond market and other financial mechanisms such as the Sovereign Wealth Funds (SWFs) have become increasingly important in recent years as one way to finance the transition to a low-carbon economy.5 The environmental commitments made by countries at the UNFCCC in Paris in 2015 are one of the factors driving the growth of green bond market, as well as the need for investments associated with the 2030 Agenda and the SDGs. Moreover, the domestic public resources and the domestic and international private business and finance play an important role in the implementation of the Addis Ababa Action Agenda of the Third International Conference on Financing

[3] https://sustainabledevelopment.un.org/sdg13
[4] https://www.consilium.europa.eu/media/36181/declaration-en.pdf
5 http://www.greenfiscalpolicy.org/policy-insights/policy-brief-on-sovereign-wealth-funds-and-sustainable-development/

for Development.[6]

Although the green bond markets are growing strongly, they are starting from a relatively low level. The Climate Bonds Initiative (CBI) estimates that outstanding climate-aligned bonds grew by 14% between 2015 and 2016. According to the CBI, 2018 global green bond issuance reached USD167.3bn, surpassing 2017 figures by 3%.[7] However, less than 1% of global bonds are estimated to be labelled as green.

There are currently 44 countries issuing green bonds and geographic diversification continues to grow with 8 new countries having debuted in 2018[8]. Developed markets accounted for 69% of total issuance in 2018 and 56% of these came from the European issuers, with significant contributions from France, Belgium and Ireland. Emerging markets accounted for 24% of green bonds volume in 2018 (mostly from Asia-Pacific region).

The development of the green bond market is still incipient in Latin America and the Caribbean (LAC). By 2017, the total issuance of green bonds in the region had been of approximately $10bn (compared with a total of approximately $360bn in outstanding green bonds). In the same year, the outstanding issuance of green bonds in Europe has surpassed $110bn.[9] The LAC region green bond issuance was low in 2018 mainly due to the political uncertainties in Brazil and Mexico and the economic crisis in Argentina.[10]

In October 2017 the Economic Commission for Latin America and the Caribbean (ECLAC) published the report "The rise of green bonds: Financing for development in Latin America and the Caribbean"[11]. It shows that between 2014 and 2017, the region issued US$ 8.4bn in bonds with a green focus in local and international markets. The bulk of the region's green-focused bonds – US$ 7.1bn (84%) – were issued in international markets. On average, these bonds represented only 1.6% of the total LAC bond issuance in international markets in the period. In the first half of 2017, however, they accounted for 3.7% of the region's total international debt issuance. If this share continues on an upward trend, green bonds could play a more significant role in the mobilization of resources for the implementation of the 2030 Agenda in LAC.

On the aggregate, the region remains a small participant of the global green bond market. Less than one percent of the total current climate-aligned bonds outstanding originate from LAC, according to the CBI. Despite the small numbers, there is growing

[6] https://undocs.org/E/FFDF/2019/L.1

[7] https://www.climatebonds.net

[8] Iceland, Indonesia, Lebanon, Namibia, Portugal, the Seychelles, Thailand and Uruguay

[9] https://www.greenfinancelac.org/wp-content/uploads/2018/01/SEB_The_Green_Bond_December_2017-1.pdf

[10] https://www.environmental-finance.com/content/market-insight/latam-green-bonds-building-momentum.html

[11] https://www.cepal.org/en/publications/42230-rise-green-bonds-financing-development-latin-america-and-caribbean

interest in alternative sustainable financing, and there is an upward trend in issuances with a green focus in the region.

A majority of the bonds issued in the region are directed at financing energy and transportation-related projects as well as agricultural and forestry initiatives. The most frequent green bond issuers in the LAC region have been from Brazil and Mexico. Jointly, these two countries accounted for over 70% of all bonds with a green focus issued in the region.

The biggest limitation for the use of green bonds in the process of resource mobilization in the context of the 2030 Agenda is that bond financing is a tool available to only a set of countries of the region that have better developed domestic capital markets and access to international bond markets. In the case of smaller economies with less developed domestic capital markets and limited access to international capital markets, the role of Multilateral Development Banks (MDBs) is of vital importance in providing direct financing.

