

# Analysis of External Climate Finance Access and Implementation

CIF, FCPF, GCF and GEF Projects and  
Programs by the Inter-American  
Development Bank

Sofía Viguri  
Sandra López Tovar  
Mariel Juárez Olvera  
Gloria Visconti

Climate Change Division

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CIF, FCPF, GCF AND GEF PROJECTS AND  
PROGRAMS BY THE INTER-AMERICAN  
DEVELOPMENT BANK

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Sofía Viguri, Sandra López Tovar,  
Mariel Juárez Olvera y Gloria Visconti



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# Abbreviations and acronyms

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<b>CCS</b>	Climate Change Division at the IDB
<b>CIF</b>	Climate Investment Funds
<b>CMF</b>	Connectivity, Markets and Finance Division at the IDB
<b>CO<sub>2</sub>e</b>	Carbon dioxide equivalent
<b>CPI</b>	Climate Policy Initiative
<b>CSD</b>	Climate Change and Sustainable Development Sector at the IDB
<b>CTF</b>	Clean Technology Fund
<b>CTI</b>	Competitiveness, Technology and Innovation Division at the IDB
<b>DFI</b>	Development Finance Institutions
<b>EE</b>	Energy Efficiency
<b>ECF</b>	External Climate Finance
<b>ENE</b>	Energy Division at the IDB
<b>FCPF</b>	Forest Carbon Partnership Facility
<b>FGI</b>	Flexible Guarantee Instrument
<b>FIP</b>	Forest Investment Program
<b>FMM</b>	Fiscal and Municipal Management Division at the IDB
<b>GCF</b>	Green Climate Fund
<b>GEF</b>	Global Environment Facility
<b>GHG</b>	Greenhouse Gas
<b>HUD</b>	Housing and Urban Development Division at the IDB
<b>ICS</b>	Institutional Capacity of State Division at the IDB
<b>IDB</b>	Inter-American Development Bank
<b>IDB Group</b>	Inter-American Development Bank Group
<b>INT</b>	Integration and Trade Sector at the IDB
<b>LAC</b>	Latin America and the Caribbean
<b>LFI</b>	Local Finance Institutions
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MDB</b>	Multilateral Development Bank
<b>MDG</b>	Millennium Development Goal
<b>NAMA</b>	Nationally Appropriate Mitigation Action
<b>NAP</b>	National Adaptation Plan
<b>NDA</b>	National Designated Authority
<b>NDC</b>	Nationally Determined Contributions
<b>OC</b>	Ordinary Capital
<b>ORP</b>	Office of Outreach and Partnerships at the IDB

<b>OVE</b>	Office of Evaluation and Oversight at the IDB
<b>PPCR</b>	Pilot Projects for Climate Resilience
<b>RE</b>	Renewable Energy
<b>REDD+</b>	Reducing Emissions from Deforestation and Forest Degradation
<b>RND</b>	Environment, Rural Development and Disaster Risk Management Division at the IDB
<b>SECCI</b>	Sustainable Energy and Climate Change Initiative
<b>SDG</b>	Sustainable Development Goal
<b>SME</b>	Small to Mid-size Enterprises
<b>SREP</b>	Scaling-up Renewable Energy Program in Low Income Countries
<b>TrC</b>	Transformational Change
<b>TNA</b>	Technology Needs Assessment
<b>TSP</b>	Transportation Division at the IDB
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>VPC</b>	Vice Presidency for Countries at the IDB
<b>WSA</b>	Water and Sanitation Division at the IDB

# Glossary

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<b>Adaptation finance</b>	The volume (US\$) of the components, subcomponents, or activities of development projects that contribute to climate change adaptation according to the Joint MDB Approach for Climate Finance Tracking <sup>1</sup> . This approach involves a three-step process: (i) description of the project's specific vulnerability context; (ii) stating as a project's objective the explicit intent to reduce climate vulnerability; and (iii) identification of specific adaptation activities through a granular approach.
<b>Blended finance</b>	The combination of concessional finance from donors or third parties alongside Development Finance Institutions' (DFI) regular own account finance and commercial finance from other investors to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources. <sup>2</sup>
<b>Climate finance</b>	The US\$ amount approved by the IDB to finance climate change mitigation and climate change adaptation activities in development projects according to the Joint MDB Approach for Climate Finance Tracking. For this purpose, the IDB Group considers loans, grants, technical cooperation, guarantees, and equity from the funds of the Bank.
<b>Co-finance</b>	Finance that helps complete financing plans. <sup>3</sup> In the context of this report, it refers explicitly to finance that is additional to both the IDB and ECF, and that supports the implementation of the climate-related project or program analyzed. <sup>4</sup>

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<sup>1</sup>See Annex B of the 2018 Joint Report

<sup>2</sup>As stated by the DFI Working Group on Blended Concessional Finance for Private Sector Projects (2019).

<sup>3</sup>See full definition at: <https://www.iadb.org/en/about-us/idb-financing/cofinancing%2C1430.html>

<sup>4</sup>This co-finance is clearly stated as such in project documents at the time of approval, and it may include funds from other operations at the IDB that are closely related to activities funded through ECF. Please note that the GEF, for example, has developed a policy on co-financing, and guidelines.



<b>Concessional financing</b>	Resources extended on terms and/or conditions that are more favorable than those available in the market. It is achieved through (i) interest rates below those available on the market; (ii) maturity, grace period, security, rank or back-weighted repayment profile that would not be accepted/extended by a commercial financial institution; and (iii) provision of financing to borrowers/recipients not otherwise served by commercial financing. <sup>5</sup>
<b>Cost-effectiveness</b>	Comparison between the net present value of an intervention and the emissions avoided directly attributed to it. If available, the net present value includes the monetized value of the benefits from adaptation and further development co-benefits.
<b>Development Finance Institutions Working Group</b>	Group of multilateral and bilateral development institutions that focus on private sector investments. It includes the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the European Bank for Reconstruction and Development (EBRD), European Development Finance Institutions (EDFI), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDB Group), the Islamic Corporation for the Development of the Private Sector (ICD), and International Finance Corporation (IFC).
<b>Effective</b>	A condition where program or project outcomes are commensurate with expected outcomes.
<b>Equity investment</b>	Acquisition of ownership over shares in a business, in exchange for financial or other contributions. In the specific case of IDB Invest, this type of investment allows it to provide up to 33% of a company's capital, offering long-term risk capital, while also contributing technical and market expertise, improve financial management, strengthen environmental, social and governance standards, and crowd in additional investors. <sup>6</sup> The IDB Group can invest in national, regional, and sector equity funds that invest in medium-size LAC companies without appropriate sources of capital.

<sup>5</sup>As stated by the DFI Working Group on Blended Concessional Finance for Private Sector Projects (2019).

<sup>6</sup>See: <https://www.idbinvest.org/en/solutions/equity> and <https://www.iadb.org/en/investments>

<b>External Climate Finance (ECF)</b>	Concessional resources obtained from sources external to the IDB Group and that it channels towards projects, subcomponents, and activities that contribute to climate change mitigation and adaptation in Latin America and the Caribbean. For this report, ECF refers only to climate finance granted by the four funds here analyzed: the Climate Investment Funds (CIF), the Green Climate Fund (GCF), the Forest Carbon Partnership Facility (FCPF), and the Global Environment Facility (GEF).
<b>Financial products</b>	Loans, grants, guarantees, and equity investments (the latter available from IDB Invest and the IDB Lab) used by the IDB Group to finance economic and social development in Latin America and the Caribbean. <sup>7</sup>
<b>Grant</b>	Non-reimbursable resources that are used to fund projects with development objectives. Some grants may be repaid to the IDB if the program eventually obtains a loan. Grants can be financed by the IDB's financial resources or funds from third parties such as External Climate Finance.
<b>Guarantee</b>	<p>A product offered by the IDB Group that improves financial terms in project financing and capital market instruments, helping promote investment through the enhancement of bond issues, of project finance, of asset-backed securities, of securities backed by future flows, and structuring trade transactions. They can involve a partial credit guarantee or political risk guarantees.</p> <p>Guarantees can have a sovereign counter-guarantee or not. The former are managed by the public arm of the IDB and allow borrowing member countries, subnational, and local governments to structure partial credit guarantees and partial risk guarantees.<sup>8</sup> The latter are managed by IDB Invest and enable private partners to obtain access to capital markets or enhance the working capital of their supply chains. There is also risk-sharing guarantees, or loss-sharing arrangements, to enable clients to reduce risks while expanding their products and services.</p>
<b>Leverage</b>	Finance that is used to encourage private investors to back the same program/project; also, how core contributions can be invested in capital markets to create an internal multiplier effect. <sup>9</sup>

<sup>7</sup>See: <https://www.iadb.org/en/fin>

<sup>8</sup>See: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39682787>

<sup>9</sup>UNDP, 2017: Climate Finance Glossary. Available at: [https://www.undp.org/content/dam/nepal/docs/reports/2017\\_reports/CF\\_Glossary\\_Final\\_July2017.pdf](https://www.undp.org/content/dam/nepal/docs/reports/2017_reports/CF_Glossary_Final_July2017.pdf)

<b>Mitigation finance</b>	The volume (US\$) of the components or subcomponents/ activities of development projects that contribute to climate change mitigation, identified through a positive list of eligible activities that are compatible with low-emissions development pathways, as provided in Annex C of the 2018 Joint Report on Multilateral Development Banks' Climate Finance.
<b>Paradigm shift</b>	As defined by the GCF, the degree to which a proposed activity can catalyze impact beyond a one-off project or program investment under GCF funding. It is defined by criteria on innovation, the potential for scale-up and replication, potential for knowledge and learning, contribution to an enabling environment, and regulatory framework and policies.
<b>Strategic</b>	Aligned with short and long-term institutional priorities – those belonging to the country, the IDB, and external sources of finance, such as climate funds.
<b>Synergistic</b>	Cooperation among one or more agents that produces a combined effect that is greater than the sum of separate efforts, allowing for economies of scale, reinforcing positive dynamics, etc.
<b>Transformational change</b>	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. It is defined by the four dimensions of relevance, systemic change, scale, and sustainability. <sup>10</sup> These changes are durable and lasting in ways that lessen the likelihood of reverting to past practices and persist over time.
<b>Venture capital and seed funds</b>	Entities that invest in small companies and help increase their competitiveness to flourish. The IDB Lab, in particular, is a regional leader in this industry, and as such, makes strategic investments in various venture capital and seed funds in LAC <sup>11</sup> , which in turn invest in small enterprises – including those with climate-related objectives.

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<sup>10</sup> For more information, go to: Climate Investment Funds' Evaluation and Learning initiative. <https://www.climateinvestmentfunds.org/evaluation-and-learning>

<sup>11</sup>IDB Lab does not invest directly in companies, but rather contributes equity in these type of funds.







# Analysis of external climate finance (ECF) at a glance

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This report collects a series of insights and lessons learned by the IDB in the preparation and implementation of projects with climate finance from four external sources: the Climate Investment Funds (CIF), the Global Environment Facility (GEF), the Green Climate Fund (GCF) and the Forest Carbon Partnership Facility

(FCPF). It includes a systematic revision of their design and their progress on delivery, an assessment of broader impacts (scale-up, replication, and contributions to transformational change/paradigm shift), and a set of recommendations to optimize the access and use of these funds in future rounds of climate investment.

## Key Findings



IDB Group's programs and projects that included the contribution of CIF, GCF, GEF, and FCPF through the period 2009 – 2019 amounted to US\$6.7 billion of finance for climate action in LAC. For every dollar invested by the IDB in these projects, an additional \$2.6 was mobilized.<sup>12</sup>



Project and program design have been most strongly geared towards the objectives of GHG mitigation, creation of enabling conditions, innovation and demonstration, generation of sustainable development co-benefits, resource mobilization, mainstreaming resilience, and promoting transformational change.



Project preparation methods must be more robust and clear in designing for the objectives of ensuring cost-effectiveness and covering only incremental cost of climate action, defining and fulfilling learning objectives, fostering country-ownership, and laying-out concrete strategies for scale-up.

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<sup>12</sup>Data only includes operations that are closed or under implementation. The calculation does not include any projects currently in preparation but not formally approved (12), cancelled or on hold (10), which would add up to a total of 128 projects instead of 106 considered here.



Innovative financial mechanisms, such as new asset types (e.g., green bonds), regional facilities, and energy savings insurances, have proven highly successful and replicable models to ramp up climate action in LAC. They are a direct consequence of the “space to innovate” provided by ECF within IDB preparation processes.



The most promising way to maximize the use of concessional finance from ECF is for the IDB to explore further and apply a broader range of financial products. This can also help improve insufficient targeting of certain barriers to investment, such as the incremental financial risk of climate action.



The IDB and ECF partners must prioritize collaboration to improve the efficiency and timeliness for accessing funds. In the past, this has compromised the ability to achieve synergies and seize political will, market conditions, and stakeholder alignment that could have provided conditions for transformational change.



Two ways to improve implementation of IDB operations that channel ECF are to foster greater ownership at the Country Office (COF) level, and to put in place agile, comprehensive and consistent training on ECF administrative procedures and safeguard policies, both inside the Bank and with local Executing Agencies.



The IDB Group has over two dozen concrete examples of ECF scaling and replication effects in its wider portfolio. Some of the most valuable contributions to climate action are the transformation of value chains, the adoption of regulatory frameworks and incentives, and stronger governance over natural resources.



The IDB can change its processes to improve ECF use by budgeting and acknowledging the “extra-mile” needed in innovative climate finance projects, fostering learning across funds and sectors through improved knowledge management.



In approximately 55% of IDB Group operations that manage ECF, mutually reinforcing dynamics were found between these and the Bank’s own portfolio. Greater programmatic and cross-sectorial work, and strategic alignment, can help foster more significant synergies.



Teams at the IDB acknowledge the strong value added by collaboration with ECF partners. This report articulates a vision and strategy to harness this value during the following five years; this message must be internalized at the highest levels of management and nurtured through strategic partnerships going forward.



# Executive summary

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In response to the Paris Agreement and the Sustainable Development Goals (SDGs), the IDB Group Board of Governors endorsed the target of increasing climate-related financing in Latin America and the Caribbean (LAC) from 15% in 2015 to 30% of the IDB Group's combined total approvals by 2020. Currently, the IDB Group is on track to meet this commitment, as in 2018, it financed nearly US\$5 billion in climate-change-related activities benefiting LAC, which accounted for 27% of total IDB Group's annual approvals. In 2019, the overall volume and proportion of climate finance in new IDBG approvals have increased to 29%.

As the IDBG continues to strive towards this goal by using its funds to ramp-up climate action, it also acknowledges that tackling climate change is an objective shared with the rest of the international community. For the past ten years, strategic partnerships have been forged with external sources of finance<sup>13</sup> that are also looking to invest in low-carbon and climate-resilient development. Doing this has contributed to the Bank Group's objective of mobilizing additional resources for climate action while also strengthening its position as a leading partner to accelerate climate innovation in many fields. From climate-smart technologies and resilient infrastructure to institutional reform and financial mechanisms, IDBG's use of external sources of finance is helping countries in LAC advance toward meeting their international climate change commitments.



**In the last ten years, collaboration among the IDBG and the CIF, the GCF, the GEF, and the FCPF has amounted to US\$1.1 billion contributing to US\$6.7 billion of project finance in support for climate change-related projects. For every dollar invested directly by the IDB, \$2.6 have been leveraged from additional sources.**

The last ten years of work to channel resources from international climate funds to countries in LAC have provided the Bank with a rich learning experience on how to adapt to change and seize new climate-related opportunities internally.

<sup>13</sup>These funds include: the Adaptation Fund, the Canadian Climate Fund for the Private Sector in the Americas (C2F), the China Co-financing Fund for LAC, the Climate Investment Funds (CIF), the Global Environment Facility (GEF), the Green Climate Fund (GCF), the Forest Carbon Partnership Facility (FCPF), the International Climate Initiative (IKI), the Korea Infrastructure Development Co-Financing Facility (KIF), the NAMA Facility, the Nordic Development Fund (NDF), and the Norway International Climate and Forest Initiative.

To leverage external finance, the IDB<sup>14</sup> has had to develop an understanding of the priorities, processes, and expectations of new development partners. Despite great leadership, tenacity, and progress in doing so, some challenges remain: finding ways to maximize the use of scarce resources available, managing the complexity of preparation and approval processes involved, and reducing high transaction costs that are typical in these operations, among others. Looking ahead, greater efforts in the Bank are needed to ensure concessional finance from these sources is accessed as efficiently as possible and used effectively to support a sustainable transition towards a low-carbon and climate-resilient future in LAC.

## Climate finance in the time of COVID-19

The insights and lessons learned collected in this publication can inform the design of short and medium-term actions that support “green recovery” through the mobilization of investments that promote decarbonization.

The COVID-19 crisis can unlock unprecedented opportunities for a strong, sustainable and inclusive economy. As demonstrated by a mounted of evidence<sup>15</sup>, climate action can accelerate recovery by increasing economic resilience, improving global health, and creating jobs<sup>16</sup>. Designing a resilient and green recovery

while addressing the short-term health and economic urgencies linked to the pandemic is the best way to unlock lasting socio-economic and environmental benefits, and climate finance is essential.



**Most ECF channeled by the IDBG is constituted by loans (83%) and grants (9%), while equity (6%) and guarantees (2%) represent a lower proportion of funding.**

ECF, together with Multilateral Development Banks (MDBs) such as the IDB, can support new climate investments as part of a green recovery in developing countries by strategically and programmatically delivering large and coordinated financial packages that drive emissions reductions while creating more jobs and economic growth. Ensuring concessional resources flows in the short and medium-term to finance low-carbon and climate-resilient investments is more important than ever to provide the confidence to developing countries so that these investments are prioritized over a high-carbon recovery. Beyond deploying a wider range of instruments to manage, share, and reduce risk, partnering with ECF funds becomes also critical to

<sup>14</sup> Important note: The present recommendations are focused on projects executed by the public sector arm of the IDB. Nonetheless, previous efforts have analyzed ECF in the IDB Invest as well, and these insights have been integrated into the analysis of the report.

<sup>15</sup>For instance, the New Climate Economy's analysis highlights that bold climate action could deliver at least US\$26 trillion to 2030 in net global economic benefits compared with business-as-usual. This includes creating more than 65 million new low-carbon jobs in 2030 as well as avoiding over 700,000 premature deaths from air pollution compared.

<sup>16</sup>This could lead to 15 million net jobs potential that can be created by 2030, according to IDB publication, Jobs in a Net-Zero Emissions Future in Latin America and the Caribbean. This publication showcases some of the most successful cases of climate finance – projects that were useful to create replicable, scalable and/or transformational models of climate action, with effects beyond their initial scope. It will help to mainstream climate change considerations into the existing and future projects targeting both short-term economic recovery and long-term structural changes aligned with sustainable, inclusive growth and strengthening society's resilience.

provide dedicated technical assistance resources and project preparation grants to identify new climate investments that have strong social and economic benefits and to improve countries ability to develop proposals. Concessional finance will also be essential to help ensure that policy-based lending programs prioritize green recovery goals and that countries do not revert to more carbon-intensive recovery options.

Acknowledging the urgency of this moment and their ability to take higher levels of risk and catalyze massive private investments, IDB's ECF partners are outlining a set of actions for the immediate, medium, and longer-term to help address the present situation and reduce the probability of new environmental crises emerging in the foreseeable future. Among the immediate actions are strengthening risk management measures and assessing the impact of the pandemic on their portfolio, assessing opportunities to restructure existing projects for COVID-19 response support, streamlining procedures for expedited decision-making, assessing options to establish a COVID-19 response window, among others. Medium and longer-term actions include climate change investments focus in sectors with strong labor benefits such as smarter urban development, the decarbonization of energy and industry, and water and land-use systems.<sup>17</sup>

## Analysis of external climate finance (ECF)

The IDB Climate Change Division (CCS) has commissioned this report as a means

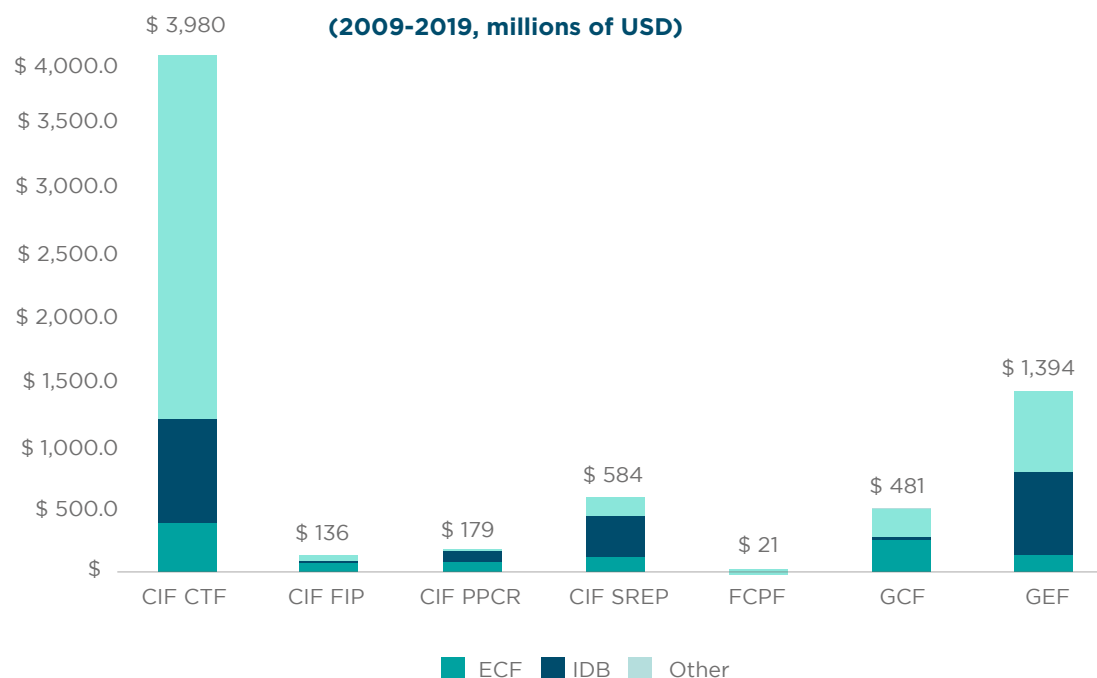
to reflect upon the Bank's experience in preparing and implementing projects with External Climate Finance (ECF) from four development partners: the Climate Investment Funds (CIF), the Global Environment Facility (GEF), the Green Climate Fund (GCF), and the Forest Carbon Partnership Facility (FCPF). These constitute some of the most influential and most catalytic collaborators in the realm of external climate finance. During the past ten years, IDB Group's programs and projects have channeled US\$1.1 billion of concessional resources from these four funds. It has been complemented with US\$1.8 billion of IDB Group's investment, and an additional US\$3.78 billion from other sources, totaling over US\$6.7 billion. The average financial leverage of IDBG resources in these projects and programs equates to \$2.6 per dollar of investment.<sup>18</sup> These range from technical cooperations (TC) and operations on renewable energy and energy efficiency projects to forest conservation, transportation and cities, and climate resilience practices.

After a decade of collaborating with these four funds, there is much learning to be harnessed. This analysis has sought to i) draw lessons learned from the design, execution and management aspects of using these funds; ii) assess the positive influence they have had in IDB's wider portfolio, and iii) lay out a strategy to maximize both the access to and the positive broader impacts of these funds going forward.

<sup>17</sup> According to the New Climate Economy's analysis, climate action in these sectors could deliver at least US\$26 trillion to 2030 in net global economic benefits compared with business-as-usual. This includes creating more than 65 million new low-carbon jobs in 2030 as well as avoiding over 700,000 premature deaths from air pollution compared.

<sup>18</sup> Data only includes operations that are closed or under implementation as of December 31st, 2019 (excludes those in preparation and those that have been cancelled).

**Figure 1 | Finance by source for programs and projects completed or in implementation with ECF<sup>19</sup>**



Source: Produced by the authors with information from the IDB.

The analysis of external climate finance from these four funding sources begins in Chapter 1, which provides further contextual information about the motivations that teams at the Bank have for accessing ECF. Afterward, Chapter 2 lays out the methodology used to analyze ECF channeled through the IDB during the period 2009-2019, providing key definitions to support the analysis shown in the remaining sections of the report.

<sup>19</sup> This graph represents finance to all projects and programs with ECF completed or under implementation, while Figure 4 in Chapter 2 shows finance only for the sample of 70 projects and programs analyzed in depth.



## Findings on design

The core part of the analysis begins in Chapter 3, which characterizes the key design features of IDB Group's TCs and operations that use ECF, and extracts learnings from the challenges and lessons in their preparation.

The analysis revealed that the following main objectives are consistently pursued: mitigate greenhouse gas emissions (81% of projects analyzed had an explicit rationale for this), create enabling conditions for climate action (76%), innovate and demonstrate climate technologies and practices (71%), provide sustainable development co-benefits while pursuing climate objectives (66%), leverage additional funds for climate action (41%), mainstream resilience into development planning (26%), and to promote paradigm shift or transformational change (26%). Other drivers of design are reflected in Funds' investment frameworks. Still, their presence is weak in specific project design. It includes ensuring that climate action is carried out as cost-effectively as possible and covering only the incremental cost or risk of climate change innovation, define and fulfill learning objectives, promote country-ownership, and to lay out a clear strategy on how climate innovations are expected to scale-up. These constitute vital areas of project and program design improvement.

The second type of analysis revealed that the financial design of most programs and projects with ECF adequately targets the key barriers to investment in climate **sectors** through a mix of grants, debt instruments, guarantees, and equity. This assessment was based on the Climate Policy Initiative (CPI) framework, which was useful to identify that some barriers are being particularly well-targeted, such as insufficient technical capabilities, information gaps, and inadequate access to finance. Nonetheless, the evidence is weaker in the case of barriers related to the incremental financial risk of climate action.



**Most ECF channeled by the IDB is constituted by loans (83%) and grants (9%), while equity (6%) and guarantees (2%) represent a lower proportion of funding.**

Projects with a counterparty, regulatory, and technological risks are largely being financed through loans and pure grants. In these cases, there seems to be insufficient incorporation of other instruments such as guarantees and direct equity, which, according to the CPI framework, offer more catalytic tools to address perceived and actual risks. Interviews with teams at the IDB confirmed that a key area for improvement that can help maximize the use of concessional resources is to explore and apply a broader range of financial products in the design of operations with ECF, particularly by using grant resources to mitigate the risk of innovation in climate-related projects.

Despite areas for improvement, this analysis suggests that work with the CIF, the GCF, the GEF, and the FCPF, which commonly entails complex multi-sector collaboration and extended preparation timeframes, has indeed resulted in project and program designs that are often more methodologically ambitious, and that push the boundary of financial innovation. Financial structuring in climate operations has been diversifying to apply first-loss coverage, partial credit guarantees, and special purpose vehicles that result in innovative mechanisms, among them new asset types (e.g., green bonds) and regional facilities. These instruments are observed to be highly catalytic for various reasons, including their ability to mobilize resources from institutional investors, their role as strong “game-changing” market signals, their usefulness to streamline approval processes, and reduce transaction

costs, among other characteristics that make them powerful mechanisms to scale-up climate action. Other **replicable models**, such as energy savings insurances (ESI), have been a direct consequence of the “space to innovate” that ECF resources have created within the IDB.



