

Maximizing Synergy and Complementarity among Multilateral Climate Funds: Evidence, Challenges, and Opportunities



QUICK FACTS

Relevant CIF Program(s): All

E&L Theme: CIF Design and Approach

Implementing Agency: Climate Investment Funds (CIF), in collaboration with Green Climate Fund (GCF) and Arepo Consult

Target Due Date: January 2019

Status: Case study development

Countries Covered: All, with case studies in Brazil, Cambodia, Kazakhstan, Mongolia, and Namibia

Methods Used: Desk review, interviews, and evidence synthesis

OBJECTIVE

The purpose of this study is three-fold:

1. To investigate the extent to which multilateral climate funds (the Global Environment Facility, Climate Investment Funds, and Green Climate Fund) have worked together at the project/program level;
2. To study the type of financial instruments that have been used by the different climate funds in those projects/programs and the underlying rationale; and
3. To understand the driving forces at various levels (country, implementing entities, etc.) behind the projects/programs that have demonstrated synergy and complementarity, as well as challenges and opportunities to make different climate funds and instruments work together efficiently and effectively.

INTENDED USES AND USERS

The past decade has seen a proliferation of climate funds, including domestic, bilateral, and multilateral funds. Among the key multilateral funds that provide several billion dollars in funding are the Climate Investment Funds (CIF), the Green Climate Fund (GCF), and the Global Environment Facility (GEF).¹ The GCF (since 2016) and the GEF (since 1992) are two operating entities of the financial mechanism of the UNFCCC. The CIF was established in 2008 outside the UNFCCC process and consists of two funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF).²

Thus, the study analyzes the portfolios of the three aforementioned major multilateral funds and highlights where funds have had the opportunity to coincide and lead to synergies (including types of synergies). The analysis compiles findings on the converging funding through country and program case

studies. With this detailed look at case studies, it is possible to explore whether synergies created opportunities that lead to transformational change³. The ensuing analysis of drivers and challenges will provide a good basis for guiding the design of better programs and projects. Detailed case studies, as well as the ensuing analysis of drivers and challenges, will provide a good basis for the design of better programs and projects. It will also be helpful in the formulation of policies by the multilateral climate funds. Results of this evaluation and learning activity will further highlight to donors and countries how synergies can be utilized to magnify the impact of the funding and lead to transformational change.

WHAT WE'VE LEARNED

In theory, synergies can be through co-investment, consecutive investment, or "division of labor" in parallel or consecutive setups. However, a number of challenges exist for the intentional exploitation of these synergies. These include different approval processes, different timelines for project monitoring, different focal points for different funds, and different stakeholders.

On the other hand, many projects already demonstrate practical synergies. For example, the case study on the FinBRAZEEC project illustrates a particularly interesting example. In Brazil, the World Bank Energy Sector Management Assistance Program's (ESMAP's) analytical work highlighted the potential for energy efficiency improvements in street lighting. With the help of ESMAP and the International Finance Corporation (IFC), the city of Belo Horizonte then developed a public private partnership model for managing and replacing their street lighting system. A large number of cities and municipalities in Brazil are in that situation. However, the funding for this investment is still lacking. Bank lending for these investments is too short-term, requires significant collateral, and is very costly. To improve this situation, the FinBRAZEEC project provide a loan and a guarantee facility. With multiple sources of funds including the World Bank, the local implementer Caixa Econômica Federal (CEF)", the CIF and GCF, the FinBRAZEEC facility is designed to provide blended, fit-for-purpose support, including grants and technical assistance for the preparation

of a municipal project, affordable loans for the investment, and a risk guarantee. In its sensitivity analysis (recalculation of outcomes under alternative assumptions to determine the impact of a variable), the FinBRAZEEC project also demonstrates that financing energy efficient streetlights without this facility or any of its components would remain extremely difficult. It also shows that without any one of the funding components the project would not be able to reach a scale at which relevant investment would take place. Therefore, the synergies lie in the combination of funds - on the one hand with respect to the sheer scale of the facility, on the other with respect to its long tenor. It is the synergy between the funds that makes the long-term capital available and affordable.

WHAT'S NEXT?

In the next steps, the research team will identify and describe several more case studies that highlight other types of synergies, including synergies between technical assistance and financial assistance agencies and synergies through national or MDB coordination. The final report will compile findings and learning from the portfolio analysis and case studies to ultimately identify the basis and opportunities for leveraging synergies between the funds.

¹ World Resources Institute (WRI), *The Future of the Funds: Exploring the Architecture of Multilateral Climate Finance*, 2017.

² The SCF is made up of three targeted programs: Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR), and Scaling up Renewable Energy Program in Low Income Countries (SREP).

³ As defined by the Transformational Change Learning Partnership (TCLP), transformational change is strategic changes in targeted markets and other systems with large-scale, sustainable impacts that accelerate or shift the trajectory toward low-carbon and climate-resilient development.