The Development Bank of Latin America (CAF), the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC/World Bank) have been instrumental in promoting the market for green bonds within the region, and the Green Climate Fund (GCF)[12] has also provided funding for this endeavour.

In 2015, the IDB approved financing together with GCF to establish a regional Energy Efficiency Green Bond Facility (USD450 million) to underwrite energy efficiency projects. Mexico was the first country to implement this program, and it will be followed by the Dominican Republic, Jamaica and Colombia.

The Caribbean region's small island developing states (SIDS) face considerable threats from climate change, and high costs to cope with and adapt to climate impacts that exceed their financial capacity, although some are important financial centres. Their issuance is unlikely to be a major financing source. While some of the economic sectors would be promising candidates, the ticket sizes are likely to be very low and the SIDS would likely best benefit from Green Bonds through proceeds channelled from one of its financial cooperation partners, such as the IDB or the Caribbean Development Bank (CDB).

In addition to the ECLAC report, other recent studies on this subject are worth highlighting. The Organisation for Economic Co-operation and Development (OECD) 2017 report "Mobilising Bond Markets for a Low-Carbon Transition" describes the development of the green bond market as an innovative instrument for green finance, and provides a review of policy actions and options to promote further market development and growth.[13]

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[12] https://www.greenclimate.fund/home

[13] http://www.oecd.org/env/mobilising-bond-markets-for-a-low-carbon-transition-9789264272323-en.htm

The CBI has published a series of studies on specific countries (Brazil, Canada, China, France, Germany, India and Mexico).[14] In the case of Brazil, it found that through September 2017 a total of $3.67bn had been issued. In the case of Mexico, it issued a $4bn green bond in 2017, and has a cumulative issuance of $6bn. Other LAC countries that have issued green bonds include Argentina, Chile, Colombia, Peru and Uruguay, according to a study by the Swedish Bank (SEB).[15]

The *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) also published in 2017 a study on the potential of green bonds with an eye towards providing insights and framing the discussion over its potential role in financing Nationally Determined Contribution (NDCs), particularly in emerging markets and developing countries (Bangladesh, Cambodia, Granada, Morocco, Namibia, Peru, South Africa, Tajikistan, Tanzania, Uganda, Vietnam, and Zambia).

In 2016, the European Commission (EC) undertook a study on the potential of the green bonds finance for resource-efficient investments, focused on Europe, but also with case studies related to China, Mexico, Norway, and the United States.[16]

The EC report presented an analysis of the development and functioning of the green bond market, including the main actors and economic sectors, with specific focus on financing investments into improved resource efficiency. It summarized the key bottlenecks limiting the development of the market in specific countries and sectors. It identified a set of possible public sector measures to overcome these bottlenecks, supported by examples of good practices. The report assessed the regulatory feasibility and expected impacts of specific standardization options on the liquidity and size of the market. The report also presented a set of recommendations addressed at the EU and its Member States, as well as a Policy Toolbox, which provided additional details on the possible public sector measures on the demand and supply side.

In Mexico, according to the report, a National Green Bond Market Development Committee was established, led by the Mexican Stock Exchange. The Committee unites different types of public entities, which are committed towards climate friendly development (e.g. financial regulators, the Ministry of Finance and development banks).

With the green bond market relatively new, there are multiple mechanisms and definitions in place in different countries and at the global level (such as the Green Bond Principles[17] and the CBI[18]). The EC established a High-Level Expert Group (HLEG) on sustainable finance in 2016. It was made up of 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions. The

[14] https://www.climatebonds.net/resources/reports

[15] https://www.greenfinancelac.org/wp-content/uploads/2018/01/SEB_The_Green_Bond_December_2017-1.pdf