**The IDB has developed a strategic way of using ECF: it has experience in [using it to] lower the perceptions of risk, change conventional models of finance, demonstrate the feasibility of public-private partnerships, and gradually phase-out concessionality to make changes last in time...**

The analysis identified a wide array of concrete examples to showcase how ECF is being used “tactically” to promote financial inclusion among critical stakeholders in climate action, incentivize environmentally-sound behaviors in development projects, develop new, clean markets, provide credit enhancement for sustainable enterprises, support enabling infrastructure to scale-up climate investments, and, more broadly, accelerate climate innovation by empowering key champions inside LAC governments, organizations, and businesses.

There are two particularly valuable lessons to optimize further the design of projects that use ECF. The first is the need to strengthen the process of identifying enabling conditions to formulate high-impact climate investments. Interventions tend to be most successful and systemic when they are based on inbred efforts

by countries to pursue climate change objectives (e.g., feed-in tariffs, energy efficiency standards already in place, etc.). The second is to acknowledge that timing and diligence play a crucial role in setting up an investment that can trigger transformational change (TrC). Political will, market dynamics, and opportunities to mobilize finance from additional external donors/investors are vital windows to trigger TrC, but they can shift suddenly. Thus, the ability to move quickly in the access and use of ECF is one of the most essential items to improve in the IDB-ECF agenda, so that “ripe” conditions for change can be seized in a timely and smart manner.

## Findings on execution

The fourth chapter of the report focuses on concrete examples of active projects and programs that use ECF and are pursuing climate-related outcomes. Local Executing Agencies (EAs) were found to play a leading role ineffectiveness; they are often among the factors that “make or break” the success of ECF implementation.



**Using these funds is strategic; although complex to manage, they have a catalytic impact in the long run.**

In terms of delivery, almost half of projects with ECF are experiencing delays in their implementation. In a few cases, these delays denote significant setbacks since some projects have been in execution for over six years. The qualitative analysis identified challenges specific to projects with ECF, where improvement may speed-up the pace of implementation. Two areas stand out. First, it is necessary to accelerate the speed and ease at which

the IDB officials and EAs gain familiarity with external funds' access procedures. Second, all programs and projects with ECF must be included in yearly country-level portfolio reviews. This is a first step towards the larger goal of fostering greater ownership over ECF operations at Country Offices (COF).

The chapter on execution also shines a light on some of the most valuable contributions of ECF to the effective shift of the “business-as-usual” way of supporting development in LAC. Concrete demonstrations through pilots have resulted in some larger-scale deployments; investment in clean technology development has modified value chains; support provided to governmental champions has sparked private sector's appetite for energy efficiency; credibility given by the IDB and ECF partners has crowded-in resources from additional investors and donors; deliberate stakeholder-engagement processes have fostered stronger governance on decisions over natural resource management; among other examples of catalytic outcomes.

To further characterize these impacts, an analysis was performed to gain a sense of the extent to which ECF resources have had *scaling* and *replication* effects, both in their country contexts and in the Bank's portfolio. Contributions to TrC were also assessed. Findings suggest replication has been present in at least four out of every ten projects with the ECF, being most influential in energy projects funded through CTF and SREP. Scale-up has been observed in at least one-third of cases, and 35% of these additional investments that increase the scope of climate action exceed US\$5 million. Contributions to TrC have been harder to evaluate in hindsight, but at least 20% of the IDB climate interventions with ECF are displaying signals in this direction. To illustrate these effects, short case studies

tell the story behind emblematic examples of scaling, replication, and transformation: “Sustainable Urban Mobility Program for San José”; “Capital Markets solution for energy efficiency financing”; and “Sustainable Energy Framework for Barbados,” respectively.

The chapter closes with reflections and lessons learned to improve planning, budgeting, and the administration of human resources during the execution of programs and projects with ECF. A key challenge in these aspects is that climate-related interventions tend to involve complex cross-sector work, multi-level decision-making, and higher sensitization/ training than other types of operations financed by the IDB. Because of this, supervision tasks tend to be more time-intensive than in other projects, and thus require tantamount budgeting and planning. There is a perception that allocating ECF resources specifically for this purpose, and fostering greater buy-in/awareness of the fact among management at the IDB, could significantly benefit these projects. This would be a first step to cultivate greater institutional acknowledgment of the “extra-mile” given by project teams when working with ECF.

A final and important lesson learned for practitioners in charge of executing projects with ECF, is the need to strengthen monitoring and evaluation (M&E) across interventions. Closer monitoring of results frameworks, greater consistency in program-level reporting, and methods/protocols to collectively take stock over progress (or lack of it) during execution would help address the most frequently observed problems in operations that show delays or that are lacking in their delivery of outcomes. To this point, GEF projects stand out for holding formal intermediate and final evaluations, a good practice that could be applied in the use of other funds.

## Findings on management

The final stage of the analysis looked at the activities related to stakeholder management and executive decision making, with a particular emphasis on the way the IDB and its ECF partners forge synergies with others and leverage additional finance.



**ECF has allowed us to open and maintain a dialogue with the country that otherwise we wouldn't have had; this work has made enormous contributions to the public and private knowledge of markets for energy efficiency.**

Findings reveal that some funds and programs are more successful than others in resource mobilization. For every dollar invested by the IDB in the Forest Investment Program (FIP), for example, the CIF have allocated \$17.6 in ECF. High levels of ECF mobilization are also observed in collaboration with the GCF, partly because funding from this source exceeds US\$20 million in practically all operations. Nonetheless, given the volume of operations and the diversity of sources, the analysis suggests that the greatest overall financial leverage has been achieved through the Clean Technology Fund (CTF) where, for every dollar of investment by the IDB and the CTF, finance from other sources, such as governments and the private sector, has surpassed 3 dollars.<sup>20</sup>

This has been reflective of both the IDB and ECF officials' capacity to create "synergies." Links between programs and projects with ECF, and ongoing IDB operations, as well as concurring efforts and investments by additional donors and public and private parties. It was observed that in approximately 55% of operations, the IDB has created mutually reinforcing dynamics between its portfolio and ECF operations. One of the strongest interactions consists of using these funds to pilot and demonstrate climate solutions, which are harnessing previous efforts by the IDB to prepare institutions and regulations for ambitious climate action.

Although financial leverage and the presence of synergies are not essential elements of a successful solution of ECF, they do speak to the efficiency of its use in terms of fostering programmatic interventions, and that ensure strategic alignment with the IDB and country development objectives. These approaches are considered critical to increasing the likelihood of achieving contributions to TrC. In fact, according to the teams at the IDB, the CIF's method for the (programmatic) elaboration of Investment Plans, is among the most valued contributions from ECF to the IDB's methods for fostering greater cross-sector work.

Nonetheless, there are critical areas for improvement that could help maximize financial leverage and technical synergies. The perceived rigidity and complexity in accessing and complying with ECF requirements often act as a disincentive for more wide-reaching involvement of potential partners, both within and without the IDB. Secondly and related, delays in approvals have often caused potential synergies to be lost. Thirdly, programmatic efforts often require well-established Executing Agencies with the capacity

<sup>20</sup> For further information see Table 13 in Chapter 5.





to seize opportunities, manage diverse stakeholders, and exert political influence upon multiple sectors.

More broadly, the complexity of stakeholders involved in climate operations, which often span from highly institutionalized National Development Banks, all the way to individual farmers and landholders, makes ECF management a challenging task. More work is needed from ECF partners in re-thinking methods,

and requirements imposed on these actors to access finance, and more time-sensitive planning may help pace the work in a way that more adequately adapts to each stakeholder's incentives and cycles.

Going forward, it will be strategic to acknowledge and further articulate the value added by both ECF and the IDB in advancing their mutual agendas for the effective use of ECF.



**Table 1 |** The value added by collaboration between the IDB and ECF

Value-added by ECF to the IDB	Value-added by the IDB to ECF
<b>Supports pilots and demonstrative projects:</b> ECF bridges the gap between an idea or technological development, and its on-the-ground implementation	<b>Offers multiple points of entry:</b> The IDB has ongoing engagement and dialogue with several sectors of country governments and a diverse set of private sector actors
<b>Injects a programmatic approach:</b> The methods for structuring operations with ECF (particularly those funded through the CIF) have helped leverage the core competencies from a wide array of actors with a common purpose, and is providing long-term certainty in finance for sustainable development projects	<b>Guarantees sustained involvement:</b> Preexisting activity in LAC countries and long-term relationships, allow the IDB to craft and perform follow-up strategies that harness outputs and outcomes achieved through ECF, even after the project or program has come to an end
<b>Promotes innovation:</b> Concessional funds from ECF allow to explore unconventional structures, methodologies, less-studied areas, that involve greater risk and up-front investment	<b>It is an established reference in development finance:</b> The IDB Group has international expertise and stature that help leverage additional funds for climate projects
<b>Takes more financial risk:</b> ECF improves conditions and terms for loans and transactions that need to take on more risk than what the IDB can standardly offer	<b>Fosters regional replication:</b> Its region-wide presence, allows the IDB to share the knowledge created through ECF across countries and sectors
<b>Opens country dialogues and accelerates transformation:</b> ECF is helping position climate change and sustainable pathways in-country government's development strategies	<b>Commands knowledge of international mechanisms:</b> The IDB Group is familiar with the global institutional architecture and mechanisms that support climate action
<b>Empowers champions:</b> ECF is helping support actors that are already motivated by climate change objectives, giving them visibility, training, and ability to exert influence	<b>Elevates technical ambition:</b> The IDB has a robust capacity to address complex technical challenges and key cross-sector interdependencies at interplay in climate challenges
<b>Creates areas of work:</b> Innovation through ECF has opened or consolidated new themes and business lines for the IDB (e.g., geothermal, integrated watershed management)	<b>Has in-country presence:</b> Day-to-day interactions with actors enables timely and context-informed decisions during the implementation of ECF
<b>Contributes to the position held by the IDB:</b> innovation achieved through ECF has given visibility to the IDB at a global scale	

**Source:** Produced by the authors on the basis of testimonies by officials from the IDB and project documents.

## Way forward for the Inter-American Development Bank (IDB)

Collaborative deliberation with sector specialists<sup>21</sup>, based on the revision of the findings in this analysis, pointed toward the following five key priorities as the Bank moves forward to increase the effective use of ECF:

1. **Share a vision for the successful use of ECF and apply it to guide cross-sector work.** IDB's vision is to consolidate itself as the preferred regional partner in climate innovation. To that end, it must continue to boost country ownership and local capacities to manage climate-related transitions, strengthen cross-sector collaboration within its divisions, and increase internal acknowledgment of ECF's strategic value as a way to motivate teams at the IDB further to pursue access to ECF.
2. **Prioritize proposals to ECF, based on successful past experiences.** Criteria such as strategic alignment, robust theories of change for long-term sustainability, and support from crucial champions, are among the most important factors to take into account when selecting the initiatives that will be presented for ECF. The Bank's past experiences on accessing ECF provides essential insights that should be harnessed and successful models that should be replicated.
3. **Strengthen the engagement of country offices on ECF opportunities.** Fostering greater ownership over

operations primarily funded through ECF will increase synergies between these funds and regular OC operations. A more substantial role for climate change specialists in COF is also a promising way forward as a way to assist in the origination, advice on compliance, and systematically collect and disseminate learning generated through these projects.

4. **Set a knowledge agenda.** There is a significant appetite within the IDB for greater use of knowledge generated through the use of ECF to inform future operations. Ways to access and manage ECF, the use of financial products different from pure grants and loans, and lessons learned in each of the climate sectors involved (energy, forests, resilience, transportation, and cities, etc.) are all considered to be among the most straightforward ways to apply knowledge to maximize the use of ECF in the future.
5. **Involve management at IDB in mainstreaming ECF essentials.** Greater buy-in, understanding of the nature of these funds, and conviction over the strategic importance that they have for the IDB are needed from the highest levels of decision-making. In turn, this can help recognize the extra mile that teams often deliver when using ECF and contribute to creating an innovation culture where there is "permission to fail." This kind of culture is essential, given the fact that, according to practitioners, the most transformative projects have often been achieved by trial and error: learning and improving from past experiences.

<sup>21</sup> A workshop titled: "Lessons Learned in Climate Finance Access and Implementation: What is the Way Ahead?" took place in the IDB headquarter offices on 10/30/2019. Details in Appendix 4.

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These funds sometimes help carry out projects that wouldn't have happened otherwise; but most importantly, they help us design projects with better financial structures, in a way that advances the climate agenda better and more quickly than without them.





# 01

# Introduction

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## Climate change as a development challenge

Climate change is one of the most critical global development challenges today. Since the preindustrial period, anthropogenic activities have been a predominant cause of a substantial increase of greenhouse gas (GHG) concentration in the atmosphere, mainly due to the burning of fossil fuels for energy and land-use changes. As a result, the climate system is warming. The observed temperature is at its highest in roughly 100,000 years, in both the ocean and the atmosphere.

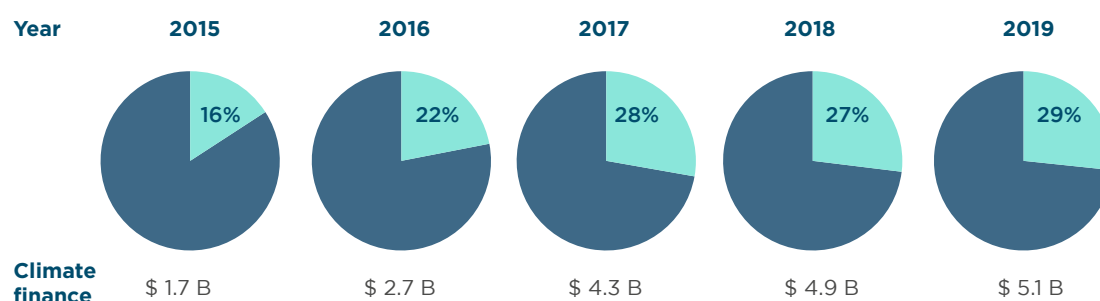
Annual investments of at least US\$100 billion<sup>22</sup> are estimated to be required to implement actions conducive to achieving the global climate stabilization goal, and at least a further US\$16.8 billion a year are needed to implement adaptation measures.<sup>23</sup> At the country level, this transition represents a major challenge: not only are additional financial resources required, but the longer it takes to adapt to these changes, public budgets will be more adversely affected by climate change.

## The commitment of the IDB Group to financing climate action

In response to the Paris Agreement and the Sustainable Development Goals, the IDB Group Board of Governors endorsed in 2016 the goal of increasing climate finance<sup>24</sup> in Latin America and the Caribbean (LAC) to 30% of the IDB's and the IDB Invest's combined total approvals of loans, guarantees, investment grants, technical cooperation, and equity operations by the end of 2020.

Progress towards this goal is underway. According to the 2017 IDB Group Climate Finance Database, the Bank approved a total of US\$3.05 billion in financing for climate change-related projects. In 2018, the IDB Group (which includes the IDB Lab and the IDB Invest) financed nearly US\$5 billion in climate-change-related activities benefiting LAC, accounting for 27% of total the IDB Group annual approvals.

**Figure 2 | The IDB Group Climate Finance 2016-2018**



Source: The IDB Group Sustainability Report 2018

<sup>22</sup>Goal 13: Climate Action. UN Sustainable Development Goals. <https://www.undp.org/content/oslo-governance-centre/en/home/sustainable-development-goals/goal-13-climate-action.html>

<sup>23</sup>World Bank (2010): Economics of Adaptation to Climate Change: Synthesis Report. Washington DC: World Bank.

<sup>24</sup>Climate finance is defined according to the MDB Joint approach. See: Glossary.



As stated in IDB Group's 2018 Sustainability Report, climate mitigation finance (US\$3.4 billion) refers to efforts to reduce or capture GHG emissions to lessen the risk of climate change. During 2018, IDB Group's operations with climate mitigation activities enabled GHG emissions reductions via new mass transit investments such as metros, improved efficiency of electric grids, and more significant deployment of renewable energy, sustainable agroforestry, and energy efficiency in social infrastructure. Also, in 2018, climate adaptation finance (US\$991 million) covered resources that finance change processes aimed at lowering the current and expected risks or vulnerability posed by climate change. Such finance is identified in projects that explicitly define a context of climate vulnerability, intend to reduce such vulnerability, and allocate resources to specific vulnerability-reduction tasks. During 2018, the IDB Group reported a significant increase in climate adaptation finance, particularly from a series of contingent loans to assist countries with comprehensive disaster risk management planning, and in climate-resilience-building operations from hard investments in the region's critical infrastructure assets such as in water, wastewater treatment, road networks, and energy production. The remaining finance refers to dual-benefit climate finance, which in 2018 accounted for US\$567 million, or 11% of total the IDB Group's reported climate finance.

The overall volume and proportion of climate finance in new IDBG approvals have increased in 2019 to 29%. It represents a record amount of climate finance approvals of approximately US\$5 billion in this last year. The volume of climate finance approved for adaptation reached US\$ 1.6 billion, which is equivalent to 31% of the total climate finance this year. IDBG has also increased its share of climate finance with dual or simultaneous benefits (i.e., with mitigation and adaptation benefits

at once) to reach US\$943 million in 2019, primarily due to investments in climate-resilience, forestry, urban development and better planning for cities. In the same year, climate finance emerged in a wider range of sectors, in particular the non-traditional ones (ICS, CTI, FMM, INT), as a result of a more strategically focused support to these Divisions.

## Access to international climate finance

For over ten years, the IDBG has forged strategic partnerships with external international funds, which have allowed it to access additional finance for climate change interventions. These partner funds include the Adaptation Fund, the Canadian Climate Fund for the Private Sector in the Americas (C2F), the China Co-financing Fund for LAC, **the Climate Investment Funds (CIF), the Global Environment Facility (GEF), the Green Climate Fund (GCF), the Forest Carbon Partnership Facility (FCPF)**, the International Climate Initiative (IKI), the Korea Infrastructure Development Co-Financing Facility (KIF), the NAMA Facility, the Nordic Development Fund (NDF), and the Norway International Climate and Forest Initiative.

Such collaborations have transformed the IDB's operations: from helping mainstream the topic of climate change in country dialogues to providing innovative financial products further to catalyze investment in low carbon and resilient initiatives. In turn, the IDB has become a key technical and financial partner for channeling this finance. Because of this, the Bank is expected to play an essential role in future rounds of international climate investment.

The following table summarizes the IDBG's access to External Climate Finance (ECF) from the four development partner funds that will be subject to analysis in this report.

**Table 2 | IDB's access to ECF (2009-2019)**

Fund	General and specific mitigation and adaptation objectives	Date the IDB Group joined	Mobilized ECF funds (M USD)*
<b>Climate Investment Funds (CIF)</b>	<p><b>General objective:</b> Empower transformations in clean technology, energy access, climate resilience, and sustainable forests in developing and middle-income countries.</p> <p><b>Mitigation objectives:</b> Within the CIF, mitigation objectives are mainly covered by activities in two of its programs. The Clean Technology Fund (CTF) seeks to promote scaled-up financing for demonstration, deployment, and transfer of low-carbon technologies with significant potential for long-term greenhouse gas emissions savings. The Scaling-up Renewable Energy Program in Low-Income Countries (SREP) seeks to demonstrate the economic, social, and environmental viability of low carbon development pathways in the energy sector in low-income countries.</p> <p><b>Adaptation objectives:</b> Within the CIF, these objectives are covered in the Pilot Projects for Climate Resilience (PPCR) program, which aims to provide programmatic finance for climate-resilient national development plans.</p> <p>A fourth CIF program covers both mitigation and adaptation objectives in the forestry sector. The <b>Forest Investment Program</b> (FIP), seeks to support developing countries' REDD efforts (geared mainly towards GHG mitigation) and promote sustainable forest management (strengthening livelihoods to the benefit of communities' abilities to respond to the impacts of climate change).</p>	The IDB joined in 2009 as an Executing Agency	\$ 719.4
<b>Green Climate Fund (GCF)</b>	<p><b>General Objective:</b> Limit or reduce greenhouse gas (GHG) emissions in developing countries, and help vulnerable societies adapt to the unavoidable impacts of climate change.</p> <p><b>Mitigation objectives:</b> Reduce emissions from energy generation and access, transportation, forests and land use, buildings, cities, industries and appliances.</p> <p><b>Adaptation objectives:</b> Increase resilience in the areas of ecosystems and ecosystem services; health, food and water security; livelihoods of people and communities; infrastructure and the built environment.</p>	The IDB joined in 2015 as an Accredited Entity	\$ 238.00

Fund	General and specific mitigation and adaptation objectives	Date the IDB Group joined	Mobilized ECF funds (M USD)*
<b>Global Environmental Facility (GEF)</b>	<p><b>General Objective:</b> Help tackle the planet's most pressing environmental problems. Among several focal areas, one of them is climate change, with the following specific objectives.</p> <p><b>Mitigation objectives:</b> Support developing countries and economies in transitioning toward a low-carbon development path.</p> <p><b>Adaptation objectives:</b> To support developing countries increase resilience to climate change through both immediate and longer-term adaptation measures in development policies, plans, programs, projects, and actions.</p>	The IDB joined in 2004 as an Executing Agency	\$ 137.00
<b>Forest Carbon Partnership Facility (FCPF)</b>	<p><b>General Objective:</b> Reduce emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks in developing countries, a set of activities commonly referred to as REDD+.</p> <p><b>Mitigation<sup>25</sup> objectives:</b> Assist Eligible REDD Countries in their efforts to achieve emission reductions from deforestation or forest degradation by providing them with financial and technical assistance in building their capacity to benefit from possible future systems of positive incentives for REDD. To pilot a performance-based payment system for emission reductions generated from REDD activities to ensure equitable benefit sharing and promote future large scale positive incentives for REDD.</p> <p><b>Adaptation objectives:</b> Within the approach to RED, test ways to sustain or enhance livelihoods of local communities and to conserve biodiversity; and disseminate broadly the knowledge gained in the development of the Facility and Implementation of Readiness Preparation Proposals and Emission Reductions Programs.</p>	The IDB joined 2011 as a Readiness Delivery Partner for Guatemala, Guyana and Perú	\$ 21.4
<b>Total</b>			<b>\$1,105.8</b>

\*Note: Mobilized funds have been calculated based only on resources committed by each source of ECF. Data only includes operations that are closed or in implementation. This table only considers GEF projects within the focal area of climate change (or mixed focal areas that include climate change).

Source: Produced by the authors with information from GEF, CIF, FCPF, and GCF websites, ODI & HBS 2018 Climate Funds Update, the IDB public Project Database, and CSD/CCS analysis in 2018.

<sup>25</sup>The FCPF charter does not differentiate between mitigation and adaptation objectives; nonetheless, this separation has been introduced to ensure consistency in the analysis. See: FCPF Carbon Fund Methodological framework (Dec, 2013).

In the context of these collaborations, the IDBG has built a portfolio of investments to develop planning and infrastructure and to foster knowledge creation and capacity-building in areas such as renewable energy development, sustainable forest management, energy efficiency, sustainable transportation, and national/regional adaptation and resilience planning. This work has involved multiple divisions inside the Bank: Climate Change (CCS), Connectivity, Markets and Finance (CMF), Energy (ENE), Housing and Urban Development (HUD), Environment, Rural Development and Disaster Risk Management (RND) Transportation (TSP), Water and Sanitation (WSA). Looking ahead, the IDB is expected to mainstream climate change action into activities that involve the Social Sector of the Bank in topics such as health, labor markets, and education.

### Strategy on international climate finance

The Climate Change and Sustainable Development Sector (CSD) and the Office of Outreach and Partnership (ORP) do manage international climate finance from a technical and institutional standpoint, respectively. These departments develop Bank strategies and operational guidelines and programs in these areas. It also fosters regional networks to develop and share cutting-edge research and best practices that can be operationalized in a variety of thematic areas, including sustainable cities, agricultural development, climate change, tourism, forestry, and biodiversity.

Due to the scarcity of available resources, and the complexity of processes and transaction costs of accessing international climate finance, CSD has identified the urgency to increase efforts to effectively

support developing countries to transition towards a net zero-carbon and climate-resilient development. Particularly, by making more effective use of concessional finance and grant resources from international sources. After more than ten years of access to funds such as the CIF and the GEF, and increasing finance flows from the GCF, the timing is ripe to reflect upon how ECF has helped mainstream climate change in the Bank's portfolio. A review of the use of these funds is also necessary to trace the way forward, strengthening the role of the IDB in supporting LAC countries to access larger pools of climate finance.

### Objectives of this report

This report reflects upon the IDB's experience in preparing and implementing interventions that use concessional resources from four external sources: the Climate Investment Funds (CIF), the Global Environment Facility (GEF), the Green Climate Fund (GCF) and the Forest Carbon Partnership Facility (FCPF) –from hereon, referred to as 'External Climate Finance' (ECF).

The present recommendations of ECF are focused on projects executed by the public sector arm of the IDB. Nonetheless, previous efforts<sup>26</sup> have analyzed ECF in the IDB Lab and IDB Invest as well, and these insights have been integrated into the analysis of the report.

The objective of this analysis is threefold: i) to draw lessons learned from the design, execution and management aspects of using these four funds; ii) to assess the positive influence they have had in the IDB's operations, and iii) to establish a strategy to maximize both the access to and the positive broader impacts of ECF going forward.

<sup>26</sup>"Climate investment Funds: Lessons learned from 10 years of implementation" (Internal report by CCS); and: Viguri, S., et.al. (2019). "Designing for transformation: a practice - oriented toolkit for mainstreaming transformational change in program and project preparation processes."



# 02

## Methodology

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## 2.1

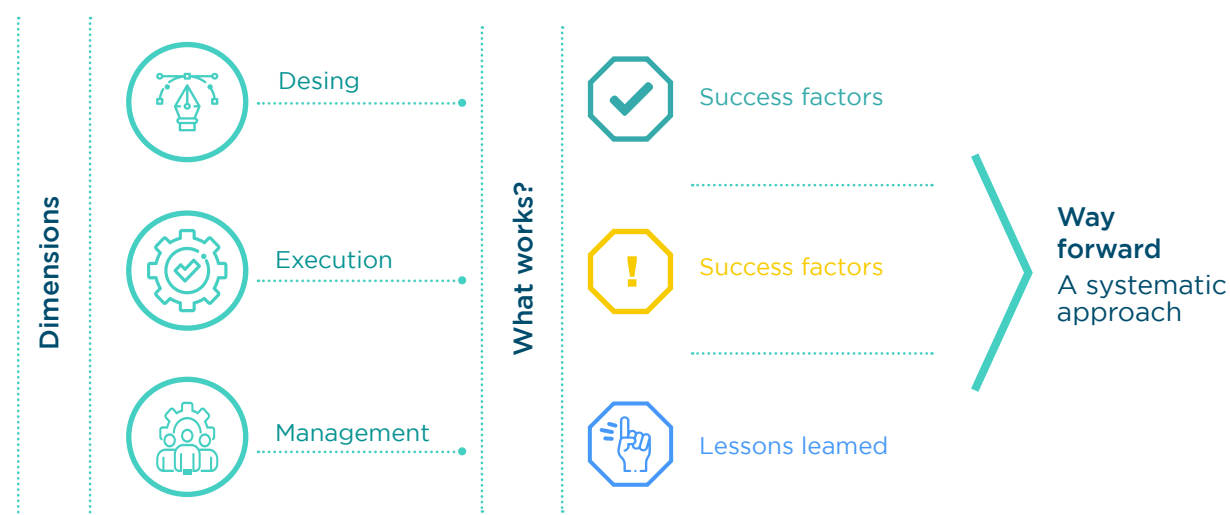
### Scope of the analysis of external climate finance (ECF)

#### Analytical approach

This report summarizes trends and lessons learned in the past ten years of external

climate finance and collaboration with four development partners (the CIF, the GEF, the GCF, and the FCPF), focusing on the processes of preparing and approving projects and programs that use ECF, and their implementation on the ground.