[16] http://ec.europa.eu/environment/enveco/pdf/potential-green-bond.pdf

[17] https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

[18] https://www.climatebonds.net/policy/our-10-point-plan

group published its final report in January 2018.[19] It presented eight priority actions, which it considered to be the necessary building blocks for any meaningful action regarding sustainable finance (which include establishing a common European green bond standards).[20] Other initiatives include work by the European Investment Bank (EIB), by the ASEAN Capital Markets Forum, and policy work in Indonesia, India, Argentina, Mexico, Nigeria and Kenya.[21]

At the 2019 Spring Meetings of the World Bank Group (WBG) and the International Monetary Fund (IMF), Finance Ministers from more than 20 countries launched a new coalition that will help countries mobilize and align the finance needed to implement their national climate action plans. This coalition endorsed the so-called "Helsinki principles", which promote national climate action, especially through fiscal policy and the use of public finance.[22]

Particularly in LAC, the success of the green bond market to raise capital for the implementation of the 2030 agenda is stimulating strong interest in a growing number of countries to develop national green bond frameworks that link international good practice to local priorities. Governments and the financial sector industry in LAC are therefore increasingly interested and involved in the global dialogue and knowledge exchange to identify international best practice for green bond market development and deepening.

Despite the existing and above-mentioned studies and initiatives, the rapid expansion of the green market requires the need to research and deepen some topics such as the connections between law, economy, the environment and the social impacts arising from the use of this financial instrument. It leads to a necessary and pressing debate on the construction of a coherent institutional framework of (self) regulation that are relevant challenges to be faced by formulators of public policies and private agents.

3. Description of the study

3.1 General objective

The general objective of this call is to carry out a study on the potential of green bonds market in LAC, including comparative aspects with the EU market.

3.2 Specific objective

The proposed study should look at the incentives and the barriers for the expansion of the green bonds market as well as the benefits it brings for the 2030 Agenda on

[19] https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

[20] https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190306-sustainable-finance-teg-interim-report-green-bond-standard_en_0.pdf

[21] https://www.climatebonds.net/files/reports/cbi-green-bonds-highlights-2017.pdf

[22] https://www.worldbank.org/en/news/press-release/2019/04/13/coalition-of-finance-ministers-for-climate-action

Sustainable Development. In doing so, the study could explore the following issues:

a) Good practices in terms of regulatory framework and governance structures, standards, accountability, policies and programmes (identifying successful examples in LAC and the EU).
b) Factors, actors and interests (including bottlenecks) that affect the modelling of green bond issue: Possible fields of interest for LAC countries (renewable energy, energy efficiency, low carbon transport, sustainable water and/or waste & pollution, forestry etc.) to meet the SDGs. Mapping of relevant actors (profile of the issuers and investors of green bonds in LAC and EU). The environmental and the social impacts of the projects funded through green bonds (including on vulnerable groups). Particular attention should also be paid to the situation of Caribbean countries.
c) Other relevant comparative aspects with the green bond market in the EU countries.

4. Experts profile / Expertise required

This study will require the work of a team of several analysts, researchers, and/or scholars, citizens of any of the 61 EU or Latin America and the Caribbean member States, associated with the EU-LAC Foundation, and who can demonstrate the following qualifications and experience:

a) Excellent writing and communication skills, including demonstration of previous case study/briefing notes.
b) Expertise in sustainable development and climate change adaptation/mitigation programmes; financial markets/financing for development.
c) High-level analytical skills, including experience in applying conceptual frameworks of analysis demonstrated through publications and research projects.
d) Affiliation with an academic institution (University, Research Centre/Institute, Think Tank or a consortium comprising an academic institution and other private sector/civil society organizations, etc. led by the academic institution), which is officially registered in a state either in LAC, or the EU. The composition of a team of authors affiliated with distinct institutions from the EU- LAC space, thereby allowing for a reflection about the theme to be addressed in the present study from distinct perspectives and approaches, will be valued.
e) Proven ability to orally present and discuss research results at international fora at least in English and/or Spanish.

5. Location and duration

The location of the elaboration of the study is flexible and will depend on the authors' location of work and residence (EU or LAC countries).

Planned starting period: 1st August 2019.

Planned Duration: until 31st March 2020.