**Figure 3 |** General approach to the analysis of ECF



As shown in Figure 3, the analysis of ECF is organized around the three main stages or dimensions of a project cycle: design, execution, and management. Based on this structure, the assessment has been geared towards understanding what has worked in the past (success factors), the obstacles and shortcomings faced by projects (areas for improvement), and the learning that has been generated (lessons learned). All of this, to devise a systematic response to improve access and implementation of ECF in future rounds of climate investment.

To this end, a combination of quantitative and qualitative methods has been applied to study a set of 70 projects and programs with ECF; their main characteristics are described below.

#### Sample

To date, IDB's climate change work with the CIF, the GCF, the GEF, and the FCPF spans across 128 approved projects and programs since 2009 of which 106 are closed or under implementation.<sup>27</sup> The

<sup>27</sup> The first climate change project with the GEF was approved in 2005; it is the only one prior to 2009 in the full portfolio with the four funds here studied and has been included in the calculation of total ECF.

analysis carried out for this report focuses on a subset of 70 cases,<sup>28</sup> which constitute 55% of the total number of collaborations and 85% amount of ECF channeled by the IDB Group through these funds.

The selection of the sample of climate interventions for this analysis had as its main objective to cover the largest

transactions with ECF while ensuring that diverse sectors were represented in the review. Thus, the selected 70 projects and programs constitute a diverse group regarding: a) sectors, particularly in terms of different approaches to mitigation and adaptation to climate change (see [Table 4](#)); and b) maturity in the implementation cycle (see [Table 5](#)).

**Table 3 |** Description of the sample

Total	Number	Projects approved closed or under implementation	Number	Sample	Number
Number of total IDB Group programs and projects with the CIF, the GEF, the GCF, and the FCPF, including closed, in implementation, preparation, cancelled or on hold	128	Number of the IDB Group programs and projects approved closed or under implementation with the CIF, the GEF, the GCF, and the FCPF	106	Number of programs and projects included in the analysis*	70
<b>CIF</b>	<b>88</b>	<b>CIF</b>	<b>73</b>	<b>CIF</b>	<b>42</b>
CTF	51	CTF	40	CTF	20
PPCR	11	PPCR	10	PPCR	11
FIP	11	FIP	9	FIP	5
SREP	15	SREP	14	SREP	6
<b>GCF</b>	<b>8</b>	<b>GCF</b>	<b>4</b>	<b>GCF</b>	<b>4</b>
<b>GEF</b>	<b>29</b>	<b>GEF</b>	<b>26</b>	<b>GEF</b>	<b>21</b>
<b>FCPF</b>	<b>3</b>	<b>FCPF</b>	<b>3</b>	<b>FCPF</b>	<b>3</b>
Public	93	Public	79	Public	51
Private	35	Private	27	Private	19

**Note:** As of December 31st, 2019. The sample does include three projects that have been cancelled or put on hold and four projects in preparation. Also, please note that several cases that have been catalogued as SREP have also received CTF funding.

As shown in [Table 3](#), the sample is mainly constituted by projects sponsored by the CIF (60%) and the GEF (30%). It also covers all active operations with the GCF and the FCPF, although these constitute

only 6% and 4% of the sample, respectively. Projects span across LAC region – precisely two sub-regions and 20 countries<sup>29</sup> – involving work from nine different divisions at the IDB: the Climate Change Division

<sup>28</sup> The list of programs and projects included in the analysis is available in Appendix 1.

<sup>29</sup> Argentina (1), The Bahamas (1), Barbados (1), Bolivia (3), Brazil (3), Caribbean (4), Chile (6), Colombia (9), Costa Rica (1), Eastern Caribbean (2), Ecuador (1), El Salvador (1), Guatemala (1), Guyana (2), Haiti (2), Honduras (4), Jamaica (3), Mexico (14), Mexico and Guatemala (1), Nicaragua (1), Paraguay (1), Perú (3), Regional ALC (2), St. Lucia (1) and Surinam (1). Please note that country-specific analyses are not the focus of this report.

(CCS), the Capital Markets and Finance Division (CMF), the Energy Division (ENE), the Environment, Rural Development, and Disaster Risk Management Division (RND), Housing and Urban Development Division

(HUD), the Transportation Division (TSP), and the Water and Sanitation Division (WSA), as well as IDB Invest and the IDB Lab (formerly known as the IIC and the MIF, respectively).

**Tabla 4 |** Sectors covered in the analysis

sector	Number
Renewable energies (ER)	22
Adaptation & resilience	14
Energy efficiency (EE)*	11
Forests	10
Geothermal energy	6
Transportation	3
Capacity Building	2
<b>Total</b>	<b>70</b>

Projects analyzed are primarily focused on energy efficiency and renewable energy (55.7% of the sample, including geothermal), forests and adaptation (34.3%), as well as transportation, cities, and capacity building (10%). The majority are still in implementation (63%), some have been completed (27%), and a small portion is either being prepared or have been cancelled (10%).<sup>30</sup> Finally, according to the year in which their implementation began, these projects and programs span from 2009 to 2019. The majority of which began during the period 2014 to 2017 (46% of the sample), and the rest either before that (31%) or more recently (14%).<sup>31</sup>

As mentioned, the selected projects and programs represent the largest operations

**Tabla 5 |** Status of programs and projects in the analysis

SECTOR	Number
Preparation	4
Implementation	44
Completed	19
Cancelled/ on hold	3
<b>Total</b>	<b>70</b>

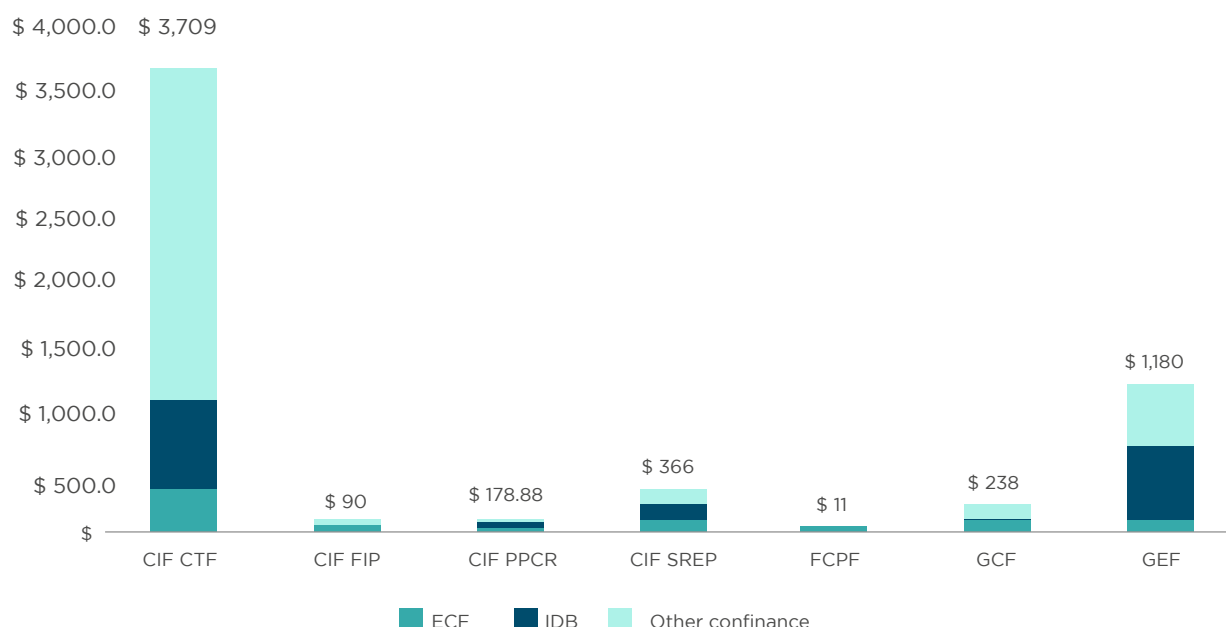
**Note:** \* Some ER projects also have EE elements

involving ECF concessional resources. [Figure 3](#) shows these operations represent almost US\$6 billion of total project finance, of which the vast majority (61%) has been achieved through co-finance, followed by the IDB investment (25%) and ECF concessional resources (14%). As will be seen further on, ECF funding for these programs and projects involves anywhere from small transactions of US\$2 million or less (17% of the sample); funds between USD\$2 million and US\$5 million (32%), from USD\$5 million to US\$20 million (34%), and all the way to the largest operations, which surpass US\$20 million (17%) in ECF funding.

<sup>30</sup> The production of this report on ECF takes up findings from the 2018 internal assessment by CCS: "Climate investment Funds: Lessons learned from 10 years of implementation". Such assessment included three projects that, at the time, had been approved; but that, as of the date of this report (Dec, 2019), have been cancelled. These three projects have been included in this report, since they have provided lessons learned; they are not accounted for in flows of ECF.

<sup>31</sup> Numbers do not add to 100% because seven projects are either cancelled, on hold or in preparation. A more in-depth description of the status of projects and programs is available in Chapter III.



**Figure 4 | Funding by source for selected programs and projects with ECF (USD M)**

**Source:** Produced by the authors based on a sample. It does not include projects cancelled or on hold and in preparation; does not include \$10 million provided by FCPF for scale-up, or any other follow-up flows not initially stated in project preparation documents.

**Important note:** The present analysis of ECF is slightly more focused on projects executed by the public sector arm of the IDB. Nonetheless, previous efforts<sup>32</sup> have analyzed ECF in the IDB Lab and IDB Invest as well, and these insights have been integrated into the analysis and the recommendations of the report.

## 2.2 Data-collection methods

The analysis is based on literature and document reviews, as well as in direct

testimonies from teams at IDB involved in pre-investment activities in Headquarters and execution at Country Offices (COFs). No first-hand evidence of project impacts was collected.

### Desk review

The desk review was based on a publicly available program and project-level documentation.<sup>33</sup> This information was systematically collected and analyzed with the main objective of understanding the design rationale for each of the 70 interventions in the sample. Each revision

<sup>32</sup> "Climate investment Funds: Lessons learned from 10 years of implementation" (Internal report by CCS); and: Viguri, S., et.al. (2019). "Designing for transformation: a practice - oriented toolkit for mainstreaming transformational change in program and project preparation processes."

<sup>33</sup> TC documents, STAP Reviews, comments from donors in CIF website; terminal and midterm evaluations; project completion reports; evaluations by OVE; presentations by team leaders; readiness packages and other documents available on FCPF website; news articles when relevant.

and individual assessment included: a) recording of the project's objectives and whether they correspond to ECF general objectives (an "alignment assessment," described in Chapter 3); and b) recording the market and policy barriers the intervention sought to address, and how concessional finance was used to tackle them (an "instrumental assessment" based on a framework by the Climate Policy Initiative, also described in Chapter 3). Additionally, this review served to record other vital features necessary to carry out cross-cutting analysis (e.g., year of approval and current status,<sup>34</sup> key performance indicators and expected outcomes, disaggregated amounts of finance and co-finance, TC and loans linked to the operation, types of stakeholders involved during execution, etc.).

## Interviews




Remote interviews were conducted with 43 different members of teams at the IDB from 10 sector units.<sup>35</sup> Based on a semi-

structured format that ensured consistency in data collection, these conversations were focused on assessing implementation aspects of each of the 70 interventions in the sample. The three main elements to assess were: a) the progress in delivering intended outcomes and the enablers/barriers in achieving them; b) evidence of broader impacts (see next section); and c) lessons learned for future projects that seek to use and mobilize concessional finance from ECF in the most effective way.

## 2.3 Concept definitions

### The three stages in the program and project cycle

As mentioned, findings for this analysis of ECF have been organized according to three stages:

	<b>Design:</b> Stage that begins with the conceptualization of the project (project profile or concept note), and ends with the approval by boards from ECF partners and the IDB.
	<b>Execution:</b> Stage that begins upon the approval for implementation, and ends with the conclusion of the program or project, usually with a Project Completion Report (PCR).
	<b>Management:</b> Cross-cutting stage that involves all stakeholder management and strategic partnerships necessary to guide high-level dialogues and executive decision-making throughout the selection and implementation of the program or project.

<sup>34</sup> Approval dates were taken directly from information provided in the IDB Project database <https://www.iadb.org/en/projects>. Implementation dates were determined by analyzing the years of procurement plans and disbursement reports available in the IDB project database, and verified with teams through interviews.

<sup>35</sup> CCS, CMF, ENE, HUD, RND, TSP, WSA; the IDB Invest and the IDB Lab; Office of Outreach and Partnerships (ORP).

## Broader impacts

This analysis includes the collection of evidence around the following three features for each one of the 70 programs and projects in the sample to systematically characterize the contribution that ECF investments have made to their broader context and IDB's portfolio:



**Scale:** The intervention shows sustained impact beyond the scope of the project (e.g., broader development of the sector); there are new activities linked to the initial project.



**Replication:** Aspects of the project are being or have been applied in another site, whether locally or regionally.



**Contributions to transformation:** The intervention has helped enact policies and regulations supportive of the climate agenda; shows sustained finance, long-term planning, and changes in the behavior of actors in the market in favor of low-carbon/resilient development. Also, see "Signals of transformational change" by the CIF Evaluation and Learning partnership in Appendix 6.

## Practical experiences

As mentioned in Section 2.2, data collection included a series of semi-structured interviews with the IDB project teams. At different points during these interviews, participants were asked to reflect upon their experience with ECF and share whether any of the following merited being considered for future improvements:



### Success factors

Aspects that helped deliver intended outcomes, that facilitated implementation, that avoided missteps, or that in some way maximized the use of funds.



### Areas for improvement

Obstacles or mishaps that caused delays, prevented the intervention from achieving its intended objectives, or somehow compromised the achievement of the intervention's full potential benefits.



### Lessons learned

Insights and reflections that project team members considered could be useful to take into account for future rounds of climate investments and information they wish they had known before making a decision that affected the outcomes of the intervention.

In conjunction, these concepts (project cycle stages, broader impacts, practical experiences) constitute the main framework for the analysis of ECF.

# 03

## Findings on design





**Design** is the stage of a project or program that includes the identification of a need or a problem, the conceptualization of a low-carbon/climate-resilient solution ('climate solution' from hereon), and the assessment of its feasibility. This includes evaluating the enabling environment, selecting a technical configuration, projecting revenue streams, allocating risks, defining the expected environmental and social performance of the project, among others. In sum, it is the set of administrative and technical activities<sup>36</sup> necessary to bring a proposal to both the IDB and the ECF boards for approval.

This section will first present a series of findings, based on a systematic desk review of program and project design documents, which will provide perspectives on the main characteristics and rationales of interventions that use ECF. The second section of the chapter (3.3. onwards) will present some of the most frequent and relevant observations made by the IDB project leaders regarding success factors, areas for improvement, and lessons learned in designing projects that seek to get approval from ECF.

## 3.1 Objectives pursued through the use of ECF

In its most essential form, ECF is meant to be used to cover the incremental cost of doing development projects that incorporate considerations that will assist countries either in reducing their GHG emissions or strengthening their adaptation capacities to the adverse effects of climate change.

Nonetheless, there are other, more specific, and varied objectives that can help further characterize the way ECF is strategically applied in order to trigger more profound changes in the way institutions manage climate change and transition towards low-carbon and climate-resilient technologies and practices.

These objectives are reflected in the strategic investment frameworks of each of IDB's four partners in ECF. They help each fund prioritize investments and find complementarities with other actors; for example: promoting innovation, strengthening institutional capacities, demonstration of new technologies and practices, etc.

### Defining objectives: ECF partners and their investment frameworks

A close look at the investment frameworks and stated objectives of the CIF, the GCF, the GEF, and the FCPF, reveals commonalities between these funds. There are several objectives that, although phrased differently in each investment framework, can be considered as shared by more than one fund. An analysis of these commonalities helps bring cross-cutting insights and perspectives to better understand the strategic focus in the use of concessional finance and how this shapes the IDB's ECF portfolio.

In this sense, it is possible to identify eleven main objectives that are pursued through ECF. Table 6 presents an indicative synthesis of elements and concepts associated with each of the objectives<sup>37</sup>, while Table 7 compares the presence of objectives across funds.

<sup>36</sup> Considerations on stakeholder management, negotiation, and implementation arrangements at origination, are addressed in Chapter 5.

<sup>37</sup> Appendix 2 shows textual objectives with more precise wording by Fund, along with a complete reference of the source.

**Tabla 6 |** Indicative descriptions of the eleven main objectives pursued through ECF

Main objective	Description
<b>Country ownership</b>	Support priorities and actions that are embedded in a country's official plans and strategies (e.g., NDCs, NAPs, NAMAs, TNAs), contributing to creating/establish local champions and long-term sustainability.
<b>Learn</b>	Facilitate sharing, exchange, and dissemination of knowledge, experience, and lessons; provide feedback and learning-by-doing at different levels of government and an international scale.
<b>Cost-effectiveness</b>	Promote acceptable investment per ton of CO <sub>2</sub> eq reduced or avoided; promote the least concessionality needed to make the proposal viable, ensuring no crowding-out of private or other public investment.
<b>Mainstream resilience</b>	Integrate climate risk and resilience into development policies and planning; carry out actions to reduce vulnerability and increase resilience to the adverse impacts of climate change (includes ecosystems, health, food, water security; livelihoods; infrastructure and built environment).
<b>Transform</b>	Promote paradigm shift/transition towards a low-carbon/low-emission and climate-resilient development pathway; empower/foster/deliver/initiate/facilitate transformational change (both in policies and in practices).
<b>Leverage</b>	Facilitate the leveraging of additional and sustained financial resources; encourage self-sustaining and economically viable models; enable blended financing from multiple sources.
<b>Sustainable development co-benefits</b>	Realize/highlight/promote economic, environmental, and social development co-benefits, that illustrate how climate action contributes to sustainable development and MDGs/SDGs. Achieve the enhancement of livelihoods, biodiversity, and ecosystem services; strengthen governance and tenure.
<b>Innovate &amp; demonstrate</b>	Provide incentives to and promote/demonstrate/deploy/transfer innovative low-carbon/adaptation technologies, pilot replicable models and emissions reduction performance-based payment systems.
<b>Enable (climate action)</b>	Strengthen or build capacities/ support enabling activities/ increase adaptive capacity, to respond to the impacts of climate change, to integrate climate resilience into development planning, and to benefit from possible future systems with positive incentives for climate action.
<b>Mitigate GHG</b>	Provide assistance to effectively and sustainably reduce/limit GHG emissions, deforestation, and forest degradation (including all sectors such as energy generation and access; transportation; forests and land use; buildings, cities, industries, and appliances).
<b>Scale-Up</b>	Support activities/build on other ongoing initiatives that accelerate the diffusion and transfer of clean technologies and help scale up efforts to achieve (public and private) investment in GHG mitigation and climate resilience.

Source: Produced by the authors with information from: CTF and SCF Trust Fund Committees (2012); GCF (2015 & 2018); GEF (2018); FCPF (2013).

**Tabla 7 |** Categorized objectives for each source of ECF (and their sector-specific strands)

	GEF		FCPF	CIF				GCF
	Mitigation	Adaptation		CTF	SREP	FIP	PPCR	
Country ownership				X	X	X	X	X
Learn			X		X	X	X	
Cost- effectiveness				X		X		X
Mainstream resilience		X					X	X
Transform	X			X	X	X		X
Leverage					X	X	X	
Sustainable development co-benefits			X	X	X	X		X
Innovate & demonstrate	X	X	X					
Enable (climate action)	X	X	X					
Mitigate GHG	X		X	X				X
Scale-Up				X	X		X	

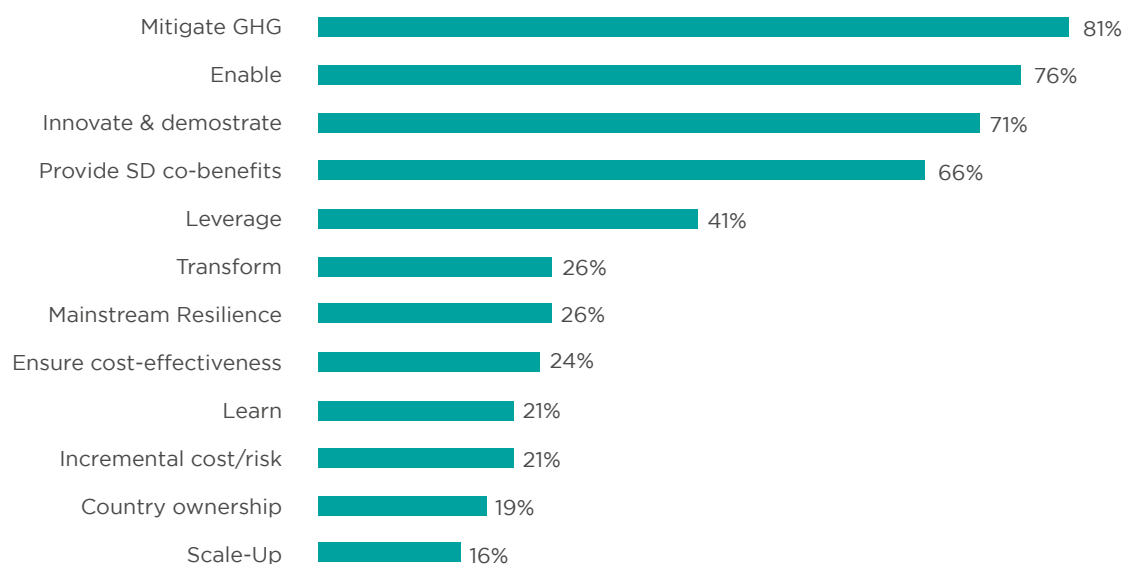
Source: Produced by the authors with information from: CTF and SCF Trust Fund Committees (2012); GCF (2015 & 2018); GEF (2018); FCPF (2013).

Thus, this initial step of the analysis served to show that some objectives are shared, such as “ensuring cost-effectiveness”, which was explicitly found as a priority in the CTF, the FIP, and the GCF. Likewise, the objective of “innovation and demonstration” is shared among the GEF, the FCPF, and both the CTF and PPCR; and so on.

### Assessment: Identification of the main objectives pursued through ECF

These eleven core objectives and their definitions were used to analyze the design documents for the 70 projects and programs in the sample. The main finding was that 81% of these projects had as an objective to mitigate GHG emissions<sup>38</sup>, and a similar proportion (76%) sought to create enabling conditions for climate action (e.g., regulatory and policy reform, training of public officials, provide evidence and information, etc.).

<sup>38</sup> To determine whether a core objective was present in the project's design, any of the concepts in Table 5 had to be explicitly referenced in the intervention's objectives, or constitute the basis of one of the components of the Project.

**Figure 5 | Main objectives of ECF and their integration to program and project design**

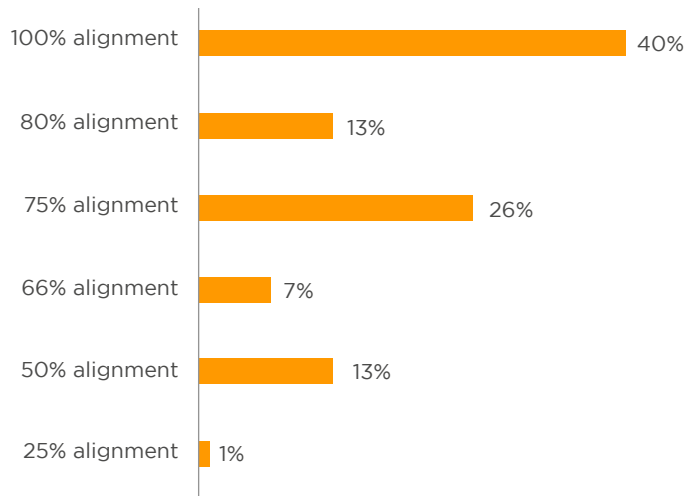
Source: The IDB Group Sustainability Report 2018

Conversely, it was less common to find projects and programs where design (stated objectives, the rationale for the intervention, components, expected outcomes) explicitly integrated the objectives of country-ownership and scaling-up.

### Assessment: Alignment between program and project design and the objectives of ECF

A direct comparison between each funds' main set of objectives and their corresponding programs and projects (alignment assessment) indicates that 40% of ECF projects and programs analyzed are fully aligned to the main objectives prioritized by their respective fund (the CIF, the GCF, the GEF or the FCPF).



**Figure 6 | Degree of alignment between project objectives and ECF objectives**

Methodological note: Alignment was considered to be present when all of the appropriate ECF objectives were integrated into the intervention's design or were at least part of the rationale for taking the project forward. Partial alignment was determined when only a subset of appropriate ECF objectives were present (e.g., 3 out of four objectives = 75% alignment). Also, please note that given the fact that "transformation" as a concept that gives shape to the design of projects emerged only recently, and most of the projects were designed on or before 2016, this core objective was not evaluated in the alignment assessment.

As observed in [Figure 6](#), several projects integrate into their design all but one of their ECF objectives (39% of projects, which either have 80% alignment –in cases where they should respond to five objectives– and 75% alignment –in cases where they should respond to four objectives). Based on this analysis, the largest areas for improvement of alignment between projects' and funds' objectives are: i) in CTF, ensuring that the design of the solution explicitly prioritizes cost-effective models; and ii) in PPCR, harnessing existing actions and initiatives in project design, with the explicit purpose of scaling them up.

# Box 1

## Mainstreaming “transformational change” in project design

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Due to its limited operationalization thus far, the objective of “transformational change” can sometimes be elusive in design documents. Nonetheless, the analysis showed that 26% of projects in the sample are providing a concrete logic for contributing to deep shifts in development trajectories. The following insights can be useful to integrate transformational change into objectives and intervention rationales convincingly:

- Does the design of the project identify all barriers (financial and non-financial) needed to shift a development pathway? Is the intervention only partially addressing them? If so, project design should acknowledge this. It could explain whether the response creates synergies with other ongoing initiatives that tackle relevant barriers, thus increasing the likelihood of achieving jointly, a more integral transformational push towards low-carbon and climate-resilient development.
- Does the project rationale present a clear strategy to phase out or substitute unsustainable technologies and practices? Sometimes, projects strategize about how to bring a climate solution into a market, but may not lay-out a clear vision on how this solution will be promoted/scaled-up/reinforced to become the dominant alternative in that market, eliminating carbon-intensive options. This is important to make sure the solution becomes the new norm, as opposed to being only partially/incrementally adopted.
- Specially in interventions that rely heavily on small-scale demonstrations, include a strategy for scale-up and how this will contribute to larger long-term transformational pathways.

A recent publication by the CIF offers guidance on identifying signs of transformational change (see Appendix 6).

## 3.2

### Mechanisms and instruments used in programs and projects with ECF

Besides the objectives they pursue, programs and projects can be

characterized according to the type of barriers they seek to overcome, and the instruments they deploy to do so. Accordingly, a framework put forward by the Climate Policy Initiative (CPI) helps categorize the different barriers to investment in climate-related sectors (see [Table 8](#)) and define a series of instruments the market<sup>39</sup> perceives appropriate to address them (see [Table 9](#)).

**Table 8 | Barriers to investment in climate-related priority sectors (CPI Framework)**

Barrier	Description
Cost of capital	Lack of equity capital to develop adaptation/resilience/mitigation products and services
Counterparty risk	Risk of unilateral changes to concession agreements that alter investors' returns; credit default risks associated with farmers' inadequate credit history and collateral
Credit risk	High-risk perceptions/ lack of confidence in financial viability
High upfront capex cost	Gap between equity required by lenders and availability of equity from developers; high upfront costs
Currency risk	Mismatch between local currency revenues and repayment obligations
Information gaps	Lack of business-relevant information on potential hazards, exposure, and climate vulnerability [or any other missing information about the future performance of the project]
Liquidity	Limited market liquidity
Access to capital, long-term	Limited institutional investment capital; lack of access to long-term debt for infrastructure projects due to lack of creditworthiness and high default risk
Regulatory gaps	Gaps in regulatory frameworks, insufficient regulatory frameworks, and misaligned incentives
Regulatory risks	Policy-related risks, unstable regulatory and tax policies
Technical capability	Lack of capacity to evaluate low-carbon investments and develop adequate investment/financing approaches; inability to integrate climate considerations in investment planning
Technology risk	Exposure to weather-related risks [or any other factor that might endanger the adequate performance/success of a technology]

**Source:** Produced by the authors based on CPI, 2016. Original table in Appendix 4.

<sup>39</sup> The CPI framework is particularly well-suited for private sector projects that target market failures and financial barriers. Public sector projects can also follow this rationale, but they also often use of concessional resources as a general incentive for the public sector to carry out actions it would have otherwise done. Due to this, the instrumental assessment also considered policy “arenas” (see: CIF E&L Initiative, 2018) as a way to reflect the use of resources as “soft policy”.

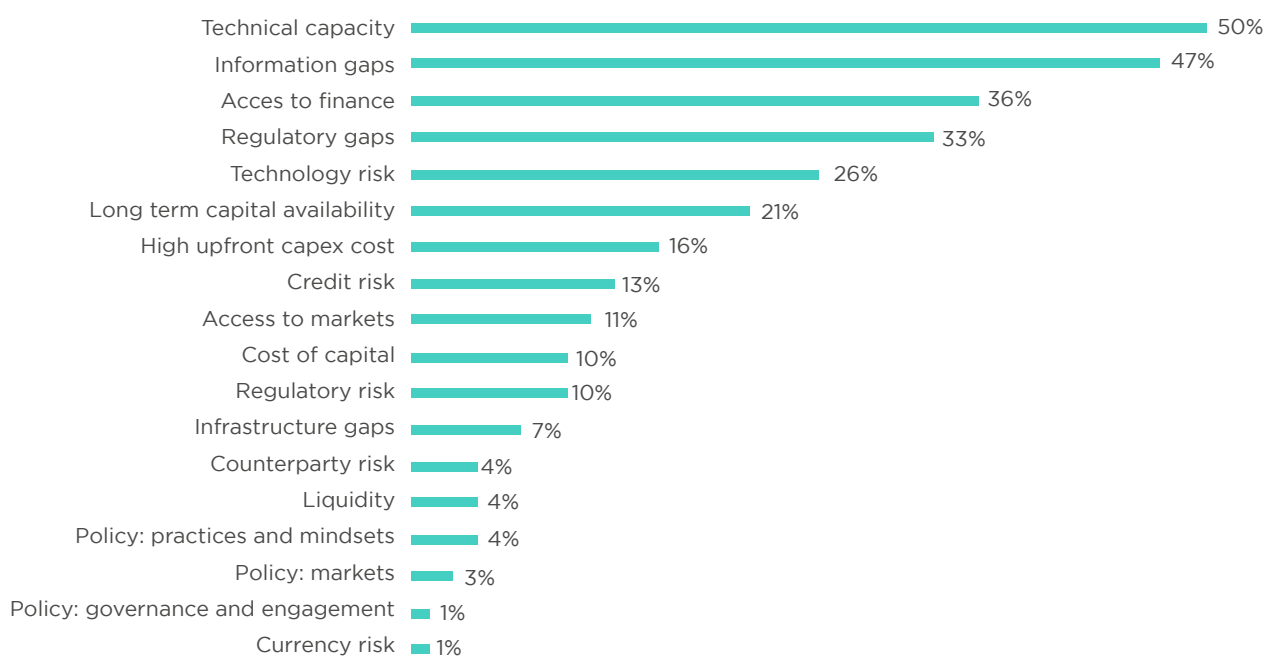
This framework has been used in two ways. First, to identify the types of barriers that are present in the markets where projects with ECF operate (see [Figure 7](#)). Second, to reflect on how well each barrier is targeted by comparing the instruments considered appropriate according to the CPI framework with the instruments effectively used by the IDB and ECF partners (see [Table 9](#) and [Table 10](#)).

## Types of barriers to climate investment

As for the categorization of the different types of barriers faced and addressed through the use of concessional finance

from ECF ([Table 8](#)), the analysis of 70 projects and programs reveals that the most common barriers being tackled are insufficient technical capabilities (50%) and information gaps (47%). These are present in approximately half of the projects, a matter that can be explained by two factors: 1) these barriers involve an extensive range of challenges, applicable to almost any kind of investment; and 2) tackling this type of obstacles is often supportive of higher-level objectives and a first step towards addressing other barriers. As such, they could be considered as measures to “level the playing field” for sustainable technologies and practices so that they can compete against conventional, less-sustainable alternatives.

**Figure 7 | Barriers to climate investment: proportion of projects with ECF that tackle them**



**Note:** Barriers are not mutually exclusive; projects have an average of two or more simultaneous barriers they seek to tackle. More complex sectors, such as transportation and geothermal energy development, have an average above three barriers.



Because of their breadth, it is appropriate to specify further the kind of obstacles related to technical and information-related barriers, as found in project documents:

- **Capacity issues.** Absence or inadequacy of methodologies, techniques, and lack of general training to stakeholders in governments, enterprises, banks, and civil society, who are unfamiliar with climate-related investments. This also involves insufficient local technical capacities to carry out a broad range of activities, from feasibility studies to equipment maintenance and carrying out savings-measurements. An essential need that the IDB can be particularly apt at targeting is having expertise to structure deals in climate investments since actors are often unfamiliar to the alternatives available, and sometimes hesitant about entering new markets.
- **Institutional gaps.** Lack of a specialized unit, whether within a government or a private-sector enterprise, that is responsible for identifying opportunities for low-carbon/climate-resilient measures, following-up and reporting on them. This often involves a more ample opportunity to strengthen project management skills in organizations, which are necessary to implement innovative projects that go beyond business-as-usual operations.
- **Data quality.** Absence of baseline measurements, data-collection resources, and methods; information-sharing protocols, insufficient down-scaling of global models of climate change to make them useful for decision-making. Lack of robust monitoring systems, which are

essential for the credibility of reports on the positive impact of climate change projects, which in turn can help build a better case for them and inform new policy through the data they generate (standards, goals, etc.).

- **High perceptions of risk.** Insufficient knowledge of the potential benefits of a climate-related investment, and the real risks it carries. Little information on the expected performance of a new asset tends to elevate perceptions of risk, and thus, its financial costs. At times, projects may face negative perceptions created during previous experiences with climate change interventions that turned out to be unsuccessful.

Beyond technical capabilities and information gaps, more than one-third of all projects and programs seek to tackle the barrier of inadequate access to finance (36%), which in the public sector generally means the little fiscal capacity to acquire new debt to fund climate technologies and practices. This is also applicable to utilities that operate with deficits and may be unable to access favorable financing conditions for low-carbon technology. It can also be the case of Local Development Institutions (LDIs) and financial intermediaries, who without incentives cannot provide loans that meet the characteristics of climate-smart types of beneficiaries, such as farmers, landholders, energy service companies, among others. These types of actors need longer tenors and few collateral requirements since they tend to have little capital, no credit history and other financial information commonly required to qualify for a loan. Also, their products and services are widely subject to long production cycles, as in the case of crops and trees.<sup>40</sup>

<sup>40</sup> For some species it takes over 6-7 years from planting until the start of commercial harvesting. Even longer times are necessary for plantation forests for timber products.

This lack of access to finance is closely related to specific types of obstacles encountered when financing climate-related projects, such as the premiums placed on financing technology with real or perceived risks (26%), lack of access to long-term capital (21%), high upfront capital expenses (16%), credit, regulatory and counterparty risks (16%, 10%, and 4%, respectively), which can be further complicated in financial contexts with high capital costs (10%) and/or short on liquidity (4%). These sorts of conditions result in expensive financial terms and high transaction costs for low-carbon and climate-resilient projects.

- **Regulatory gaps (33%)** are also among the three most significant barriers for climate investment. Uncertain rules and procedures (e.g., procurement standards, lack of sanctions for non-compliance, etc.), insufficient market signals (e.g., preferential rates, feed-in tariffs, minimum quotas for climate-related products and services) and absence of legal frameworks (e.g., supportive laws for public-private partnerships in the energy sector; financial regulation for resiliency products) are all factors that can inhibit investment in climate-related sectors.

In practice, access to markets (11%) and infrastructure gaps (7%) are closely related barriers, since they reflect conditions in which improved connectivity and business links are needed to reach adequate demand for climate-related solutions. The types of responses to these barriers include creating chain linkages that make it possible to place climate products and services in high-value markets, as well as appropriate transportation and transmission lines that enable these connections.

Although currency risk (1%) was not a barrier that was frequently identified and targeted at the stage of design,

it was, nonetheless, one of the most common barriers encountered during implementation (see Chapter 4).

Some of the barriers that are not explicitly present in CPI's framework but that are often cited in project documents include insufficient market development, lack of political and social awareness and hesitant mindsets towards low-carbon and climate-resilient technologies and practices; as well as governance issues, such as the lack of standardized consultation systems, and little coordination for comprehensive climate-related planning (e.g., states and municipalities working at a watershed-level, and other complexes, large-scale nature-based solutions involving multiple benefits, climate change mitigation and/or adaptation among them).

### Assessment: Financial targeting of barriers to climate investment

As mentioned, for each of the most relevant barriers identified by CPI, there exists a set of financial and non-financial products considered to be the most appropriate to target them. Table 9 and Table 10 synthesize the comparison between these "ideal" arrangements, and those effectively observed in IDB's portfolio with ECF. Below, Box 2 provides a detailed description of the overall trends in the type of financial products by the fund.

The outcome of this analysis indicates that most (74%) projects and programs adequately target barriers encountered. This is specially the case of high upfront capital expenses, a barrier that requires debts and grants directed towards subsidizing finance; and access to capital, which essentially requires using concessional finance for credit enhancement. There is also robust targeting in cases such as information gaps, regulatory gaps, and technical capability where there is a consistent approach in pairing grants with technical assistance.

Barriers that require guarantees and other risk-mitigation instruments such as counterparty risk, credit risk, regulatory risks, and technology risks are using appropriate instruments in approximately one-third of cases, and therefore there is room for improvement. Finally, barriers in

the private sector that require equity, such as cost of capital and limited liquidity, are insufficiently targeted since these kinds of projects are mostly relying on loans and grants without incorporating seed funds, venture capital, and equity for high-risk investments.





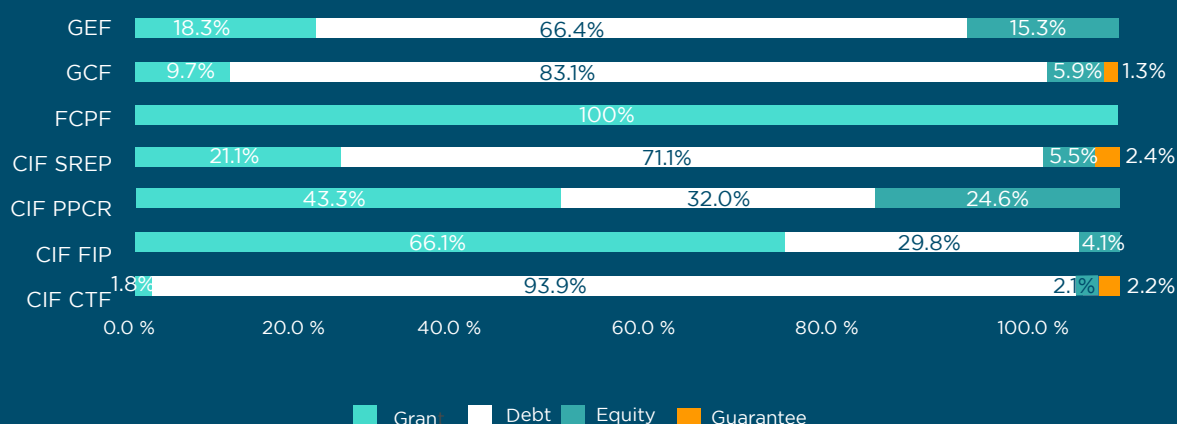
# Box 2

## Types of concessional commitments used in ECF

Concessional commitments (grants, debt, guarantees, and equity) managed by the IDB Group in programs and projects with ECF vary by source of funding. In total, 9.2% of finance for selected programs and projects has been constituted by

grant resources; 83.3% has been debt; 5.9% equity (applicable only to private sector projects), and 1.6% have been made available in guarantees. The composition for each fund is as follows:

**Figure 8 |** Composition of total project finance, by instrument and source













































**Source:** Produced by the authors with information from the IDB, only for 70 projects. This finance includes instruments by all parties involved in the transaction, including counterparties and private sector. Notes: "In-kind" was handled as equity; all resources from the private sector treated as equity unless specified that comes from financial institutions (debt). "Cash contributions" were categorized as grant. To avoid double counting, all co-finance for "SEF" in the Eastern Caribbean has been assigned to CTF (which does not include resources from GEF and GCF, as they are assigned in their respective ECF).

As shown, the GEF, GCF, CTF, and SREP tend to operate mostly with loans; PPCR and FIP are mostly supported with grant resources; diversification through guarantees has been more present in the GEF and the GCF.














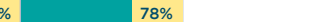















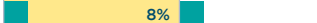












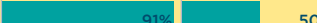
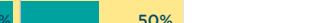
For the interpretation of the following tables, please note cells in yellow are highlighting the instruments that would be most appropriate for the barrier, according to CPI. Red circles indicate weak targeting, yellow are medium targeting, while green circles signal robust targeting:

**Tabla 9 | Targeting of barriers using IDB's instruments: cost of capital, counterparty risk, credit risk, high capex, currency risk, and information gaps**

Barrier		 Cost of capital	 Counterparty risk	 Credit risk	 High upfront capex cost	 Currency risk <sup>1</sup>	 Information gaps
Expected instrument in CPI framework		<b>Equity, venture</b> Seed private equity funds/ patient capital and venture capital with lower returns expectations	<b>Guarantee, first-loss coverage</b> Counter-party risk guarantee, Risk management solutions such as first-loss coverage	<b>Guarantee, insurance</b> Insurance instruments, partial guarantees or performance-based financial incentives	<b>Debt, grant to subsidize finance</b> Insurance instruments, partial guarantees or performance-based financial incentives	<b>Local currency lending; swaps and currency hedging</b> Local currency lending or currency swaps with tenors aligned with contracts and payback periods; currency hedging tools	<b>Technical assistance</b> Provision of business-relevant data; impact assessment tools
Instruments deployed by IDB	Debt	 86%	 67%	 67%	 73%	 100%	 45%
	Equity	 14%	 33%	 22%	 0%	 100%	 18%
	Grant	 86%	 33%	 44%	 64%	 0%	 94%
	Guarantee	 29%	 33%	 56%	 27%	 100%	 18%
	Reimbursable Grant	 29%	 0%	 0%	 36%	 0%	 3%
	Technical Assistance	 57%	 33%	 44%	 73%	 0%	 85%

<sup>1</sup>This analysis is based on documents that reflect the design elements of projects and programs (Proposals; TC; committee reviews). Currency risk was seldom addressed in the design of the project; but rather during implementation, where arrangements were made in at least 3 projects to provide lending in local currency.

**Table 10 |** Targeting of barriers using IDB's instruments: limited liquidity, access to capital, regulatory gaps, and risks, technical capability, and technology risks

Barrier		 Limited liquidity	 Access to capital, long-term capital	 Regulatory gaps	 Regulatory risk	 Technical capability	 Technology Risk
Expected instrument in CPI framework		<b>Debt; convertible grants; equity</b> Early stage pre-construcción and construction financing, recovery grants or equity for high-risk investment, subordinated debt	<b>SVG, grant, debt</b> Investment vehicles (securization or bundling): Credit enhancement with concessional finance, technical support (e.g. to issue bonds)	<b>Grant, technical assistance</b> Grants for policy dialogue and technical assistance; Technical assistance and policy advice	<b>Guarantees, technical assistance</b> Insurance mechanisms and guarantees, Technical assistance and policy support	<b>Grant, technical assistance</b> Grants for technical support/capacity building; Technical assistance to support pre-investment vulnerability assessment / project structuring	<b>Guarantee, grants, technical assistance</b> Risk mitigation and transfer mechanisms such as parametric insurance; grants to support the collection of relevant data
Instruments deployed by IDB	Debt	 100%	 85%	 61%	 62%	 43%	 78%
	Equity	 33%	 25%	 9%	 15%	 23%	 22%
	Grant	 67%	 75%	 87%	 92%	 100%	 67%
	Guarantee	 67%	 38%	 13%	 8%	 9%	 33%
	Reimbursable Grant	 33%	 15%	 9%	 15%	 9%	 33%
	Technical Assistance	 67%	 68%	 87%	 85%	 91%	 50%

### Insight: Maximizing the value of concessional resources through diversified financial products

It should be noted that CPI's framework is geared towards correcting market failures or targeting market barriers. In contrast, work by the public arm of IDB –while consistent to improve market conditions– often needs to incentivize governmental entities to engage in climate projects, and carry out actions they would haven't otherwise done. This “carrot” often materializes in straightforward, standard financial instruments that can persuade country governments to act, such as pure grants and subsidized debt; this may explain, in part, the limited diversity of financial structuring in public projects (see Box 3). Products related to guarantees and equity investments are mostly observed in the private sector (or non-sovereign) operations at the IDB.

# Box 3

## Mainstreaming “transformational change” in project design

**Table 11 |** Diversification in financial products

Diversification	Private	Private
One instrument, either loan or grant	43%	26%
Two instruments, one is equity	10%	5%
Two instruments, loan and grant	25%	16%
Two instruments, one is guarantee	2%	26%
Two instruments, one is reimbursable grant	4%	0%
Three instruments, one is equity	2%	0%
Three instruments, one is equity, another guarantee	0%	5%
Three instruments, one equity, the other reimbursable grant	0%	5%
Three instruments, one is guarantee	4%	16%
Three instruments, one is reimbursable grant	4%	0%
Four instruments, one is guarantee, the other reimbursable grant	6%	0%

The private sector arm of the IDB is more diversified than the public sector in its financial structuring (26% of projects use three or more instruments). This is mainly the case when using guarantees (47% of private projects vs. 6% in public ones). The public sector tends to use standard debts and grants in its structuring (68% of public projects).

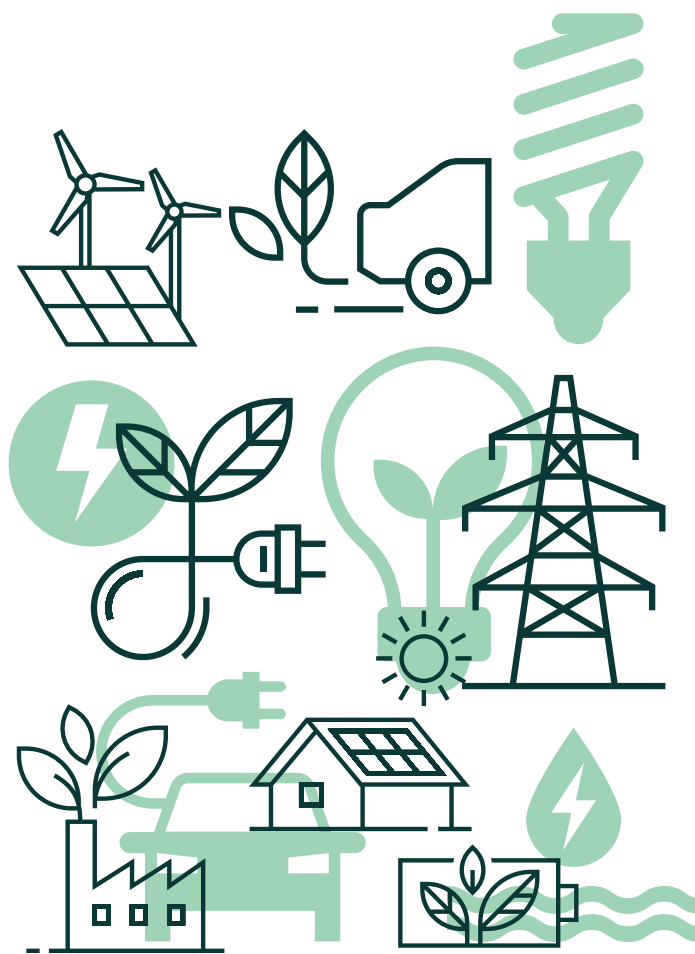


Based on this analysis and testimonies by practitioners, ECF could be maximized by exploring and applying a broader range of financial products in the design of operations with ECF. Project teams for approximately 40% of projects and programs in the analysis, mentioned that having a “financial structure that goes beyond a standard loan” was either a success factor or an area for improvement. Grants are regarded as having the best multiplying effects when used not as pure grants, but rather to mitigate the risk of innovation and to raise the ambition of climate components in projects since this is something that cannot be pursued with resources from the IDB’s Ordinary Capital (OC) funds. Thus, using ECF to pilot financial products<sup>41</sup> that achieve this, is perceived as a strong way to maximize the impact of ECF in the rest of the IDB’s portfolio.

<sup>41</sup> Innovative products that are yet to be explored with ECF include B-Bonds, Total Credit Guarantees (TCG), green lines, thematic bonds (and other types of bonds: transition, blue, resilience bonds), sustainability-linked loans and reinforcement of blended finance solutions. For more, please refer to: Meirovich, H. (2019): “Invest to revert”.

The IDB, specially through work by the CMF division and the private sector arm of the Bank, has increasingly incorporated wider flexibility and range of instruments in its financial structuring, looking at ECF as a way to leverage more funding as opposed to subsidizing pricing.

Practitioners at the IDB highlight some considerations to pace and inform the strategy of structuring ECF in innovative and diversified ways:







- Diversified financial products, particularly when they involve new assets, sectors, or types of actors, require lengthier preparation times and specialized expertise (e.g., legal). Therefore, if this is a way forward, timeframes, and internal capacity for deal structuring at the IDB would need to be enhanced.
- More sophisticated instruments and structures require well-developed markets. In the case of the private sector, they must be appropriate to the size of firms and the envelope, addressing capacity issues. In this sense, achieving the proper mix of instruments can sometimes require trial and error.
- As for facilitating transformational change, innovative financial arrangements should not be used as a substitute for institutional reform; only governments can change underlying market incentives (policy and regulation), whereas financial products act as a complement.

## Examples of diversified financial products

As mentioned, the last ten years at the IDB have seen increasingly diversified strategies in the use of concessional resources from ECF to structure financial products that more effectively address barriers and encourage further investment. Some examples include:

**First-loss coverage:** Operations with GEF and CIF resources have provided coverage over the earliest risks of loss, allowing the IDB Group's Structured and Corporate Finance Department (SCF) to finance investments it would conventionally be unable to do, and producing the effect of internal credit enhancement. Private sector projects that have done this include "Bright Distributed Generation Solar" and "Eurus Wind"; yet to be proven, the use of this instrument has been attempted in structures that use municipal tax revenues as a source of repayment.

**Insurances:** The use of energy savings insurance (ESI) in Colombia and Mexico, through CTF funds, is regarded by the IDB investment officials as one of the most promising tools to leverage concessionality. Convertible loans have been used as a type of insurance product (for example, in "Cerro Pabellon"). More recently, the IDB's own Regional Energy Savings Insurance and Risk Management Program provided a basis for "Energy savings insurance for private energy efficiency investments by Small and Medium-Sized Enterprises," which is supported by the GCF.

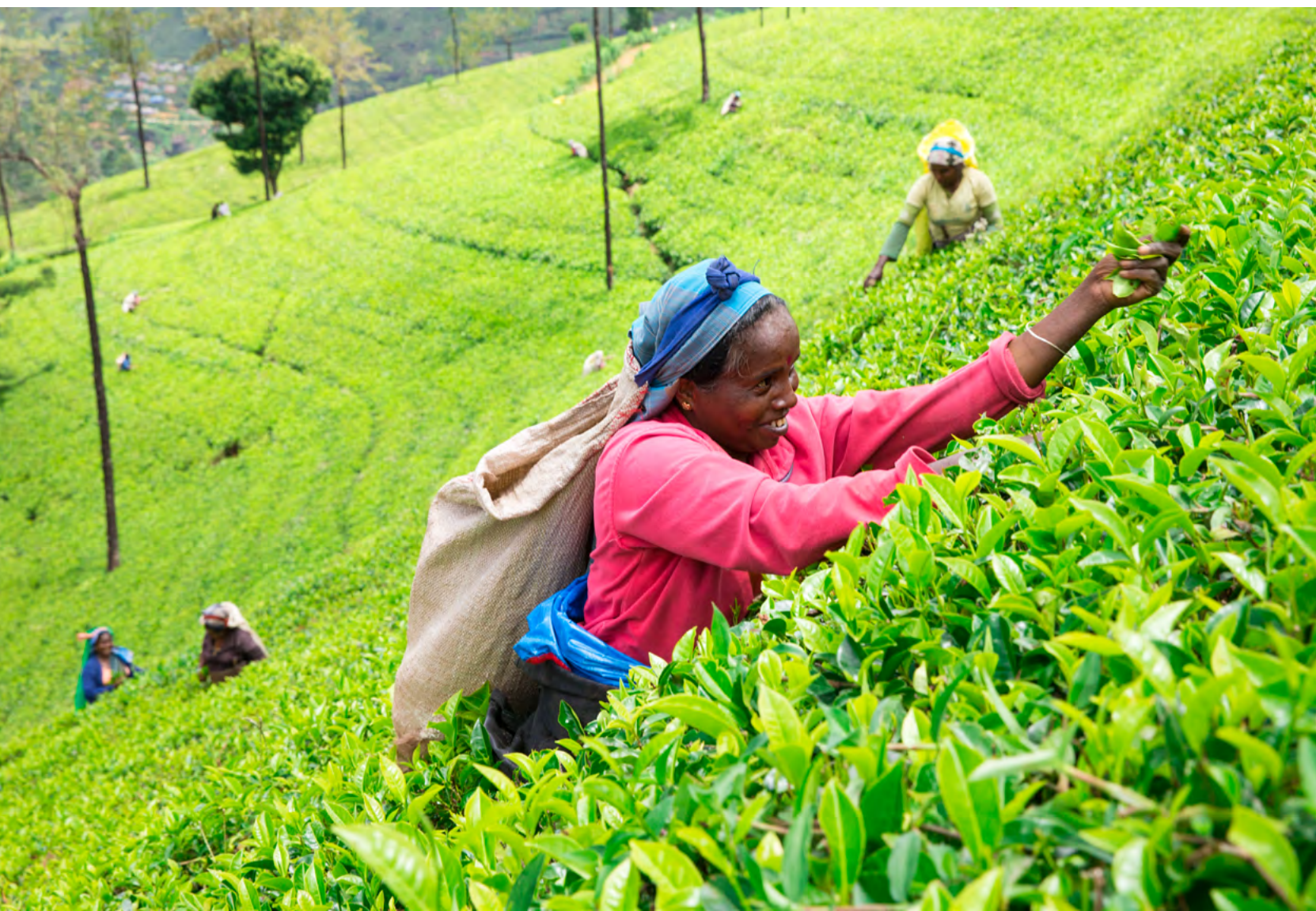
### Partial credit guarantees (PCGs):

Considered to have some of the highest leverage potential (e.g., projects with the Chilean public agency CORFO, expected a 1:10 ratio at the time of approval); its use supports mechanisms such as securitization and revolving loans. One of the most successful applications of PCG in Programs and projects that use ECF has been "Capital Markets Solution for Energy

Efficiency Financing,” where it allowed the securitization of small energy efficiency projects by Energy Service Companies (ESCOs), and using this to issue a “green bond” (see [Box 9](#) in Chapter 4).