Elaboration and submission of a preliminary version of the study (in Word format) is due by 20th December 2019.

Preparation of consolidated version of the study based on the comments received from the EU-LAC Foundation (in Word format), due 31st March 2020.

6. Amount of funding available for the study

The study will be undertaken with a limit of maximum 25,000 Euros.

Expenses must be justified in a draft budget to be submitted to the Foundation with the other documents of the proposal (see application documents). The disbursement of the expenses will proceed according to a calendar of payments agreed upon in the contract signed between the EU-LAC Foundation and the institution with which the Coordinator of the project is affiliated, and after due review (incl. quality control) of the submitted preliminary and consolidated document.

The EU-LAC Foundation reserves the right to insist on the improvement of the format, style, editing and analytical quality of the preliminary and final version of the study. Should the improved version(s) not correspond to the required quality standards and the specific comments made by the EU-LAC Foundation, it can deny the respective reimbursement. The EU-LAC programme managers in charge of the contract supervision should approve all the deliverables prior to payment execution. Upon the receipt of the reimbursements of the EU-LAC Foundation for the services delivered under the present call, the institution with which the contract will be signed will be responsible to comply with the administrative rules and fiscal obligations of its respective country of establishment.

7. Application documents

All application documents must be written either in English or Spanish.

The following documentation must be submitted:

a) Filled Application form
b) Filled Detailed project outline
c) Filled CV form - one per participating researcher/consultant (incl. head researcher, assistants, doctoral students, etc.)
d) Filled draft budget form
e) Scanned copy of the signed declaration of honour - one per participating researcher

f) Confirmation of institutional affiliation, signed by the institution to be referred to as "the contractor", - one per participating researcher.

You can download all necessary documentation from the EU-LAC Foundation's website at:

https://eulacfoundation.org/en/tenders

Please provide all application documents in MS Word/Excel format or PDF. For sending larger packages of documents, please use only zip-files.

8. Exclusion from award of contracts

In order to demonstrate their eligibility, applicants must submit as part of their application documents, the declaration of honour on exclusion criteria and absence of conflict of interest duly filled and signed (see Application Documents).

For reasons of fairness, any applicant can only apply with one research proposal (as part of one research team) for the present call; the Foundation will not consider applications from the same person who submits more than one application or who is part of more than one research team under the present call.

9. Selection method and award procedure

The contract will be awarded to one team of experts based upon a competitive selection procedure. All complete proposals that fulfil the eligibility criteria, and are received by the deadline, will be considered for the award procedure. A selection panel constituted by three members of the EU-LAC Foundation will evaluate all eligible proposals, according to the following criteria:

a) Relevance of the proposal with respect to the objective and main topics delineated in this Call for Proposals
b) Adequacy of proposed approach and work methodology
c) Potential policy impact and sustainability of proposal
d) Experience and composition of experts (relevant publications; representation of researchers from Caribbean, Latin American and European institutions).
e) Appropriateness of submitted draft budget

Selection Criteria will be rated on a scale from 1-100, with an equal weight for each criterion.

The technical score for each proposal will be calculated as follows:

Ti = score for offer under consideration/score for best technical offer *100

The financial score for each proposal will be calculated as follows:

Fi = best financial offer (lowest price)/price of the offer under consideration * 100

The contract will be awarded to the "best value for money" proposal, namely the one obtaining the best overall score Pi calculated as follows:

Pi = 0.80 * Ti + 0.20 * Fi

Where…

Pi is the total score for the tender in question (out of 100).
Ti is the number of points (between 0 and 100) obtained in the technical evaluation.
Fi is the number of points (between 0 and 100) obtained in the financial evaluation.

The proposal assigned with the highest score in the evaluation process will be selected by the EU-LAC Foundation for the award.

10. Deadlines for applications

30.06.2019, 23:59 German time.

Please send applications to: call@eulacfoundation.org - stating in the subject: CALL GREEN BONDS. Inquiries should be sent to the same mailbox.

All complete proposals received by this deadline that fulfil the eligibility criteria will be considered for the award.