**Special purpose vehicles (SPVs):** Seen as a mechanism to reduce transaction costs and approval times in small-scale, fragmented sectors (e.g., farming and forest landholdings, individual ESCOs); they include securitization and facilities, among others. Some of the most significant and emblematic Programs and projects that use ECF in IDB’s portfolio apply SPVs: “Sustainable Energy Facility (SEF) for the Eastern Caribbean”; “Low-Emission Climate Resilient Agriculture Risk Sharing Facility for MSMEs”; “Honduras Renewable Energy Finance Facility”; and the “NAFIN Public Sector Renewable

Energy Financing Facility.” More generally, Mexico’s “CTF Private Sector Energy Efficiency Program” has had a focus on developing green lines and green bonds, creating an essential breadth of knowledge around this type of product. According to the IDB practitioners, the large potential for SPVs might be partially offset by the many obstacles for the ‘take-off’ that these projects face. Nonetheless, several testimonies point towards their importance in achieving both scaling and replication: *“What is needed is the public sector’s intervention to support a full pipeline at the subnational level,”* and facilities are particularly adequate to streamline approval processes, transferring some of the costs of one-time transactions (e.g., legal work required to work with municipalities and other smaller entities).





# Box 4

## The tactical use of concessional resources

Based on the systematic effect that the use of concessional resources from ECF has sought to trigger in projects and programs approved by the IDB during the last ten years, the following are examples of “tactical” uses of climate finance, which combine financial structuring and technical assistance to promote innovation:



Unlock the use of finance. Alongside the IDB line of credit, grant finance can be used to close knowledge gaps, reduce perceived risks, support market structuring, ensure adequate M&E, and encourage the take-up of credit (e.g., Green credit lines promoted with Bancoldex and FIRA).



Expand financial inclusion. Lower interest rates and longer payback periods are provided to actors with no access to credit, such as small-scale farmers subject to natural production cycles and SMEs that need to manage high upfront costs (e.g., “Financial Products to Promote Climate Change Resilience,” a PPCR project in Bolivia).



Mitigate risk. Reduce barriers for early investment in high-risk environments (e.g., contingent & convertible grants for the development of geothermal energy sources); improve the financial standing of beneficiaries (e.g., re-insurance model for SMEs focused on catastrophic risk); absorption of currency risk (e.g., credits extended to small landholders in Mexico’s FIP).



Incentivize behavior. Influence beneficiaries’ decisions on investment (e.g., give payments for farmers to pursue recovery and enhancement of ecosystem services in Brazil’s Southeast Atlantic Forest -GEF; subsidize credits for bus operators in Bogotá to purchase clean vehicles - CTF).



Develop a market. Large-scale equity investments, such as those enabled by facilities in certain sector-markets (e.g., agriculture resilience, landscape restoration, geothermal) provide a forceful market signal of sustained investment, incentivizing others to enter the market (e.g., “Low-Emission Climate Resilient Agriculture Risk Sharing Facility for SMEs” with funds from GCF).



Provide internal credit enhancement. Through first-loss guarantees and other risk-mitigation instruments, ECF has been used to strengthen the financial profile of borrowers that can otherwise not access finance or projects that need it to become minimally-viable in commercial terms (an attempt to do this was “Optima Energia Energy Efficient Roadway Lighting” - CTF Mexico).



Provide enabling infrastructure. Through various types of instruments, ECF concessional resources can fund transmission upgrades, extend transportation infrastructure, and others, to enhance local capacity to sustainably tap into its resources, such as using energy from renewable sources (e.g., “Transmission Program for Renewable Energy in West and North Zones,” which is an SREP investment in Honduras).



Promote positive environmental and social impacts. External climate finance can be used to strengthen environmental safeguards; ensure broad-based community-level stakeholder engagement. Grant funds can be used to mainstream climate considerations in sector work, where this would not have otherwise happened (e.g., GEF “Sustainable Land Management of the Upper Watersheds of South Western Haiti”).



Accelerate innovation. ECF works as an incentive that enables local champions to try new ways of doing things, whether its new policies or promoting innovative technologies and practices (e.g. “Ecocasa Program” funded through CTF in Mexico).



Leverage additional funds. Frequently, the acknowledgment of gaining the trust of an international climate fund acts as a signal to crowd-in additional donor and investors’ interest (e.g., “Sustainable Energy Facility for the Eastern Caribbean” supported by the CIF, the GEF and the GCF along with several additional international aid funding partners).

### 3.3

## Conditions and practices that support proper allocation and design of ECF

Experiential accounts from the IDB practitioners collected during the analysis, point towards three broad areas that either present success factors that should be replicated, or areas for improvement that guide the way to improve the design of programs and projects that use ECF. These are: having technical inputs to address non-financial barriers and inform the size of operations; the identification of enabling conditions that are particularly supportive of projects that advance climate objectives; and lessons learned to facilitate intended outcomes and broader impacts.

### Addressing non-financial barriers and right-sizing through technical assistance

Approximately one in every four of teams at the IDB mentioned that the availability of resources to perform policy assessments and analysis of non-financial barriers was a success factor in design.<sup>42</sup> Gap analyses and market studies, in particular, are considered to be instrumental in ensuring that climate solutions respond adequately to effective demand. These can be the most powerful when executed locally, with grounded on-field activities and stakeholder engagement processes that help refine market targets and theories of change behind a climate solution.<sup>43</sup> Recently, the NDC Pipeline Accelerator (see Box 5) has contributed to ensuring resources are channeled to this purpose,

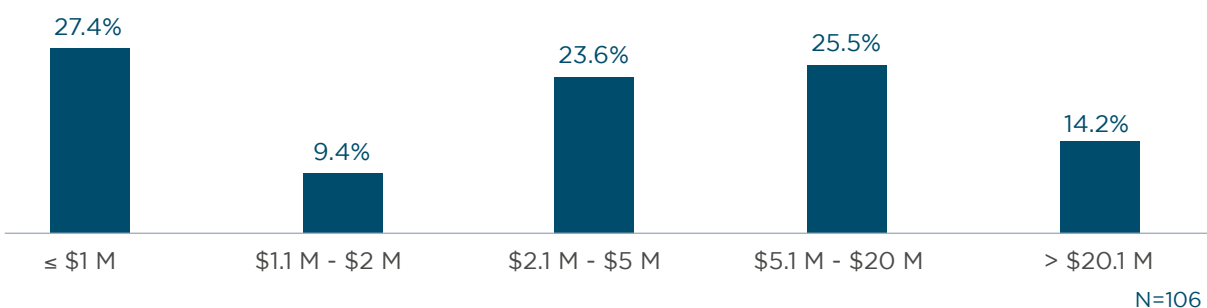
and explicitly geared towards identifying critical barriers to investment. Also related, practitioners mentioned that using lessons learned from other ECF operations is a valuable input to design projects with ECF.



Robust and cross-sector assessments of enabling conditions and technical requirements were considered necessary not only to assess feasibility but also to understand the scope of action needed to achieve broad-based ECF objectives (see section 3.1). In this regard, they pointed to the process of ECF-resource allocation as a general area for improvement since the number of funds is seldom determined by a needs assessment, but rather by country-specific targets that are negotiated directly between ECF and beneficiary countries. Project teams acknowledge that while the size of funding is not always proportional to the potential to transform a sector or market, there can be a more reliable connection between the ambition envisioned by partners of ECF during the approval process, and what can be effectively achieved through small-sized grants, loans or guarantees.

<sup>42</sup>In most cases, either the IDB “bootstraps” these studies through ongoing or new technical cooperations, or needs to get approval from ECF for the full intervention before carrying out technical studies. For this reason, CIF’s approach to pre-investment funds, which does not require a separate approval process, has been highly valued in comparison to other funds.

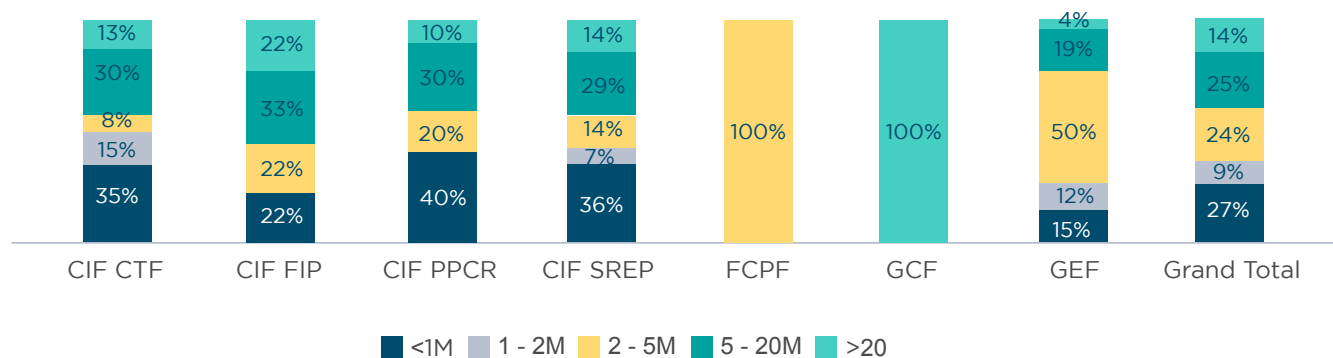
<sup>43</sup>This was one of the most important lessons for the project “Financial products Bolivia”; in this case, the market study was initially assigned to an international consultant based in Germany, but after several mishaps in the understanding of local conditions, a new demand verification was carried out directly by the local financial institution responsible for assigning the resilience credits. This on-the-ground experience allowed the Executing Agency to forge alliances and collect data that were used to optimize the targeting of the new financial product

**Figure 9 | Size of finance from ECF**

**Note:** Includes grants, debt, guarantee, equity, in Millions of U.S. Dollars.

**Source:** Produced by the authors. Includes all projects with CIF, GEF, GCF, and FCPF, completed or in implementation (excludes those in preparation and those that have been cancelled).

Figure 9 shows that approximately one in every three projects with funding from ECF does not surpass US\$2 million in concessional finance; Figure 10 suggests this is specially the case in funds such as CTF, and PPCR.

**Figure 10 | Size of finance from ECF by fund**

**Source:** Produced by the authors. Includes all projects with CIF, GEF, GCF, and FCPF, completed or in implementation (excludes those in preparation and those that have been cancelled).



# Box 5

## Nationally Determined Contributions (NDC) Pipeline Accelerator

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As mentioned, the NDC Pipeline accelerator is an IDB-led climate finance facility that aims to increase support for enhancing the planning, design, and preparation of infrastructure projects and portfolios that contribute to LAC commitments under the Paris Agreement and sustainable development objectives. With the Nordic Development Fund as its anchor donor, the NDC Pipeline Accelerator is part of the Bank's NDC Invest Platform, which also includes a Market Booster, Finance Mobilizer, and Programmer.

Through this Accelerator, grant support is given to cover the added costs of embedding climate and sustainability considerations in upstream project preparation and design. This includes

finance for studies (e.g., climate risk assessments, resilience integration plans, feasibility studies for low-carbon technologies) and action plans to incorporate sustainability in procurement practices. This work is meant to facilitate the identification and planning of bankable projects that fulfill climate change objectives across the IDB. It aims to aid in the task of structuring replicable and sustainable financial schemes that attract multiple stakeholders, using an interdisciplinary and multi-sectorial approach.

The NDC Accelerator is an additional way in which the Bank is helping mobilize financial resources from global markets for advancing NDCs. More information can be found in Appendix 7.

## Identifying conditions for high-impact and potentially transformational climate investments

External climate finance can be conceptualized as a means to: first, create the enabling conditions for low-carbon and climate-resilient investments; and second, to propel existing climate efforts into fully-fledged transformations. Several of the projects that are more compatible with this second use were able to identify the following factors early on during design, which later led to successful projects with positive outcomes:



- **The intervention followed supportive regulatory or policy change or was based on a nationally-adopted development plan, helping achieve an international commitment.** For example, energy efficiency projects both in Mexico, where there was a mandate to shift towards the use of efficient appliances and in Chile, where the Chilean Agency for Energy Efficiency (AChEE) had been created to support a national goal formally.
- **The operation seized strong external pressure to pursue action on climate change and built upon favorable pre-existing conditions,** such as the preference for clean technology, an already developed pipeline, or an ongoing project with room to incorporate climate additionality. For example, Barbados' "Sustainable Energy Framework" followed the acute pressure from an external factor (the elevated price of oil imports) and a favorable social perception towards small-scale solar PV, which constituted the springboard for larger solar PV and clean energy deployment.

On the other hand, factors that teams at the IDB reckon should have been more firmly considered during design, include:



- **Insufficient alignment between approval times for operations with ECF, and countries' political or economic cycles.** For example, approval of a project at the end of a government cycle was observed to limit ownership over the operation from the incoming administration.
- **Regulatory uncertainties, along with market and government shifts** (which may include key personnel rotation or full substitution of government due to political/social turmoil). These were mentioned by approximately 30% of project teams as obstacles that, in some cases, could have been better assessed during project preparation.
- **Waiting too long to seek a commitment from private investors and key commercial banks,** which is particularly relevant for private sector projects. In some contexts, even after concessionality and proof-of-concept had been provided, local financial institutions remained opposed to re-directing their efforts towards an unfamiliar market segment. Therefore, some project leaders believe that commitments with these actors should be sought in earlier stages than the current practice.



### Designing for effectiveness and broader impacts

The following is a synthesis of lessons learned that practitioners regard as useful for design to maximize the likelihood of achieving intended outcomes and broader results: scaling, replication, and contributions to transformational change.



- **Avoid narrow design and inflexibility in the design of implementation arrangements.** This can help achieve more substantial impacts, enhance coordination, and circumvent situations in which implementation ends up being more complicated than it needs to be.
- **Measure co-benefits for sustainable development.** The action of setting targets on impacts not directly linked to climate change objectives, but that may be of interest to different stakeholders, was observed to be useful to navigate political change. An example is “Promotion and Development of Local Wind Technologies in Mexico,” which emphasized benefits for local job creation; also, Argentina’s “Energy Efficiency and Renewable Energy in Social Housing” benefitted from underscoring the effect that energy efficiency has on reducing household expenses.
- **Beware being overly ambitious in project scope.** This may include insufficient consideration of local capacities, setting objectives that are beyond the attributions of executors, or that are difficult to achieve given available time and financial resources. A project team stationed in a country office remarked: “We prefer proving that we can deliver concrete results, even if at small scale, [because] this way people will trust; before, we were uncomfortable with an unmanageable scale that exposed us to empty promises with the communities.” The ability to increase ambition and risk depends on the country context.
- **For scaling and replication:** Using scenario analysis to engage stakeholders that are important in the creation of pipelines (e.g., officials responsible for infrastructure expansion plans); introducing scaling mechanisms such as facilities, is considered supportive of broader impacts.
- **For transformation:** Teams recommend ensuring that design solutions involve some form of business model to provide for the long-term sustainability of an intervention (partnerships with National Development Banks are considered apt for this purpose). They also advise to incorporate monitoring, reporting, and evaluation into the core rationale of the project, since particularly in the cases of innovation, this will yield information that in the past has allowed to crowd-in further investor/donor interest (e.g., Capital markets solution for energy efficiency financing).

# Box 6

## Project team insights that can help “design towards transformation.”

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When possible and if appropriate, it is advisable to promote projects that pursue any of the following approaches in their rationale for investment:

- Strengthen the regulatory and business environment with a view on enabling the social and private sectors to champion further climate action on their own, so they can continue once the project comes to an end (as opposed to focusing only on government, which tends to shift);
- Engage the full value chain involved in producing and delivering a climate solution (e.g., the businesses that provide the improved seeds acquired by farmers with a “resilience credit”);
- Prioritize solutions that have or can eventually yield a self-sustaining business model, ideally with a vision on how to crowd-in private investment;
- Create conditions for local actors to sustainably take-up the work initially done by the IDB and other sponsors (e.g., technical and financial structuring for issuing a green bond);
- Aim towards changing price signals and market behaviors (e.g., tax rates, LFI’s lending policies, etc.);



## 3.5

### Opportunities within the IDB to enhance the design

Beyond improvements in specific technical characteristics and inputs feeding into the project and program design, there are broader institutional-level efforts that, based on the perspectives from project designers and implementers, can help strengthen the preparation of proposals that will be submitted to ECF. Some of these include promoting strategic alignment, sharing best practices within the IDB and with ECF, and strengthening institutional assessment of the Executing Agencies (for details, see Chapter 5). Also, ensuring that beneficiaries commit to going beyond technical assistance (e.g., acquire a loan) and that they transfer all cost-reductions to final users, among others. The most salient recommendations for the IDB improvement at the stage of design are described below.

#### Applying a programmatic approach and fostering cross-sector dialogue

Since their inception in 2008, the Climate Investment Funds have promoted the use of a programmatic approach to articulate mutually reinforcing interventions that can, in a joint manner, increase the likelihood of achieving system-wide transformations in favor of low-carbon and climate-resilient development. More recently, the GEF has promoted a similarly framed “collective approach.”



**The CIF has been really good at knitting everything together and having the programmatic approach and letting each one in their core competency.**

The IDB project teams consider the process of developing Investment Programs as one of the most valuable ECF contributions to the IDB’s wider portfolio development, as it has demonstrated a method to foster country ownership and create synergies across sectors.<sup>44</sup> Within the IDB, it has been useful to expand collaboration between the public and private arms of the Bank. In sum, the approach has provided coordination and allowed prioritization; the cross-sector dialogue it has opened is regarded as one of the best ways to identify the most strategic method of allocating resources for climate interventions.



**We need more internal strategic discussions with sectors about where to place resources.**

In this sense, one in every three practitioners interviewed for this analysis underscored the importance of harnessing

<sup>44</sup> The aforementioned NDC Pipeline Accelerator (Box 5 and Appendix 7), has taken up on this lesson learned, as it currently promotes a programmatic view on sustainable investments that support Paris’ commitments

cross-sector expertise, particularly at the stage of origination. They considered this to be one of the Bank's most significant strengths for designing transformative projects. Still, at the same time, one of the most critical areas for improvement: *"We [at the IDB] should migrate towards a culture that shares merit... People must perceive that projects have a greater impact because they join forces with others."* A corporate-led vision, as opposed to a sectorial one, is regarded as necessary to ensure all market barriers are being tackled,<sup>45</sup> and to maximize development benefits, further making a case for climate action as a "no-regrets" measure.<sup>46</sup> A recommendation for greater cross-sector work is strengthening the role of climate specialists in-country offices (see Chapter 6).

Nonetheless, it must be borne in mind that the application of these approaches is likely to result in complex interventions. This presents the following key challenges: 1) Senior-level management at the IDB must be made aware these programs and projects will require longer preparation times, which implies overhead from sector specialists. In this sense, it becomes particularly important to achieve buy-in from country-level IDB representation (e.g., VPC), so resources in local offices can be allocated accordingly. 2) The IDB needs to ensure the Executing Agency on the receiving end of the operation has the institutional capacities, political influence, and championship necessary to manage programmatic and multi-sector collaborations.



**We should be able to allocate complex, strategically relevant, challenging projects more time, as they will need it."**

## 3.6

### Conclusions and pending challenges in the access to ECF

This chapter has recounted experiences by teams at the IDB and results from a cross-cutting analysis of the design of programs and projects that use ECF from four funding partners. It has shown how these resources have been used mainly to: 1) strengthen or create institutional and technical capacities; 2) diversify the means to finance climate investments; and 3) demonstrate the viability and real risks associated with low-carbon and climate-resilient projects, showcasing their development co-benefits.

Despite these aggregate positive outcomes, there are aspects beyond the Bank's direct area of influence, that either complicate the access to ECF, or that can improve to maximize it:

<sup>45</sup>For example: forest projects would benefit greatly from the involvement of transportation specialists and stakeholders, since road development acts as a driver of deforestation.

<sup>46</sup>Geothermal energy projects, for example, are considered to hold great potential to foster tourism, agriculture, aquaculture and further local economic development alongside energy generation; but in order to realize it at full, further cross-sectorial work is needed both in the IDB and in beneficiary countries.



1. **Lack of efficiency in approval processes can lead to missed opportunities.** Throughout the last ten years of access to ECF, more excellent compatibility between the IDB's processes and those of the different sources of ECF has been achieved.<sup>47</sup> Nonetheless, preparing these projects still entails what practitioners consider to be lengthy approval times from both ECF and the IDB boards, sometimes resulting in duplicate efforts and delays. Perceived slowness can make it particularly challenging to spark the interest of the private sector and sustain it.
2. **Perceived lack of clarity on criteria for approval makes it hard to manage**

**client expectations.** Most operations with ECF are considered complicated by IDB's practitioners. There is a generalized perception that the requirements to apply to these funds are not broadly understood within the IDB, apart from some "champions" who have been specialized in submitting proposals, and approval is not considered straightforward. Therefore, transaction costs are perceived high, and for some project teams, these offsets the benefits of pursuing access to ECF.

3. **Insufficient swiftness and flexibility in preparation can hinder impact.** Given the experiences above around approval times, it is not uncommon

<sup>47</sup>the IDB has worked to streamline the process of preparing with the GEF, while the CIF is positively regarded because it does accept the IDB's cycle for projects and project documents; CTF also has a "fast-track" that is considered as extremely useful by project teams.

for a proposal's contextual conditions to change throughout its preparation; also, new information can feedback into the project, creating an opportunity to improve its design. The absence of maneuvering space and expedited reviews makes it difficult to introduce changes to original proposals, which can sometimes curtail the potential for impact.<sup>48</sup> Furthermore, rigidity in administrative aspects complicates articulating stakeholders, at times, making it difficult even for the IDB's public and private sector arms to work together (see: "Synergies in ECF" in Chapter 5).<sup>49</sup>

4. **Improved communication with country offices can lead to better design/implementation.** The way ECF and the IDB processes are structured, and the complexity aforementioned have made it challenging to keep technical staff at COFs fully informed. Further requests for feedback and consultations with ECF-fund managers and COFs could result in a more robust and realistic project design, greater complementarity, improved planning, and better local understanding of the mechanics behind ECF once implementation begins.
5. **Equitable access from member countries to ECF is yet to be achieved.** Practitioners have pointed out that, while some countries have been highly successful in accessing ECF resources, others are, however, to benefit from them. This is related to the suggestion made earlier to improve the allocation of ECF resources based on needs

and types of use (section 3.4) since currently, this process is purely determined by the political dialogue established between ECF and country governments. The IDB should work jointly with ECF management to expand access for as many countries and sectors as possible.



## Lessons learned: Design

- Use lessons learned from previous projects
- Apply the principles of blended finance
- Get due diligence and commercial banks involved as early as possible
- Assess dependencies to foresee factors that will determine project medium to long-term sustainability
- Include controls to ensure cost-reductions are transferred to final users

<sup>48</sup>A case in point is "Energy Efficiency and Renewable Energy in Social Housing" in Argentina, which at the final stages of design, the team proposed using concessional resources only to finance the incremental cost of climate-equipping housing units (as opposed to the full unit cost); the modification entailed sending the proposal back to GEF's approval board, which would have caused significant delays. Thus, the project moved forward with a smaller number of units than what would have been possible if the change had been allowed by the GEF in a swifter manner.

<sup>49</sup>For example, GCF requirements gave way to treating the IDB and the IDB Invest as separate Accredited Entities.



### **Consequences of slow access to ECF include**

- Missed opportunities for collaborating with other sectors and partners beyond the IDB
- Private sector loses interest, as markets move quickly
- Pipelines once created are lost, and need to be rebuilt
- Counterparties reserve fiscal/ budgetary space but may not be able to maintain that commitment throughout all the time required for approval
- Country champions can lose their position of influence, making the intervention lose momentum
- Teams and clients are discouraged from using ECF in future projects



### **Strengths in access to ECF include**

- Availability of resources for pre-investment without the need for a separate approval process (CIF)
- Improved simplification in MRV systems and general streamlining of the process (GEF)
- Existence of a “fast-track” option (CIF)
- Flexibility to adopt an “on-demand” approach that begins with a broad scope and progressively advanced to more specific interventions during implementation (GEF)
- High technical standards to ensure ECF has an impact on development trajectories (GCF)



# Box 7

## Enhanced blended concessional finance principles for DFI private sector operations

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As mentioned, an innovative application of resources from ECF is using concessional finance to encourage private sector participation in meeting the SDG and develop new private-sector markets, also known as blended finance. This has become a critical tool to “develop private sector markets, foster innovation, and crowd in private finance in some of the most challenging settings.”

Blended Finance has been used by the IDB Invest when projects with high development impacts have (actual or perceived) risks that are too high to be exclusively handled by commercial financing. This has included products such as subordinated loans, patient (seed) capital, risk mitigation instruments (e.g., the aggregation mentioned above platforms and first loss guarantees), and performance-based financial incentives.

To ensure the efficient and effective application of these resources, avoiding any market distortions and crowding out of private capital, the Development Finance Institutions (DFI) Working Group has agreed on a set of principles to be implemented when making decisions on the use of concessional funds for private sector projects. The following five points summarize them:

### I. Rationale for Using Blended

**Concessional Finance:** DFI support for the private sector should make a contribution

that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. Blended concessional finance should address market failures.

### II. Crowding-in and Minimum

**Concessionalality:** DFI support for the private sector should, to the extent possible, contribute to catalyzing market development and the mobilization of private sector resources and minimize the use of concessional resources.

**III. Commercial Sustainability:** DFI support for the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must contribute to the commercial viability of their clients. The level of concessionality in a sector should be revisited over time.

**IV. Reinforcing Markets:** DFI support for the private sector should be structured to effectively and efficiently address market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.

**V. Promoting High Standards:** DFI private sector operations should seek to improve adherence to high standards of conduct in their clients, including in the areas of corporate governance, environmental impact, social inclusion, transparency, integrity, and disclosure.

# 04

## Findings on execution



During the stage of execution, local Executing or Implementing Agencies (EA) take planning and design into action; they implement each component, monitor its outputs, and measure contributions to intended outcomes. Throughout this phase, teams at the IDB accompany the process, supervise procurement and disbursement, perform financial and risk management, and enforce safeguards compliance policy.<sup>50</sup>

This section will first provide an overview of the progress achieved by programs and projects that use ECF and that have been included in the analysis, providing insights and examples on their effectiveness. Later, a systematic assessment of broader impacts (scaling, replication, contributions to transformation) will be presented, along with short, illustrative case studies. The chapter will close with a series of lessons learned on practices that have eased execution, opportunities to improve implementation within the IDB, and areas to boost the effectiveness of ECF that will require joint work from the IDB and ECF partner funds.

## 4.1

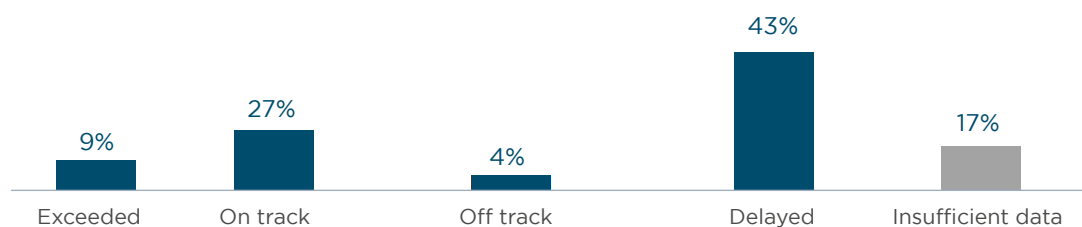
### Delivery of programs and projects that use ECF

As stated in Chapter 2 (Table 5), this analysis of the last ten years of ECF includes programs and projects that began implementation at different points in time (see Figure 12 below), and are therefore at different stages: 27% are closed, 63% are in execution, and the remaining 10% are either in preparation or have been cancelled. The following analysis provides perspectives on their progress, establishing distinctions between projects that are more advanced in implementation (effective impacts) from those which are relatively more recent (potential impacts).

#### Assessment: Progress on delivery

As of September 2019, a general evaluation of the Bank's portfolio of programs and projects with ECF shows that 25 out of 70 cases are either on track or exceeding in the delivery of their intended outcomes.

**Figure 11 |** Delivery status of IDB's climate change operations that use ECF



**Insufficient data:** 9 projects are too recent to assess; three projects from the previous internal assessment by CCS ("Climate investment Funds: Lessons learned from 10 years of implementation") have been cancelled. Projects closed, but that experienced delays were recorded as "Delayed."

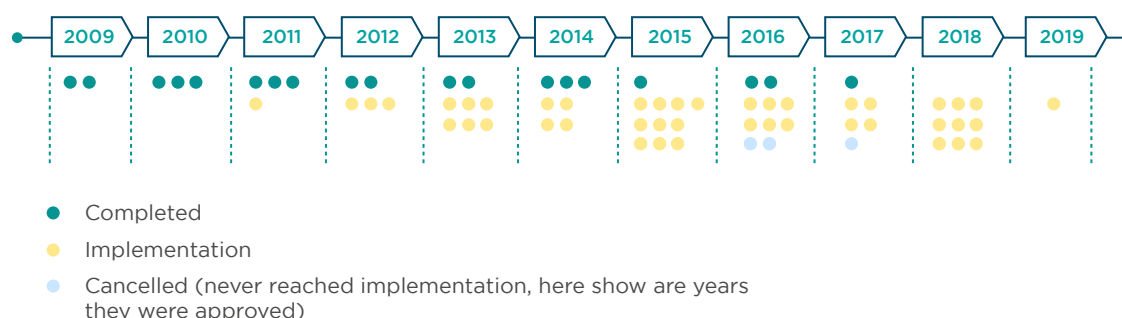
<sup>50</sup>While this phase also includes stakeholder management activities, a cross-cutting analysis of stakeholder relations throughout the project cycle is rather addressed in Chapter 5: Findings on Management.

The rest of the projects are off-track (4%) experienced delays (43%), or are still too early stage to assess their delivery (13%). This assessment is based on direct updates given by project teams during interviews.<sup>51</sup>

Specially during the earliest stages of implementation, projects tend to require time for ‘take-off’ and may experience delays. Indeed, this was observed for several operations that require, for

example, complex outreach processes in dispersed geographic areas (e.g., farming communities, forest landholders, etc.), or cases that involve more than two EAs<sup>52</sup>, which therefore take more time than expected to establish all arrangements necessary. Nonetheless, the analysis shows ten projects approved for implementation in the period 2011-2013, that are yet to close.

**Figure 12 | Status of programs and projects with ECF**



**Note:** Dates have been allocated according to the year in which programs and projects started implementation

**Source:** Produced by the authors with information on procurement plans and disbursement reports available in the IDB project database, and verified with teams through interviews. For more information: <https://www.iadb.org/en/projects>

While this systematic review cannot be conclusive on whether operations that use ECF are slower to close than other operations at the IDB, the analysis did

point towards areas that are specific to some projects with ECF, where improvement may speed-up the pace of implementation.

<sup>51</sup>As stated in the introduction, interviews for half of the sample were performed in 2018; while the other half of projects were assessed in September 2019. For details on projects included in each data collection phase, please refer to the Appendix.

<sup>52</sup>The Energy Efficiency and Renewable Energy in Social Housing Project in Argentina for example, is being implemented by a total of 8 subnational Executing Agencies.



Interviews with project leaders and the review of midterm evaluations signaled that some of the delays during approval and implementation might find common causes that are rooted in the processes of both ECF partners and the Bank. On the one hand, fund's requirements, which as stated in Section 3.6 are perceived as rigid and sometimes conducive to duplicate efforts, can give way to protracted review procedures and administrative hurdles; more generally, getting familiar with ECF policies requires a learning curve, both for implementers at the IDB and at local EAs. In this sense, more significant efforts to streamline and provide agile training/assistance around these procedures hold promise as a solution to delays attributable to procurement and compliance.

On the other hand, more proactive up-dating of IDB officials at COFs regarding discussions with ECF partners may also help strengthen links to country programming and thus lead to a greater sense of local ownership and priority to projects with ECF. This adds to a second area for improvement at local offices, which is ensuring these projects are always included in yearly portfolio reviews. These aspects provide the opportunity to foster greater ownership at the country-level, a matter further discussed in Chapter 6.

Beyond these two factors that are specific to programs and projects that use ECF, there are other, more general project management elements, that may lead to improved execution: more significant emphasis on reviewing results frameworks and reporting indicators with the EA; ensuring the availability of sufficient technical expertise on the ground; and more exceptional follow-up on co-finance, are just some examples. Sections 4.3 and 4.4 will delve into additional aspects.

## Reflections and examples of delivery

Final evaluations were available for a subset of programs and projects analyzed.<sup>53</sup> The evaluations were complemented with project teams' accounts of the results yielded by projects, and what they consider are the most relevant contributions by ECF to the low-carbon and climate-resilient agenda in LAC.

The following are some of the effects of ECF that implementers at the IDB regarded as the most valuable since they allowed EAs and other stakeholders to depart from business-as-usual; some were explicitly targeted in design documents, while others were considered a value-add of executing ECF:

<sup>53</sup>Ten projects have available midterm or terminal evaluations: two of them considered results to exceed; four performed as expected; three performed regular and one performance was poor. Since this review of ECF did not intend to evaluate outcome delivery, the analysis rather focused on highlighting overall effects of ECF throughout the process of delivering outcomes.



**Table 12 |** Valuable effects of ECF

Effect	Case in point (click on links)
<ul style="list-style-type: none"> <li>Allowed stakeholders to bridge the gap between an idea and its prototype</li> </ul>	<a href="#">Climate-Smart Agriculture Fund for Latin America and the Caribbean (NDCs, NAPs, NAMAs, TNAs), contributing to creating/establish local champions and long-term sustainability.</a>
<ul style="list-style-type: none"> <li>Provided a method and a process to involve value chains in clean technology development</li> </ul>	<a href="#">Promotion and Development of Local Wind Technologies in Mexico</a>
<ul style="list-style-type: none"> <li>Provided sustained support to advance clean technologies and sparked private appetite to innovate in the sector</li> </ul>	<a href="#">Promotion and Development of Local Solar Technologies in Chile</a>
<ul style="list-style-type: none"> <li>Triggered reforms in the government's institutional frameworks to improve the management of clean energy projects</li> </ul>	<a href="#">Development of Renewable Energy, Energy Efficiency and Electrification of Surinam</a>
<ul style="list-style-type: none"> <li>Strengthened government capacities in project management, public tendering, etc. enabling further action on clean energy</li> </ul>	<a href="#">Sustainable Energy Program in Guyana</a>
<ul style="list-style-type: none"> <li>Catalyzed interest from additional donors in resilience measures</li> </ul>	<a href="#">Multipurpose Drinking Water and Irrigation Program in Bolivia</a>
<ul style="list-style-type: none"> <li>Helped structure and pilot new business models for clean technologies</li> </ul>	<a href="#">Climate Technology Transfer Mechanisms and Networks in Latin America and the Caribbean</a>
<ul style="list-style-type: none"> <li>Injected an integral approach to previously fragmented efforts, providing a vision for decarbonization</li> </ul>	<a href="#">Sustainable Urban Mobility Program for San Jose</a>
<ul style="list-style-type: none"> <li>Successfully incorporated gender elements in consultations with indigenous groups</li> </ul>	<a href="#">Support for REDD+ readiness process in Guyana</a>
<ul style="list-style-type: none"> <li>Built trust and boosted the participation of indigenous groups in forest interventions</li> </ul>	<a href="#">Readiness Preparation Proposal (R-PP) for REDD+ in Peru</a>
<ul style="list-style-type: none"> <li>Established reliable monitoring systems, which is supporting scale-up</li> </ul>	<a href="#">Readiness Preparation Proposal (R-PP) for REDD+ in Peru</a>
<ul style="list-style-type: none"> <li>Catalyzed private investment in a new type of asset</li> </ul>	<a href="#">Renewable Energy Financing Facility for Mexico</a>
<ul style="list-style-type: none"> <li>Gave a client with previous little access to finance, credibility to get loans elsewhere</li> </ul>	<a href="#">Invema Self Supply Solar and Energy Efficiency</a>

**Source:** produced by the authors. Please note neither the list nor the examples provided pretend to be exhaustive, but rather illustrative, of the effects of ECF in country and sector contexts.

The following cases provide further examples of the range of positive mid-term and outcomes delivered through ECF.

# Box 8

## Positive outcomes in the use of ECF in the public sector arm of the IDB



### Sustainable Energy Facility in the Eastern Caribbean

This is the first project on a global scale to bring together funding from the GEF, the CIF, and the GCF. It is regarded as demonstrative of how to achieve strong alignment between ECF's appetite for innovation and the pressing need for clean alternatives in a region with expensive access to energy.



### Perú REDD+ Preparation and Strategy

Through funding from both the FCPF and the CIF's FIP, efforts in Perú have yielded the first Forest Conservation and Climate Change planning process in the country; and achieved an unprecedented level of participation from indigenous communities, mediated by the IDB throughout this process.



### Tech. Transformation of Bogotá's Integrated Public Transportation System

CTF funding supported efforts by the IDB and other donors in Bogotá to develop a business model for low-emissions buses. Today, Bogotá has one of the largest fleets of clean buses in the region, along with Santiago de Chile, where GEF funding also supported the development of this model.



### Promoting Energy Efficiency in Chile's Industrial Sector

Funding and assistance from the GEF and the IDB helped consolidate a nascent government institution that advocates for energy efficiency (AChEE). A US\$20 million green credit line for energy efficiency projects opened a market. Today, the Bank's pipeline in Chile, working on public energy projects, is over US\$100 million.



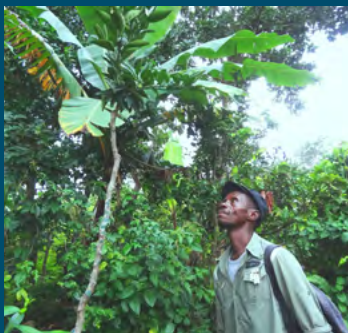
### Energy Efficiency and Renewable Energy in Social Housing\*

This GEF-supported intervention in Argentina has created an unprecedented dialogue between the Ministries of Housing and the Environment, creating opportunities to continue work on this topic. Pilots will inform performance-based criteria, expected to influence the whole housing sector.



### Multipurpose Drinking Water and Irrigation Program in Bolivia\*

Grant funding from CIF's PPCR allowed the IDB to apply an Integrated Watershed Management (IWM) approach in the preparation of this 86-million-dollar operation. IWM is now being mainstreamed in other work by the IDB and supported in Bolivia through additional donor funds.



### Sustainable Land Management of the Upper Watersheds\*

This GEF-supported initiative in Haiti has faced multiple implementation challenges. Nonetheless, it set the basis for new methods to select areas of environmental protection, and management techniques that are being replicated in other parts of the country through national guidelines and a Programmatic Management Plan.



### Development of Renewable Energy, EE and Electrification\*

Efforts to develop experience on mini-grids and solar in Surinam have been supported by the GEF and the IDB. As a result, the Government has updated its institutional framework to address rural electrification better. The country has a new policy framework, and end-user awareness has been increased.

**Note:** This Box only includes public sector projects with ECF. Two emblematic cases of positive outcomes in climate change projects with ECF and the private sector arm of the Bank are: Itelecom in Chile (with the CTF) and "Ejido Verde" in Mexico (with the GEF). Both cases can be consulted in the publication: "Investing in reversing" (Meirovich, H., 2019:35).

**Source:** Produced by the authors. Cases marked (\*) are less mature, and therefore their contributions are yet to be translated into effective outcomes.

External climate finance tends to push for innovation, often allowing more preparation time to achieve it. Because of this, programs and projects that use ECF have also had an impact internally at the IDB. For example, the application of innovative methodologies, such as analysis with the HydroBID platform and Integrated Watershed Management approaches; the creation of a new unit within the Energy Division exclusively dedicated to advancing geothermal energy sources; and as mentioned in Chapter 3, the structuring of innovative financial products and vehicles.

## 4.2

### Assessing broader impacts in programs and projects that use ECF

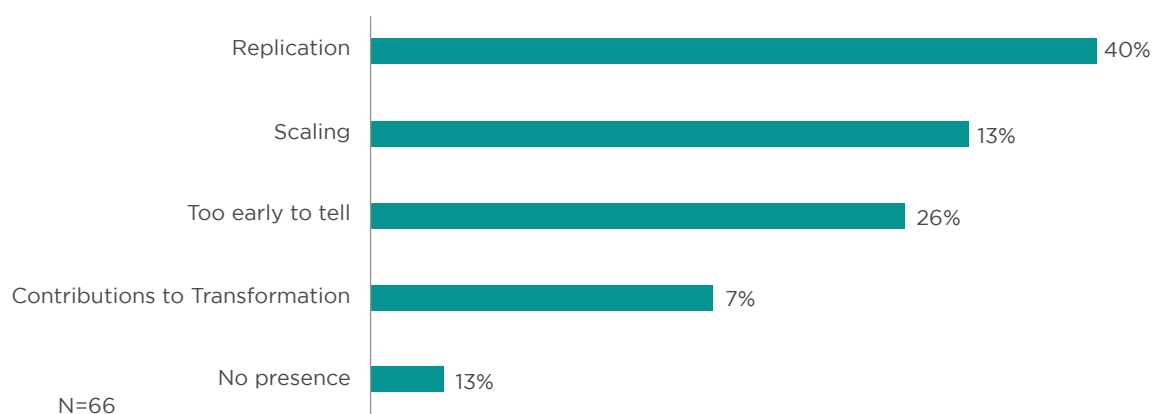
As described in Section 2.3, an essential objective of this analysis was to trace the

effects of ECF that go beyond intended outcomes. This section provides insights and examples identified through the IDB testimonials and desk review.<sup>54</sup>

### Presence of scaling, replication, and contributions to transformation

The systematic analysis of replication, scaling, and transformation effects in the sample of 70 programs and projects indicate that 45 of them show sufficient progress for broader impacts to be assessed; out of these, replication tends to be the most frequent in interventions that use ECF (see [Figure 12](#)).

**Figure 13 |** Presence of broader impacts in projects reviewed



**Source:** Produced by the authors.

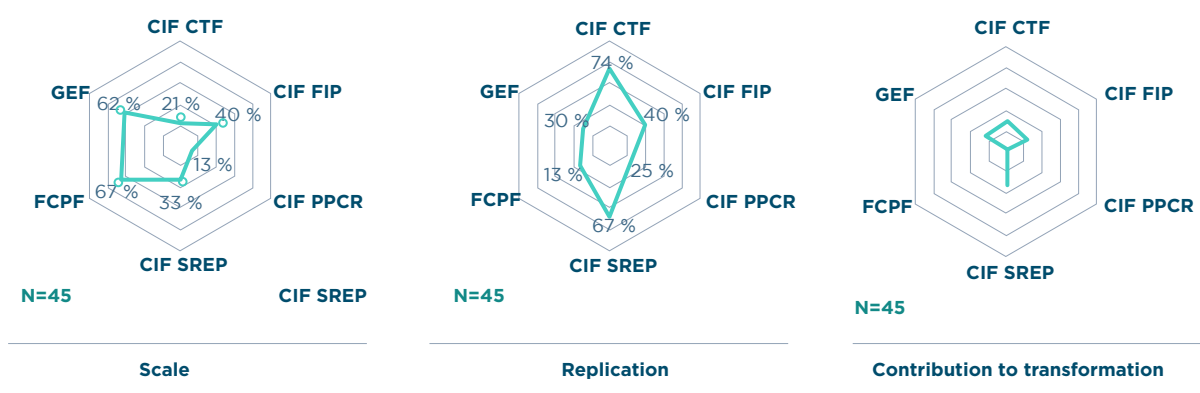
**Notes:** Four projects presented insufficient information for broader impacts to be assessed, and therefore only 66 projects are included in this analysis. Please also consider this graphic shows only what is effectively observed up to the time of writing (December 2019) and not the potential broader impacts (see [Figure 14](#)). While replication and scaling are impacts that can be evident early in project implementation or upon closure, contributions to TrC take a longer timespan to be manifest.

<sup>54</sup>Since the analysis did not involve on-field data collection nor interviews with additional stakeholders, it cannot directly attribute scaling, replication and transformation effects to ECF-IDB operations. ECF and IDB interventions often act jointly with country efforts and other donor funds; therefore, effects should not be interpreted as exclusively driven by ECF-IDB operations, but rather as the result of strategic collaborations with multiple partners in a priority sector and market.

Out of the projects subject to the analysis, 51% present at least one of these three features; 33% present two; 9% present all three features, while 5% present none. When analyzed by sector, scaling effects have the strongest presence in forests and transportation; replication is strongest in

energy efficiency projects, where models such as savings insurance, support for project finance through ESCOs, and green credit lines, are considered highly replicable. The most transformative initiatives so far have been in the field of renewable energy and energy efficiency.<sup>55</sup>

**Figure 14 |** Presence of broader impacts as a percentage of projects by fund



Source: Produced by the authors.

**Note:** In four cases, no information on broader impacts was available, and in an additional 21 projects were too early stage to assess. Therefore, presence of broader impacts was only analyzed in 45 out of the 70 projects and programs; accordingly, percentages shown reflect 0 projects assessed in GCF; 2 projects assessed in FCPF; 16 projects assessed in GEF; 15 in CTF; 3 in FIP; 3 in PPCR; and 6 in SREP.

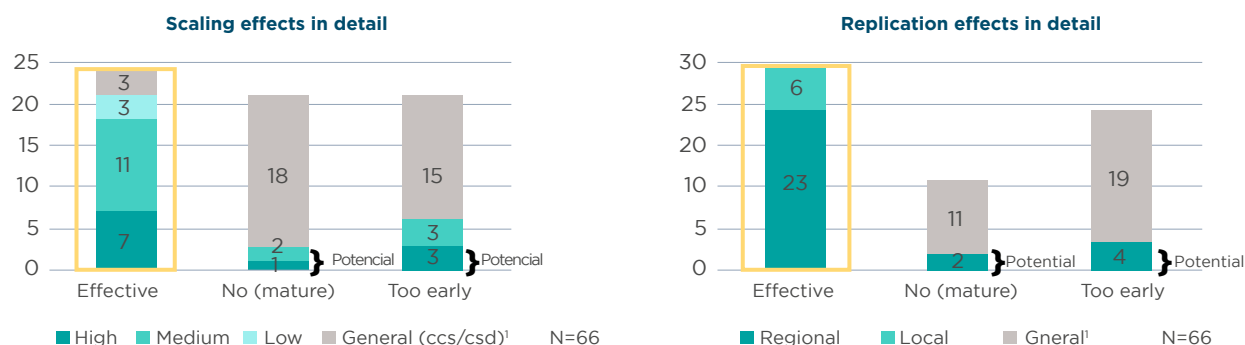
The analysis by fund shown in Figure 14 indicates that ECF from the CTF and SREP have contributed to replicable models in the region; projects funded through the GEF and the CTF present signals of contributions to transformational change. Other projects tend to be too early in their development to be assessed: one-third of projects in the sample-initiated implementation on or after 2016; therefore,

it's harder to find evidence for broader impacts. Because of this, Figure 15 shows a second layer of analysis, which sought to capture what project teams consider to be potential effects of scaling and replication; it also establishes a differentiation between high to low scaling effects,<sup>56</sup> and regional vs. local replication effects. This allows for a more qualified analysis of the broader impacts of ECF.

<sup>55</sup>This effect is partly influenced by the fact that contributions to transformational change can be best assessed only after some time after closing has passed. Most of the earliest projects using ECF belong to renewable energy and energy efficiency.

<sup>56</sup>A subset of projects were subject to a more in-depth analysis of scale and replication. High scaling effects imply follow-up investments larger than \$5M USD by the IDB and other actors; medium scaling imply a range of 1 to 5 million dollars in follow-up investments, or accounts of private sector actors' continued interest in investing in the sector and/or leveraging additional funding to that reflected in original project documents (not all are verified); a low scaling effect was considered when the only follow-up investment was a Technical Cooperation, or additional activities/declarations by beneficiaries to prepare ground for further work.



**Figure 15 |** Presence of broader impacts in projects reviewed

**Source:** Produced by the authors based on document review and accounts from interviews with project teams. Gray boxes represent programs and projects that were analyzed in the 2018 internal report by CCS, and therefore could not be further qualified. Four projects did not have enough available information to be assessed. Both of these aspects result in a sample size of 66. An additional project could only be partially assessed through document review, which included information on scaling but lacked insights on replication effects.

What Figure 15 shows is that projects with scaling effects tend to imply an additional investment of US\$1 million to US\$5 million by the IDB (or other actors) that is directly associated with the original intervention (Medium effect). In seven cases, follow-up investments were more substantial than US\$5 million (High). Some projects which are early in their implementation already present signs that could lead to scalability (6); others are mature and present signs as well (3).

Replication has mostly occurred at a regional scale (23 effective cases and six potential), through the IDB's networks of knowledge and practice in LAC. Local replication effects (6 effective cases) are observed when additional actors in the local context utilize outputs to further advance the same agenda as the initial project or program. Regional effects have most often involved financial and technical mechanisms that provide the IDB with a track-record in their design and implementation, such as those analyzed in Chapter 3 (Section 3.2).



**Technical replication**, understood as the “learning curve” that work on a new topic provides for staff at the IDB, was observed to contribute to a broader, more equitable, access to ECF. For example, work with the FCPF in Guatemala, has helped prepare proposals for Honduras and El Salvador to the GCF and the NAMA Facility. The Sustainable Energy Facility in the Caribbean showcased the Bank’s ability to make ECF work in a variety of contexts, which can provide opportunities for other LAC regions and countries:

“

**We have gained credibility with GCF by proving we can put together such a complex operation in a difficult context... this has opened doors.**

The following short case studies provide persuasive examples of how the scaling, replication, and contributions to transformation effects have materialized in projects with ECF.



# Box 9

## Short case studies on broader impacts



### SCALE: Sustainable Urban Mobility Program for San Jose.

This GEF-supported project in Costa Rica began implementation in 2014, and its main output is the PIMUS: Plan Integral de Movilidad Urbana Sostenible. It generated and systematized data on low-carbon mobility and other planning inputs, which were unprecedented in the country, such as the first inventory of pollutant emissions for the vast metropolitan area (GAM) and a protocol to estimate primary sources of pollutant emissions.

The project identified concrete potential interventions to help introduce low-carbon mobility into infrastructure decisions. An example of its application is the design of a new road investment with a loan from the IDB, which is in the process of incorporating several insights gained through PIMUS (e.g., exclusive lanes for public transportation, three

linear parks, etc.). Also, the PIMUS set the basis for the transportation trench of Costa Rica's ground-breaking National De-carbonization Plan. It is also being used by the Costa Rican Railroad Institute (INCOFER) to foster inter-modal integration in San José.

After this project, the IDB portfolio in Costa Rica has expanded to include:

- A technical cooperation on business models for train electrification.
- A technical cooperation for the implementation of electronic payments.
- A technical cooperation on new bus concessions.
- A 350 M USD loan for Road Infrastructure that incorporates low-carbon mobility information and designs.



## REPLICATION: Capital Markets solution for energy efficiency (EE) financing

This CTF-supported private project began implementation in Mexico in 2014. It is one of the first efforts to create a new asset class with the capacity to mobilize funds from institutional investors at scale, in support of small-scale EE projects, developed by Energy Efficiency Companies (ESCOs). It consists of a two-stage financing mechanism:

- **Accumulation:** A senior revolving loan is channeled towards a warehousing line that finances, standardizes, and accumulates EE projects for further securitization.
- **Mobilization:** Credit enhancements, in the form of a Credit Guarantee, support the securitized bonds to be issued in the local or international capital markets. The proceeds of the bonds refinance the warehousing line and make it available again for a new Accumulation cycle.
- The debt service of the bonds is backed by the cash flow generated by EE savings in underlying projects.

One of the critical barriers tackled by this model is inadequate access to finance. ESCOs are usually SMEs with a limited size balance sheet, which gives way to Local Financial Institutions pricing-in a higher risk, resulting in high collateral, high-interest rate and short-term tenors (up to one year). Among other benefits, this project will allow ESCOs to access loans with tenors of up to three years.

This project, which involves the first-ever bond issuance backed by energy efficiency receivables, is on its way to being replicated across the region through:

The establishment of a regional Energy Efficiency Green Bond Facility (US\$217 million)

- This Facility will include a GCF guarantee (US\$20 million) and grant (\$2 million)
- China Co-Financing Fund will provide an investment of US\$50 million
- Dominican Republic, Jamaica, Colombia are already in the pipeline to apply this model of EE project finance



## CONTRIBUTIONS TO TRANSFORMATION: Sustainable Energy Framework for Barbados

This 2009 GEF-backed investment originated as part of a broader framework of collaboration between the Government of Barbados and the IDB. This framework aimed to support the comprehensive process of preparing policy and legislation to promote renewable energies (RE) and EE in all sectors of the economy. The GEF provided US\$1 million for pilot projects that followed-up on IDB policy-based assistance.

These initial efforts “got the ball rolling” in facilitating a deep energy transition. In essence, additional investments<sup>57</sup> helped gradually create a market for solar energy, promote energy efficiency in public lighting, and introduce electric vehicles. Key policy reforms enabled this, among them, a change in the entry tariff by the utility company of the Bahamas, which nowadays incentivizes entrants to opt-in to solar PV. Small businesses, in particular, were supported to acquire state-of-the-art RE and EE equipment; nowadays, the full value

chain behind thermosolar panels has been developed locally and looking to expand. The Bahamas continues to finance this energy transition and is evaluating the applicability of cutting-edge technologies for electromobility and energy storage.

These changes are illustrative of the “signals of transformational change” available in Appendix 6.

- Changes in legislation
- Incentives to create a value chain in RE and EE
- EE investments in public lighting and public buildings
- A technical cooperation on electric mobility
- Over \$230 M in follow-up loan operations with the IDB

<sup>57</sup>Among them, the IDB signed a 10 million loan to establish an Energy Smart Fund, followed by the SMART Fund operation and an Expanded Support for the Sustainable Energy Framework for Barbados (SEFB). Also, a 17 million loan for the Public Sector Smart Energy Program (PSSEP) which was jointly supported by the European Union; other organizations such as the United Nations Environmental Program (UNEP) contributed through joint partnerships such as the Caribbean Hotel Energy Efficiency Action Program (“CHENACT”).





The drain on the foreign exchange [has led to] the Government of Barbados aiming to reduce the island's heavy dependence on imported fossil fuels over the next 10 to 15 years by at least 30%.

– IDB News Release, 2011



## 4.3

### Conditions and practices that support proper use of ECF

Despite the positive contributions made through ECF so far, the delays and obstacles faced by several projects are symptomatic of improvements needed to achieve benefits at speed and the scale intended initially. The following section provides some of the most important lessons learned.

#### Improving planning, budgeting, and human resources

Implementation of projects with funding from ECF requires knowledge on external funds' procurement standards and safeguards policies; furthermore, if projects involve innovation, they are likely to demand additional time to create appropriate institutional arrangements. Therefore, it is quite common to find that planning and budgeting processes in operations with ECF need to assign adequate resources and periods to learn,



We need more tools for ECF to share lessons learned and provide in-country training on certain topics, such as their safeguards policies

share this knowledge with the EA, and provide extra support in administrative procedures. Additional and earmarked funding for these tasks of supervision may help address the time-intensiveness of projects that use ECFA.

As seen in Chapter 3, ECF interventions tend to involve innovation, both within and without the IDB. The successful implementation of innovation demands to enable systems and mindsets: it requires different standards for resources, expectations, and room to fail and to learn. The following lessons learned can help reflect on how to improve the implementation of innovative projects with ECF:



## Lessons learned: Execution

- Have a full-time project manager in the EA that can be wholly dedicated to administrative tasks and procedures; at times, it can be useful to deploy consultants inside governments that need a lot of capacity building, especially in highly demanding projects and very technical subjects<sup>58</sup>
- Strive to engage technical support at the COF of the IDB from the beginning of the project, and keep him/her on board throughout the full project cycle (more excellent continuity in teams is highly desirable)
- Provide training for teams at the IDB as needs of the projects evolve
- Plan for in-person sessions with the EA to go through procurement standards and requirements; include adequate timeframes for this in the Operations Plan
- Consolidate contractors whenever possible, especially if activities are linked (e.g., the FIP Strategy and the Environmental Social Impact Assessment should be performed by the same consultant)
- Avoid delays by planning for safeguards and initiating due diligence as early as possible
- Use ECF safeguard compliance policy as criteria throughout the project (selection of pilots, procurement, etc.)
- Generate reliable and practical MRV systems, that allow risks and progress to be tracked on time while shortening the time spent in reporting and documentation; this can free-up time for project leaders, EAs and contractors to focus on strategic activities, such as structuring demand, disseminating results, and creating a pipeline for scale-up

<sup>58</sup>A model that has worked in the past is having a single EA for administrative tasks, and sub-executing agencies in charge of technical components.

## 4.4

### Opportunities within the IDB to enhance the use of ECF

#### Anticipating, monitoring and adapting to change

More than 60% of project teams interviewed for the analysis mentioned the importance of adapting to the evolving circumstances during execution. To this end, they recommended always including a risk analysis in the Operations Manual (or similar document) and emphasized the importance of continuous monitoring, based on the results matrix.

Most changes arise from shifts in markets and governments, as one in every five teams attested. Those who considered they were able to adapt better, attributed this to the technical and financial robustness of the intervention.



An opportunity going forward is to provide standardized training for technical and administrative personnel at the IDB Country Offices, so they have full clarity on ECF procedures and standards, knowing how to craft acceptable strategies of adaptive management. Local technical coordinators would benefit from an improved understanding of the margin of maneuver they have on procurement decisions, updates to the results matrix, among others. These local coordinators are valuable monitors of risk, being able to foresee if projects may need to adapt to policy shifts, for example. Still, they need better tools to communicate with management. There should be clarity on whether changes, such as modifications to the results matrix, are allowed, and have mechanisms in place that allow for their formal submittal and approval.



In this sense, several project teams signaled that there is a role for stronger MRV to maximize effectiveness:



- Use a simple, well-targeted system: from country to bank, and bank to ECF
- Review MRV with local EAs: make responsibilities over them explicit from the start of the project
- Proper use of MRV enables learning, no matter how complex the project is
- Make sure most impact indicators are aligned with the attributions lawfully held by implementing entities (e.g., national vs. subnational)
- Perform mid-term evaluations, and organize a workshop to consider findings; use them as opportunities to establish dialogues with ECF and provide updates on co-finance<sup>59</sup>

Regarding MRV at a program level, teams pointed out that data is sometimes stored by different agencies involved in various aspects and phases of the intervention. Also, some EAs tend to separate the information they capture for ECF-financed activities, from information on the overall Program. In those cases, a unified framework (e.g., a control panel) could strengthen the application of the programmatic approach, fostering coordination and synergy among different development partners and actors. This could also help keep better track of broader impacts, specially scaling effects.

<sup>59</sup> Several project teams pointed out that co-finance is not sufficiently traceable; in some cases, this results in the loss of some of the resources committed locally. This may be partially related to what was suggested in Chapter 3: some co-finance requirements can be regarded as unrealistic.



# Box 10

## Managing foreign exchange risks

Some ECF projects have achieved local currency lending (e.g., Mexico FIP, CTF Energy Efficiency Financing Program for the Services Sector in Colombia). In contrast, others would have benefitted from ECF being open to finance their part in local currency (Itelecom, Financing Low Carbon Strategies in Forest Landscapes, Clean Tech Fund). Team officials have pointed out: “...We have found ways around this in the CIF, but this flexibility is not upfront,” and “although they allow it, they do not take over exchange rate risk, which is expensive.” Therefore, the IDB and partners of ECF may consider crafting a more consistent approach to local currency lending (e.g., if beneficiaries have no other means of credit, as in the case of small farmers and landholders).

## 4.5

### Challenges in the implementation of ECF

As mentioned, operations with ECF would benefit from greater flexibility within the IDB to adapt to changing conditions and new opportunities. Nonetheless, some of that flexibility is also required from ECF partners. Going forward, a dialogue between the IDB and management at ECF partner funds should balance the need to inform donors about project progress and ensuring integrity, safeguards, and financial conditions are kept on the one hand; and the level of swift adaptability that climate interventions require to remain relevant and pragmatic on the ground, on the other.

Below, two additional areas of collaboration with ECF partners that can further improve the use of finance.

#### The case for better knowledge management

Approximately 20% of teams communicated an appetite for greater knowledge sharing, and this was re-affirmed during a broad-based consultation in Washington DC.<sup>60</sup> Country offices, in particular, would benefit most from closer communication, guidance, and feedback from those responsible for managing ECF.

A channel to systematically gain access to information on previous projects is needed, both to inform discussions with potential beneficiaries, and to execute projects (e.g., the dissemination and understanding of an

<sup>60</sup>A workshop was carried out in October, 2019. For more information, please see the Appendix.



**The ability to consult lessons learned could help democratize access to the funds and reduce a currently inefficient ‘learn by doing’ use of ECF.**

asset class’ performance track record can elevate interest in replicating it). Project Completion Reports (PCR) were identified as instruments that could be better harnessed by imprinting on them a sharper learning focus (e.g., by adding a section that summarizes information relevant to future projects).

Meanwhile, external dialogue with partners of ECF on knowledge-sharing may contribute to a range of objectives, such as:

- Making methodologies more robust by learning from ECF officials and their experience in other regions

- Strengthening the capacity of COFs to design and execute projects with ECF, by providing them with direct guidance and closer support on ECF procedures, particularly during implementation
- Avoid delays in execution, by providing on-site training on how to comply with procurement and safeguards that are specific to ECF partner funds
- Save time and resources from beneficiary countries, by providing better, more systematic information and training on how the funds that manage ECF are structured, how to comply with standards, and how to learn about emerging opportunities.

In short, better knowledge management was identified as one of the most straightforward ways to maximize the impact of ECF at the IDB. ECF focal points and the team at CCS are acknowledged as key players in helping systematize the Bank’s track record in these projects and provide teams with resources. In the past, the IDB has provided a space for

different countries working with the same ECF to share their experience; this is the kind of peer-to-peer learning considered successful and desirable going forward.

## Executing Agencies and their role on effectiveness

Half of the project teams mentioned characteristics of the Executing Agency<sup>61</sup> as either a success factor or an area for improvement to effectively execute Interventions that use ECF. While this conclusion may not be exclusive of projects with ECF, it does point to the need to hold a closer dialogue with ECF partner funds about desirable characteristics in an EA and the range of administrative requirements they should comply with.<sup>62</sup> It also suggests the IDB should work to have more robust institutional assessments of EAs.

Some characteristics that were considered by project teams as desirable in a local EA include:

- Excellent working relationship with the ECF focal point, and with subnational entities (if applicable)
- Organizational objectives that are aligned to the objectives of the ECF
- Has legitimacy on the ground, and capacity to perform frequent site visits (not too centralized)
- Has a strong negotiation position with the government, especially with the Ministry of Finance

- If governmental, its attributions match the objectives and scale of work (metropolitan vs. municipal, environmental vs. energy); this is particularly important, as it has an impact on political support for the program<sup>63</sup>
- Has enough personnel and expertise; has streamlined processes to access and disburse funds
- Is an established IDB partner in that country
- Operates the rules, rather than makes them (for bricks-and-mortar projects)
- Has experience in monitoring, reporting, and evaluation
- Has an intrinsic mandate to operate under sustainable business models (e.g., NDBs, businesses)

Once the EA has been selected, Program Operations Manuals were considered critical tools to identify staff, their roles and responsibilities in a way that addresses all key decision-making guidelines, such as: *“What does ‘project supervision’ entail? Does it mean the agency has a veto? What is the territorial domain of each sector in a cross-sector intervention?”* In general, project teams consider it’s best to minimize the number of actors with essential responsibilities over an “integral” operation so that decision-making is swift, and accountability is clear.

<sup>61</sup>By executing agency, we are referring to the local implementation partner.

<sup>62</sup>Some funds like the GCF insist in local execution of the funds in order to empower local actors; nonetheless, some teams consider the number of requirements that is asked of these local executors further complicates achieving objectives.

<sup>63</sup>Be reminded certain arrangements may facilitate project managers to manage political and technical interests and needs in the selection of the EA, such as the possibility of having sub-executing agencies.



# 05

## Findings on management



“Management” is understood here as a cross-cutting stage that involves all activities related to stakeholder engagement and executive decision-making, whether at the earliest moments of origination or throughout on-the-ground implementation. It sets the overall course of intervention: from the dialogue with recipient countries and ECF, which establishes priorities in access to finance and a vision for change; to the strategic dialogue with additional stakeholders, which can help maximize the use and impact of concessional resources.

The actors that are implicit in the management of ECF mostly include the IDB project leaders and their supervisors; all those who are responsible for high-level country dialogue –including VPC staff at COFs; and those who engage in the technical decision-making that is specific to the climate intervention.

A crucial activity of management, and a vital focus of this analysis, consists in identifying opportunities to create synergies with others and leverage additional finance. The premise behind this is that articulation between a specific operation and its surrounding enabling environment will help the IDB and its partners use ECF more effectively and improve conditions for transformational change.

As a first approximation to assessing actions that maximize ECF, the chapter will begin with a bird’s eye view of the financial leverage achieved by the IDB and its partners through programs and projects that use ECF. Later, a more qualitative analysis will help backtrack and observe the type of synergies that have been fostered through ECF: whether there is alignment with other IDB-operations and

additional externally-funded initiatives. This will be complemented with insights by teams at the IDB on the challenges and opportunities to increase coordination and collaboration. The chapter will close with lessons learned in stakeholder management and reflections on practices that bring high value to ECF partners and the IDB.

## 5.1

### Financial leverage of IDB’s contributions to ECF

**Financial leverage** or mobilization refers to the capacity to trigger complementary investments, whether from public or private sources; within the ecosystem of ECF, it is widely understood as an “indicator of the effective use of scarce public resources to achieve desirable climate outcomes.”<sup>64</sup>

In this report, the analysis of the Bank’s financial leverage achieved through interventions that use ECF is based on the amounts of finance and co-finance<sup>65</sup> committed for the execution of programs and projects as established in approved project proposals to the funds. These numbers have been verified and updated through interviews held with project teams at the IDB. They only include programs and projects in the sample that have been completed or are currently under implementation.

Such an analysis shows that, on average, for every dollar invested by the IDB on this climate portfolio, a total of \$2.6<sup>66</sup> have been raised from ECF, additional donors, and public and private sources, whether through grants, debts, equity or guarantees.

<sup>64</sup>Michele de Nevers. 2017. “Assessing “Leverage” in the Climate Investment Funds.” CGD Policy Paper. Washington, DC: Center for Global Development. <https://www.cgdev.org/publication/assessingleverage-climate-investment-funds>

<sup>65</sup>Each fund may or not have a predetermined amount of co-finance as a requirement for approval. See: <https://www.thegef.org/documents/co-financing> and: <http://ndcpartnership.org/funding-and-initiatives-navigator/green-climate-fund-gcf>

<sup>66</sup>Data includes operations that are closed or under implementation (excludes those in preparation and those that have been cancelled).



**Table 13 |** Financial leverage by fund for projects from the sample that are closed or under implementation

Fund	Total project finance (M USD)	Finance from the IDB <sup>1</sup> (M USD)	Finance from ECF partner <sup>1</sup> (M USD)	Finance from other source <sup>1</sup> (M USD)	Financial leverage <sup>2</sup> (per dollar of finance)	
					Only the IDB	The IDB +ECF
CIF FIP	\$89.72	\$4.83	\$74.75	\$10.14	\$17.58	\$0.13
GCF	\$238.00	\$30.5	\$100.00	\$128.00	\$6.80	\$1.26
CIF CTF	\$3,708.68	\$592.29	\$325.18	\$2,791.21	\$5.26	\$3.04
CIF SREP	\$366.03	\$167.29	\$89.01	\$109.73	\$1.19	\$0.43
CIF PPCR	\$178.88	\$79.25	\$88.77	\$10.87	\$1.26	\$0.06
GEF	\$1,179.67	\$580.56	\$122.83	\$476.29	\$1.03	\$0.63
FCPF	\$11.40	\$-	\$11.40	\$-	NA	\$0.00

**Note:** Calculations only include projects from the sample that are closed or under implementation. <sup>1</sup>Includes grants, debt, equity, and guarantees. <sup>2</sup>Financial leverage refers to the ratio of total project finance to investment by the IDB first, and investment from the IDB and ECF partner funds second (the latter shows additional funds by actors in public and private sectors).. Co-finance in projects still in execution does include resources committed that are yet to be disbursed.

Source: Produced by the authors with information by the IDB team at CCS, and publicly available information in the IDB Project

As observed, FIP operations have achieved the most significant mobilization per dollar of investment by the IDB. This is due to the proportionally high investment from the CIF in forest strategies such as Reducing Emissions from Deforestation and Forest Degradation (REDD+). The second with the highest level of financial leverage for the IDB resources has been the GCF. Although the GCF is a relatively new climate fund, overall mobilization for this fund is high when compared to other sources of ECF.

With these considerations in mind, the financial leverage achieved by both the IDB and ECF has been calculated: in this case, average mobilization is \$1.55 per dollar of investment. It is observable that the most significant and consistent financial leverage has been achieved through the Clean Technology Fund, where a total of

16 projects average a mobilization of over three additional dollars for every dollar of finance by the IDB and the CTF.

Looking ahead, new IDB mechanisms, such as the NDC Invest Platform and its Accelerator, will help identify further opportunities to leverage resources in favor of climate-based development interventions.

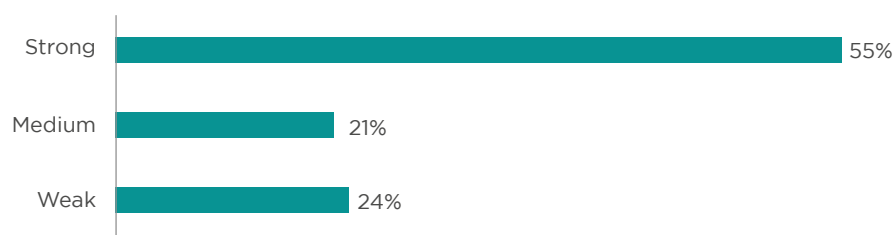
## 5.2 Synergies in the use of ECF

Financial leverage is only one of various methods to view the interactions between ECF projects and additional investments and stakeholders. This analysis has been complemented by means of a review of the synergies achieved through the use

of ECF. In this context, synergies refer to the links that exist between programs and projects with ECF, and ongoing operations by the IDB (here referred to as “internal synergy”), or whether there are concurring investments by additional donors and/or public and private investors (“external synergy”) that create mutually reinforcing dynamics with the intervention. These synergies may or may not be acknowledged as co-finance.<sup>67</sup>

Synergy can be identified by reviewing project documents, where the background of the intervention may reveal information on the way ECF is being used to reinforce past, existing, or planned initiatives in a given sector and country/market. Synergy is most clearly characterized through project teams’ account of how the interventions were originated,<sup>68</sup> and how they have evolved through time.

**Figure 16 |** Synergies identified in programs and projects that use ECF at the IDB



**Notes:** This analysis included operations with the GCF, GEF, and FCPF, but not all CIF programs and projects. “Strong” refers to operations with ECF that are linked to ongoing loan operations and reinforce ongoing activities by the IDB in the same country or market. “Medium” is used for operations that build upon previous or current loan operations; or TCs and initiatives by other donors that contribute to the activity. “Weak” refers to ECF projects that are only preceded by small TCs or have no relationship to ongoing initiatives.

**Source:** Produced by the authors.

Overall, interventions that use ECF are often observed to have a relationship with other operations at the IDB; they originate as a way to complement existing efforts related to sustainable development in country contexts. Indeed, [Figure 15](#) shows that over half of projects were conceptualized as interventions directly tied to loans by the IDB and that reinforce them, most commonly through one of two “modalities.” The first is the use of ECF

concessional resources to fill information/regulatory gaps that will help a future operation by the IDB mainstream climate change considerations. The second builds upon previous enabling work by the IDB. It uses ECF resources to pilot innovation and create a high-impact demonstration, which can then feeds back into future Bank’s work, informing financial structuring and identifying the policy standards and regulations needed to operate a

<sup>67</sup>This was an important additional lens of analysis because some internal operations, such as Policy-Based Loans (PBLs), and concurring external investments that happened after the approval of the operation, may not be considered as co-finance in the analysis shown in section 5.1.

<sup>68</sup>An important input for this analysis was an understanding, through interviews, of how the project was conceived or selected in the first place, which sometimes gave way to a direct reference to ongoing efforts in the same sector/market.

<sup>69</sup>The method for this analysis was a mix of review of project documentation and validation through interviews (leaders were asked how the project emerged; and then whether it was linked or in synergy with other initiatives). Since this type of analysis was added in 2019, it does not include projects reviewed (interviewed) by the CCS internal report back in 2018.

fully-fledged version of the intervention. These “strong” synergies were mostly observable when Interventions that use ECF were housed under larger IDB-based frameworks, such as a Policy-Based-Loans, Global Credit Loans, Conditional Credit Lines for investment Projects (CCLIP), as well as regional energy and sustainability initiatives such as the IDB Sustainable Energy and Climate Change Initiative (SECCI) and the Emerging and Sustainable Cities Initiative (ESCI).

Approximately one of every five projects showed “medium” synergies, which meant that some operations that use ECF are, in fact, linked to the IDB operations but mostly in a way that seizes previous policy dialogue or technical information generated through another project, with no evidence of reinforcing dynamics. Also, in this category, are projects that showed complementarity with additional external investments.

Finally, one-fourth of projects either have no link to existing interventions, or these links were considered “weak,” in the sense the operation was preceded only by small-scale technical cooperations (TCs).

It must be noted that low synergies should not be readily interpreted as a negative use of ECF. Often, the function of concessional resources from ECF is precisely to break into a market or open policy reform, introducing innovation that was simply not possible before. Nonetheless, interviews with practitioners revealed that lack of synergy sometimes be reflective of a lack of strategic alignment. In that context, there is room to improve the origination and articulation of ECF projects.

### Opportunities and challenges for synergies and strategic alignment

Strategic alignment refers to the act of ensuring that interventions are supportive of both the IDB Strategic Development Objectives and the Country Strategy



**Now when we get together with the Ministry of Environment, we only discuss those [projects] which are linked to ongoing or future operations.**

Development Objectives. This is one way to ensure that concessional resources are used to the best of their effect since they will be contributing to priorities set through ongoing high-level policy dialogue.



- Teams can enhance country ownership of projects with ECF by ensuring strategic alignment between interventions that use ECF and country-level strategic development objectives
- Internal dialogue among sectors at the IDB is key to better “match” ECF resources with the IDB ongoing sector work in countries

A second and similar way to reinforce synergies and efficient use of finance is by using a programmatic approach (see Section 3.5), such as the one fostered through the CIF, or the IDB-GEF sector strategies. Since not all ECF have these processes, teams at the IDB consider that it is precisely through better strategic

alignment that this perspective could be introduced.

Project teams acknowledge the importance of synergy, strategic alignment, and coordination in its broadest sense; but they are also aware of the challenges that must be overcome to achieve them:



- **Perceived rigidity and complexity in ECF requirements** often act as barriers to the articulation of other sectors and stakeholders in operations with ECF; practitioners consider there is a significant potential to involve further others, particularly the private sector arm of the IDB which offers finance to non-sovereign borrowers if these hurdles are surpassed, and more open mindsets are fostered
- **Delays in approval times have caused initial synergies to be lost.** Swifter transitions between proposal, approval, and execution, are crucial to maximizing positive reinforcing dynamics between ECF and OC operations at the IDB
- **Synergistic operations require Executing Agencies with sufficient installed capacities**, to identify opportunities, to manage multiple stakeholders, and to influence different sectors; there are concrete instances where initial efforts to bridge sector work in climate interventions, did not succeed because the EA lacked the technical and political capital to engage with other institutions



**It is  
challenging  
to align  
[ECF  
operations]  
with other  
funds when  
approval  
times are so  
protracted.**

As for synergies with external actors (e.g., additional MDBs and international NGOs), teams at the IDB reckon that working jointly with these stakeholders has added value in advancing the regional climate agenda. Nonetheless, they pointed out these are also highly dependent on the beneficiary country's abilities to coordinate different investments; and warned about the importance of laying out clear responsibilities and preparing programs of "fair shares" among all those involved. This can help avoid duplicate work and overloads.

## 5.3

### Practices to strengthen stakeholder management

Stakeholder management is a crucial component of any effort to improve program and project management; interventions with ECF are mostly similar to others in this regard. Thus, this section focuses on aspects that teams at the IDB emphasized as particularly relevant to improve stakeholder management in projects with ECF, which can often involve complex cross-sector work, multi-level decision-making, and higher sensitization/training than other types of operations financed by the IDB.

Before delving into those insights, a set of initial considerations is presented. Its objective is to discuss the contextual governance challenges that practitioners often encounter in ECF projects.

#### Initial considerations for stakeholder management

The management of ECF projects involves a wide range of stakeholders, for example, ministries, public financial institutions, large companies, small producers, financial intermediaries, and contractors, to name a few. Management will tend to work best if there is clarity over some key distinctions

among them: the incentives they respond to, the pace at which they make decisions, the boundaries that define their operation in the public sphere, etc.

The following are some concrete examples of these considerations, which should inform the interpretation of all recommendations on how to improve stakeholder management in projects that use ECF:

**Stakeholders respond to diverse incentives.** Understanding diverging mandates is a crucial aspect of management, as their interactions in the project will have an impact on the use of ECF. For example, some Executing Agencies such as global Non-Governmental Organizations may have the mandate to push for innovation in development. Still, commercial financial intermediaries may instead have the mandate to ensure cash flow stability to their shareholders. Management will need to foster the incorporation of both mandates into the "business model" of the climate project, promoting solutions that are salient to each stakeholder's key drivers for action.

**The degree of institutionalization varies widely among organizations that use ECF.** As mentioned, projects that benefit from ECF involve anywhere from large corporations and country-level ministries, all the way to individual landholders and poverty-stricken municipalities. Management (both at the IDB and in its ECF partner funds) will be conscious of this, mainly when designing and enforcing requirements that should be realistically aligned to the practical, on-the-ground installed capacities of stakeholders involved in climate interventions.

**An organization does not hold a single position.** Stakeholder mapping is a widely used technique to craft strategies for adequate engagement; nonetheless, it may, at times, over-simplify the diversity of positions held within organizations



and institutions. Functional or operational boundaries, institutional memory, and vested interests are some of the factors that differentiate the way actors inside an organization position themselves in regard to an ECF intervention. Management takes these into account when, for example, establishing a ministerial dialogue. In essence, one part of the conversation will take place at a high policy level, while the other will at an executive technical level, each with different decision-making dynamics.

**Programmatic efforts must be mindful of the different pace at which actors respond.** Multiple factors, whether cultural, institutional, or incentive-driven, determine the speed at which stakeholders interact and change. For example, while some government officials may respond to election cycles, private actors respond to a timescale measured by the timing of shareholders' meetings. In general, the pace for businesses tends to be much faster than for governments, which poses challenges for agreeing and implementing programmatic approaches.

**Organizations and industries have varying attitudes toward change.** Some sectors can be said to be more open to innovation than others. For example, while the housing and food processing industries can be highly accustomed to innovation in production processes, this may not be the case for state-owned utility companies (this will, of course, depend on the context). These elements of institutional culture should be considered when setting the level of ambition for a project, and they should inform the needs to address, so resulting practices truly depart from business-as-usual.

While these considerations do not pretend to be an exhaustive list, they provide a backdrop for the challenges to address while working to improve stakeholder management in the IDB projects with ECF.

Overall, one key lesson learned is that ECF has allowed empowering champions within these diverse set of institutions and organizations, helping them navigate interests, agendas, and preexisting attitudes or views on sustainable technologies and practices. According to various stakeholders within and without the IDB, this has been one of the major contributions of external concessional finance to advancing the climate agenda.

### Practices for stakeholder management

Stakeholder engagement activities are considered among the most substantial success factors –e.g., having champions in institutions and talent within the team– and the most critical areas for improvement –e.g., failure to coordinate with other sectors in the Bank–, as mentioned by at



**To create synergies, we need to be more specific and perhaps not require everyone to be at the table – but only those who are most strategic and truly add value as implementation partners**

least 30% of project teams interviewed for this report.

When asked about this topic, project teams stressed the importance of a thorough stakeholder mapping exercise to ensure all actors with influence over the intervention are adequately informed and involved. Teams also warned against having too many organizations with decision-making power, as this has caused delays

and confusion in past projects. Several practitioners highlighted the establishment of inter-institutional committees and meetings on a pre-established regular basis, as a good practice that should be

replicated whenever possible, particularly in highly complex operations.

Other lessons learned that are relevant to programs and projects with ECF include:



- Ministries of Finance should be engaged as much as possible throughout the process, particularly at approval, to gain a realistic perspective on whether the potential recipient of ECF, will indeed have the fiscal capacity for the intervention, and will make it a budgetary priority
- Beyond having policy-makers sitting at the table, bricks-and-mortar interventions require the proactive and frequent engagement of institutions with implementation faculties and capacities
- The IDB should actively promote the involvement of the private sector as a potential recipient of concessional resources; it should not be assumed country governments will seek this on their own
- Even when programs and projects are specifically targeted to the private sector, the government should be engaged to provide regulatory certainty, public visibility, explore potential synergies, and explore future replication through public-private models
- It is essential to promote a multi-layered flow of information, without taking for granted that communications will get to all the political decision-makers that need to be on board
- Strong citizen involvement is instrumental in exerting pressure on moving forward and scaling-up climate-based interventions, helping weather political and market cycles<sup>70</sup>
- Teams should prepare Communications' Management Plans, and if there are particularly sensitive environmental or social aspects in projects, these should include educational activities/materials
- Make use of the resources and organizational networks that local organizations and indigenous populations already have
- Do not underestimate the value of constant informal engagement; in-person interactions can help, among other things, to ensure solutions are connected with current political developments and to identify emerging opportunities with timeliness

<sup>70</sup>A strong example is the citizen-based monitoring organization promoted through the Emerging and Sustainable Cities Initiative (ESCI) in La Paz, Mexico.



The IDB has been able to understand non-conventional asset classes; and municipal risk. This has been valuable for improving the IDB position in discussions with clients looking at similar classes and structures, and thus attract a broader market into ECF.

## 5.4

### Acknowledging and leveraging the value of ECF

According to project teams, management has played –and should continue to play– an essential role in communicating the value added to the IDB through operations with ECF; this could help boost internal endorsement for ECF projects, and buttress endurance in the process of access and use of ECF. The same is true the other way around: the IDB can enhance the way it promotes its capacities to articulate innovative and successful climate interventions, to strengthen its dialogue and to negotiate a position with ECF.

As shown throughout this analysis, there is clear evidence of contributions made by projects with ECF to the Bank’s wider portfolio: piloting ideas, promoting financial innovation, among others (see [Table 14](#)). Similarly, the IDB has proven to use its unique position in the LAC region to support cross-sector interventions, provide resources for scale-up, and generate platforms for strong replication effects (see [Table 15](#)). These insights constitute valuable input for communicational strategies going forward (see Chapter 6).



**External Climate Finance provides a valuable space to try new products in unknown sectors, to find an optimum arrangement that beats barriers.**

**Table 14 |** Summary: the value brought by ECF to IDB's wider portfolio development

Value-added by ECF	Description
<b>Support pilots and demonstrative projects:</b> bridges the gap between an idea or technological development, and its on-the-ground implementation	Due to their procurement characteristics, resources from ECF are regarded as particularly useful to acquire goods and services that help deploy and demonstrate low-carbon and climate-resilient solutions. Complementarity is optimal since the IDB often has on-site staff to help strengthen enabling conditions for this deployment, such as institutional capacity development.
<b>Inject a programmatic approach:</b> applies methods to leverage the core competencies from a wide array of actors, and provides certainty in support for sustainable development projects	Some funds that manage ECF –particularly the CIF– provide a dedicated space (and methodology) to coordinate with other actors, enabling a “big picture” dialogue that is crucial to maximizing the use of finance and trigger transformational investments. This has given way to unprecedented collaboration even within the IDB, by helping bridge gaps between its public and private sector arms. Additionally, the certainty in continued resource availability provided by Investment Programs, in particular, has been a large support for the IDB and partners to take risks and advance the climate agenda.
<b>Promote innovation:</b> supports the exploration of unconventional products, methodologies, less-studied areas, some of which require more time-intensity or up-front investment	ECF sometimes includes pre-investment resources and additional time to prepare innovative approaches to challenging problems. They also involve obligations that are different from those in Ordinary Capital managed by the IDB. Because of this, project leaders and investment officers have been able to develop and apply innovative methodologies, explore different ways to structure financial transactions, understand how to create new market links, and take risks that wouldn't be justified in OC operations of the IDB.
<b>Take more financial risk:</b> improves conditions for climate transactions that need it most	Closely related to the previous element (innovation), operations supported through ECF are valued because they can often take more risk than even the IDB Lab, by, for example, offering finance at a 5-year (vs. the IDB Lab's 3-year maximum term)
<b>Open a country dialogue and/or accelerate transformation:</b> positions climate change and sustainable pathways in the country's development strategies	Although all IDB's operations are subject to environmental and social safeguards. In those cases, teams at the IDB have found great value in the involvement of stakeholders and resources from ECF, as they help sustain a more in-depth dialogue on these considerations, and often provide a decisive push towards mainstreaming them in-country strategies. Additionally, it is essential to underscore funds carry out important non-financial functions (e.g., projects with large sponsors that don't have financial constraints but require other types of stimuli, such as a boost in credibility).
<b>Empowered champions:</b> supports actors that already have a climate agenda and gives them visibility, training, credibility	ECF have empowered champions inside countries and enabled them to be increasingly essential players for pushing the climate agenda (e.g., Bancoldex in Colombia's non-connected zones, AChEE in energy efficiency for Chile).
<b>New areas of work:</b> opened or consolidated new themes and business lines for the IDB	It has helped strengthen new areas of work in the IDB, such as the team specialized in geothermal sources of energy and the Natural Capital Lab, the application of HydroBID, and IWM approaches.
<b>Added to the Bank's international standing:</b> innovation achieved through ECF has given visibility to the IDB at a global scale	The IDB has been able to create models to target non-traditional clients (e.g., institutional investors), and structures that have placed it on the map of global innovation.

Source: Produced by the authors with information from interviews.

The following table summarizes contributions by the IDB to ECF:

**Table 15 |** Summary: value-add of the IDB as an accredited entity and partner to ECF

Value-added by the IDB	Description
Multiple points of entry: is engaged in a continuous dialogue with country governments and private sector	The IDB's preexisting work in countries provides easy access to technical know-how, understanding of the local context, and long-term relationships with institutions and local investors. This includes a large and varied network of partners from the private sector (micro, small, medium, large enterprises). These are valuable entry points to mainstream the climate agenda.
Continued involvement: It can create pipelines or other strategies to follow-up on projects with ECF	Since the IDB often has ongoing sector work in countries, it can have a pre-identified pipeline to scale-up interventions that use ECF, or in some way, contribute to their continuity once the projects and programs reach completion.
Elevates technical ambition: has sufficient capacity to address interdependencies	Few organizations offer the breadth and depth in technical capacity the IDB does; this constitutes an important breeding ground for technically ambitious and cross-sector climate interventions, which can even create links between public and private sector approaches.
Fosters regional replication: provides knowledge-sharing across countries	The presence of the Bank across the region favors knowledge-sharing between different country contexts and promotes the replication of successful models for low-carbon and climate-resilient development.
In-country presence: enables timely and pragmatic decisions	Having staff on-site, allows the IDB to be highly involved, aware of policy and market developments, and with the ability to identify emerging opportunities. This improves responsiveness with ECF and strengthens the quality of design, implementation, and coordination.
An established reference in development finance: has expertise and reputation to leverage funds	60-year experience as a multilateral bank, the IDB has strong financial expertise and has gained the trust of other partners with the capacity to co-finance ECF operations. In this sense, it is well-positioned to maximize the mobilization of funds around ECF.
Knowledge of international mechanisms: is familiar with the full range of channels for ECF and innovation	The IDB has a presence in all major international events related to climate change and sustainable development. This provides it with updated knowledge of international mechanisms and the opportunities for synergy that they provide.

Source: Produced by the authors with information from interviews.



The IDB is one of the few institutions that has arms to work simultaneously with the government, large corporations, MSMEs, farmers on the ground... with every segment of the chain you need for transformational change. But that only works in as much as the Bank can coordinate its different parts, together, to solve these problems.



# 06

## **The way forward: How to maximize the use and effectiveness of ECF**

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Based on the analysis of the IDB operations with resources from ECF, it is possible to assert that the past ten years of ECF have seen cases of success, but also areas to improve, when pursuing climate change objectives. This analysis points to a concrete set of practices that have worked well (or failed) in the past, and that should be replicated (or avoided) in the future. Most importantly, lessons learned can inform the steps that the IDB will take in upcoming rounds of climate investment, to maximize access to and use of these funds.

The following aspects were identified in a collaborative deliberation with the IDB climate change specialists at the IDB,<sup>71</sup> as the way ahead to increase the effectiveness of ECF.

## 6.1

### **Establishing IDB's vision for access and use of external climate finance**

An essential first step to improve the management of ECF is to set a unifying vision that guides all efforts within IDB's various sector units towards a common and shared goal. Therefore, staff members were asked: Where does the IDB see itself 5 years from now, in relation to access and use of ECF?

The vision has been constructed<sup>72</sup> as follows:



**In 2024, the IDB is the preferred partner for using ECF in Latin America and the Caribbean due to its focus on assisting countries to apply innovative approaches to harness these funds, thus facilitating effective transitions towards low-carbon and climate-resilient development pathways. IDB's established track-record in accessing and using ECF in innovative ways is combined with its knowledge of international mechanisms and conventions on climate change. This consistently delivers strategic, efficient, and synergistic operations that increase equitable access to the funds, open markets, implement new asset types, mobilize investment, and fundamentally change the business-as-usual way of doing things.**

<sup>71</sup>A workshop titled: "Lessons Learned in Climate Finance Access and Implementation: What is the Way Ahead?" took place in the IDB DC offices on 10/30/2019. Details in Appendix 4.

<sup>72</sup>This proposition was created by the authors base on key concepts and priorities expressed by the IDB during a workshop.

Some of the key aspects that should be improved in the roadway towards achieving this vision, and that specialists at the IDB consider as a priority going forward, include:

**Boost country ownership and local capacities.**<sup>73</sup> These elements are considered crucial to promote the long-term sustainability of climate interventions. The IDB must craft a specific approach to target them in operations that use ECF strategically.



**As a Bank, we should be more proactive on telling the story of how these funds can be used best.**

**Strengthen strategic alignment and the use of the programmatic approach.**<sup>74</sup> The IDB needs to more strongly evaluate if ECF proposals relate to an existing or planned stream of investment in the same sector market/country; if not, proposals should at least have clear potential synergies with external stakeholders.

**Enhance communication.** Some of the inputs by teams at the IDB to highlight and communicate the value and benefits of using ECF include:



**Using these funds is strategic; although complex to manage, they have a catalytic impact in the long run**



**The IDB has developed a strategic way of using ECF. It has experience in [using it to] lower the perceptions of risk, change conventional models of finance, demonstrate the feasibility of public-partner partnerships, and gradually phase-out concessionality to make changes last in time...**



**Through these funds, the IDB Group has developed skills to mainstream corporate business lending, once financial viability has been proven [for these low-carbon climate-resilient investments]**



**These funds sometimes help carry out projects that wouldn't have happened otherwise, but most importantly, they help us design projects with better financial structures, in a way that advances the climate agenda better and more quickly than without them.**

<sup>73</sup>This was selected as a first priority by the IDB specialists during the workshop on 10/30/2019.

<sup>74</sup>This was selected as a second priority by the IDB specialists during the workshop on 10/30/2019.

**Redouble efforts to bridge the public and private arms of the IDB.**

There is a need for greater coordination, improvement in administrative procedures, and work with ECF partners to acknowledge the IDB, the IDB Lab, and the IDB Invest as a single entity with the power to convene a wide range of stakeholders. This stronger linkage also needs to be fostered through a creative approach to project design, and by leveraging successful joint initiatives in the past, to further replicate them in other regional contexts.

## 6.2

### Prioritizing projects and programs

As suggested in the analysis of conditions to support a proper allocation of ECF (Section 3.3) and reflections on synergies and strategic alignment (5.2), the IDB has already identified ways to play a more decisive role in improving the efficiency and effectiveness of ECF.

According to the IDB climate change and other sector specialists, the following five criteria should inform the selection of projects and allocation of funds from ECF:

The intervention:

1. Promotes strategic alignment, contributes to development objectives (if not, as it aims to be a “trend-setter initiative,” it should be particularly specific about how it will encourage take-up, scale-up, and replication).
2. Has been designed and structured based on gap and market studies, which in turn have informed theory of change for long-term sustainability
3. Has multiple champions inside key institutions, the Ministry of Finance among them

4. Supports countries in going beyond NDCs, enhancing their ambition
5. When appropriate, replicates a mechanism that has proven to be successful for maximizing ECF in the past

Additional recommendations to improve the preparation process to access ECF include:

1. **Allocate based on needs.** Develop guidelines to evaluate the primary needs of the project in terms of policy/market conditions, existing institutional capacity, the potential for transformational change, performance risk, and size of the transaction (see Figure 16). After these criteria are applied, use the outcome of that analysis to inform resource allocation and the degree of concessionality needed to execute the project; also use this to budget staff time from the IDB, in-country additional personnel, etc.
2. **Be intentional and specific about how to achieve or contribute to transformational change (TrC).** Project designers could provide up-front statements on whether projects with ECF will:
  - a. Hinge on ongoing operations by the IDB, and re-orient them towards low-carbon and climate-resilient development by covering the incremental cost of doing so; or
  - b. Advocate for radical innovations that will require deep policy reform, market development, training, and demonstration, etc.

Once this is defined, for each option, teams at the IDB will need to deliberate whether there are sufficient conditions to enable effective use of ECF: are policies robust,

intermediate, or incipient? Would achieving TrC require at least intermediate policies? Is this achievable?

**3. Incentivize financial leverage.** Have mobilization as a success criterion, acknowledge and motivate it. Assist the IDB staff and investment operations in assessing whether the financial options can have a “snowball effect” with additional investor and donor funds.

**4. Measure scaling and replication.** Since these effects are critical to justify the use of concessional resources, the IDB may consider developing a consistent approach to measuring and reporting the scaling and replication impact of climate-financed projects.



## Recommendation

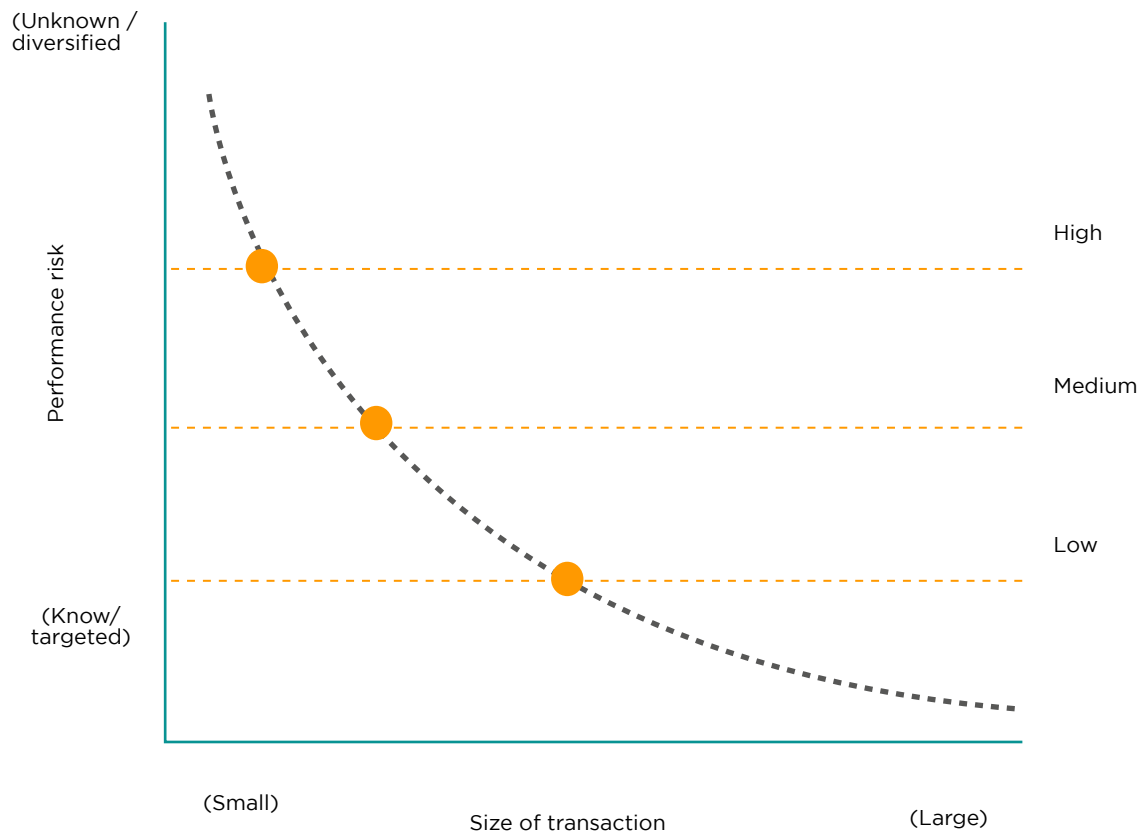
The road towards transformational change could be conceptualized as a three-step process, to help define the scope of ECF projects:

1. Creation of enabling conditions
2. Development, piloting and demonstration of alternatives
3. Support for scale-up and replication





**Figure 17 |** Justifying concessionality



**Note:** This illustrative graph seeks to communicate that the use of concessional resources tends to be more justified when required transactions are small-scale (e.g., involve landholders or SMEs). Then the performance risk of solutions is unknown or highly variable (e.g., geothermal).

## 6.3

### Further engaging country offices

Project teams that were interviewed for this report pointed out that most of the conceptualization of projects with ECF, and the management of the relationship with these funds, is mostly concentrated in headquarters at the IDB. Nonetheless, several of the lessons learned throughout this analysis of ECF suggest that improving cross-sector work, strategic alignment, and adaptive management, could be significantly enhanced by channeling more information on ECF to COFs and involve them beyond what they already do during all phases of the project cycle.

## 6.4

### Setting a knowledge agenda

Some of the insights that can help the knowledge agenda on ECF move forward include:

- **Increase the organization of webinars;** they will particularly useful if they are focused on specific sectors and share the experience of various countries working with the same fund.
- **Create an information repository** that enables easy access to relevant, synthetic data on projects with ECF; infographics to sell a particular fund or previously applied mechanism/model, were considered to be instrumental in ramping up country interest in the funds.
- **Increase internal capacity at the IDB to structure innovative financial**

# Box 11

## CSD specialists as boundary spanners

Coordination and communication capabilities are increasingly demanded in the management of complex operations, such as integral cross-sector transformative climate investments. CSD role as a “boundary spanner” is increasingly relevant. “Boundary roles are exposed to a large amount of information which they make sense of before passing it on. Thus, the ability of the boundary spanner in detecting, summarizing, interpreting, and communicating information further is an important factor for organizational performance, innovation, and change.”<sup>75</sup> These spanners, often help collaborate to challenge and change functional boundaries and culturally defined practices.

<sup>75</sup> Tina Karrbom Gustavsson / Procedia Economics and Finance 21 ( 2015 ) 146 – 153.



Needs for knowledge management  
(in order of precedence):

1. How to access ECF;
2. Financial products other than grant and debt;
3. Lessons learned

**mechanisms** (e.g., strengthen legal department) and provide necessary training to the IDB sector specialists on key principles for financial structuring, so that they are able to identify opportunities when exploring ECF projects with potential beneficiaries.

- **Modify Project Completion Reports**, so that they do not only focus on performance, but also include assessments of aspects that didn't work well, and lessons learned – motivating a culture that accepts failure to learn from it.
- **Ease interaction between sector specialists and CCS staff** that are most knowledgeable about accessing the funds, perhaps consider having a “hotline” or an online chat.
- **Do not wait until the termination of projects to share lessons**, discuss the project's strengths and weaknesses continuously, which may increase the potential for feedback, and replication.

- **Collect lessons learned from all types of stakeholders** and not just within the Bank: country governments, enterprises, etc.
- **Develop case studies** targeted towards specific needs of access to finance and organize them in terms of sectors and countries. For each include 1) criteria and requirements of the fund that was used; 2) a questionnaire that project officials considered would have been crucial to fill out for determining if the needs identified were adequately being targeted [through ECF].

## 6.5

### Looking ahead: Recommendations for management at the IDB

During the last ten years of ECF, the IDB has come a long way in consistently improving and innovating its work with ECF partner funds. The way ahead has many opportunities to continue these efforts. Some key steps going forward include:

- **Mainstream ECF essentials through different parts of the IDB.** More reliable communication should target a greater buy-in from management, a better understanding of the funds in the boards of approval, and a higher engagement from the private sector arm of the IDB during the earliest stages of projects. Teams at the IDB also expressed the need for more reliable signals from the IDB's presidency, recognizing the strategic nature of ECF projects and how this justifies time and resources spent on them.
- **Recognize the extra mile in the use of ECF.** Part of this may involve creating acknowledgment mechanisms that can



“level the ground” between OC and ECF mobilization.

- **Encourage country-level ownership over ECF projects.** In line with has been said before on involving COFs, there is a perception that greater ownership is needed, and more responsibility should be delegated to local offices in terms of actively managing ECF operations.
- **Allow “permission to fail.”** Since ECF is mainly about innovation and departing from business-as-usual, it is crucial to cultivate tolerance to failure, trials,

learning, and adjustment. Project teams shared that success was sometimes based on: “Carrying out many different attempts until we found the places where there was a convergence of technology and demand for change.” Not all conditions for paradigmatic shifts are apparent at the design stage. Therefore, internal commitment and perseverance throughout the full project cycle are needed; this allows teams to learn from past failures, adapt and discover opportunities that can lead to transformational investments.





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## APPENDIX

### Appendix 1: List of projects and programs included in the analysis

**Table 16 |** Projects and programs included in the analysis

#	Fund	Sector	Name
1	GEF	Energy	Sustainable Energy Facility (SEF)/ Sustainable Energy for the Eastern Caribbean (SEEC)*
2	GEF	Forests	Recovery and preservation of the threatened Atlantic Forest / Recovery and Protection of Climate and Biodiversity Services in Brazil Southeast Atlantic Forest
3	GEF	Cities	Implementation of Projects Prioritized by the Sustainable and Emerging Cities Program in Three Mexican Cities
4	GEF	Cities	National Platform for Sustainable Cities and Climate Change in Perú
5	GEF	Energy	Promoting Sustainable Energy in the Bahamas
6	GEF	Forests	Mechanism for Voluntary Mitigation of Greenhouse Gas Emissions in Colombia
7	GEF	Energy	Sustainable Energy Framework for Barbados
8	GEF	Energy: geothermal	Catalytic Investments for Geothermal Power in Colombia
9	GEF	Energy efficiency	Promoting and Strengthening an Energy Efficiency Market in Chile's Industry Sector
10	GEF	Forests	Mitigating Deforestation in Brazil Nut Concessions in Madre de Dios, Peru
11	GEF	Transportation	Sustainable Urban Mobility Program for San Jose
12	GEF	Renewable Energy	Rural Electrification with Renewable Energy in Isolated Areas of Ecuador
13	GEF	Capacity Building	Climate Technology Transfer Mechanisms and Networks in LAC
14	GEF	Energy efficiency	Energy Efficiency and Renewable Energy in Social Housing Argentina
15	GEF	Energy	Sustainable Energy Program in Guyana
16	GEF	Renewable Energy	Development of Renewable Energy, Energy Efficiency and Electrification of Suriname
17	GEF	Renewable Energy	TT-Pilot (GEF-4): Promotion and Development of Local Solar Technologies in Chile
18	GEF	Renewable Energy	TT-Pilot (GEF 4): Promotion and Development of Local Wind Technologies in Mexico
19	GEF	Capacity Building	Encouraging the Establishment and Consolidation of an Energy Service Market in Chile
20	GEF	Adaptation/Resilience	SFM Sustainable Land Management of the Upper Watersheds of South Western Haiti
21	GEF	Adaptation/Resilience	IDB-GEF Climate-Smart Agriculture Fund for Latin America and the Caribbean
22	GCF	Energy efficiency	Energy savings insurance for private energy efficiency investments by Small and Medium-Sized Enterprises (El Salvador)
23	GCF	Energy: geothermal	Sustainable Energy Facility for the Eastern Caribbean (SEF Expanded)*
24	GCF	Adaptation /Resilience	Low-Emission Climate Resilient Agriculture Risk Sharing Facility for MSMEs
25	GCF	Energy efficiency	Promoting private sector investments in energy efficiency in the industrial sector in Paraguay
26	FCPF	Forests	Preparation for REDD+ in Guatemala
27	FCPF	Forests	Support for REDD+ readiness process in Guyana
28	FCPF	Forests	Implementation of the Readiness Preparation Proposal REDD+ in Perú
29	CIF CTF	Capacity Building	Developing the Distributed Energy Financing Market TA and Project (Mexico)
30	CIF CTF	Energy	Sustainable Energy Facility (SEF) for the Eastern Caribbean*
31	CIF FIP	Forests	Technical Assistance for the Preparation of the FIP-PERU's Programs / "Designing the Forest Investment Program Strategy for Peru
32	CIF CTF	Transportation	Bogota's Integrated Public Transit System Transformation Program
33	CIF SREP	Energy: geothermal	Investment Grant for the Geothermal Financing and Risk Transfer Program
34	CIF CTF	Renewable Energy	Renewable Energy Financing Facility for Mexico

#	Fund	Sector	Name
35	CIF CTF	Energy efficiency	Ecocasa Program
36	CIF CTF	Energy efficiency	Support to FIRA for the Design of an Energy Efficiency Financing Strategy for the Food Processing Industry
37	CIF CTF	Energy efficiency	Energy Efficiency Financing Program for the Services Sector / Mitigation of GHG Emissions through Energy Efficient Investments Hotels/Clinics
38	CIF CTF	Energy efficiency	Support to the Energy Efficiency program in the San Andres, Providencia and Sant / Efficient Demand-side Management of Energy in Non-Interconnected Zones
39	CIF CTF	Transportation	Strategic Public Transportation Systems (SPTS)
40	CIF CTF	Energy: geothermal	Investment Grant for the Risk Transfer Program in Geothermal Power
41	CIF CTF	Renewable Energy	ZNI Program: Mitigation of Greenhouse Gas Emissions through Renewable Energy Projects in Non-Interconnected Zones (loan) + Public Policy to Address Barriers
42	CIF SREP	Energy: geothermal	Geothermal Exploration Program and Improved Power Transmission
43	CIF SREP	Renewable Energy	Transmission Program for Renewable Energy in West and North Zones + Support for the Integration of Honduras in the Regional Electricity Market and Grid Access for RE
44	CIF FIP	Forests	Forest Information to Support Public and Private Sectors in Management Initiative
45	CIF FIP	Forests	Financing low carbon strategies in forest landscapes
46	CIF PPCR	Adaptation/Resilience	Multipurpose Drinking Water and Irrigation Program for the Municipalities of Batallas, Pucarani, and El Alto
47	CIF PPCR	Adaptation/Resilience	Financial risk management for climate resilience in the agriculture sector
48	CIF PPCR	Adaptation/Resilience	Pilot Program for Climate Resilience Regional Phase I
49	CIF PPCR	Adaptation/Resilience	Project Design of the Investment Proposal for the Caribbean Regional SPCR
50	CIF PPCR	Adaptation/Resilience	IP for the Caribbean Regional Track of the Pilot Program for Climate Resilience
51	CIF PPCR	Adaptation/Resilience	Climate Proofing of Agriculture in the Center-Artibonite Loop Area
52	CIF PPCR	Adaptation /Resilience	PPCR in Jamaica Phase I
53	CIF PPCR	Adaptation /Resilience	Adaptation Program and Financing Mechanism for the PPCR Jamaica
54	CIF CTF-P	Energy efficiency	Capital Markets solution for energy efficiency financing
55	CIF CTF-P	Energy efficiency	Colombian Energy Efficiency Trust
56	CIF CTF-P	Renewable Energy	Eurus Wind Project - CTF Loan
57	CIF CTF-P	Renewable Energy	Bright Distributed Generation Solar Projects
58	CIF CTF-P	Renewable Energy	SolarCity Green Securitization
59	CIF SREP-P	Renewable Energy	Promoting Sustainable Business Models for Clean Cookstoves Dissemination
60	CIF SREP-P	Renewable Energy	Invema Self Supply Solar and Energy Efficiency - Amendment
61	CIF FIP-P	Forests	Development of a Macauba-Based Silvopastoral System and Value Chain
62	CIF FIP-P	Forests	Support for Forest Related MSMEs in Ejidos-Implementation of Forest Investment
63	CIF PPCR-P	Adaptation /Resilience	Financing Water Adaptation in Jamaica's New Housing Sector
64	CIF PPCR-P	Adaptation /Resilience	Supporting climate resilient investments in the agricultural sector in St. Lucia
65	CIF CTF-P	Renewable Energy	Crucero Solar Photovoltaic Power Project
66	CIF CTF-P	Renewable Energy	Itelecom Energy Efficient Street Lighting
67	CIF CTF-P	Energy: geothermal	Cerro Pabellon Geothermal Power Project
68	CIF CTF-P	Energy efficiency	Optima Energia Energy Efficient Roadway Lighting
69	CIF PPCR-P	Adaptation /Resilience	Financial Products to Promote Climate Change Resilience in Bolivia
70	CIF SREP-P	Renewable Energy	Honduran Self-Supply Renewable Energy Technical Assistance Program

**Source:** Based on information collected by the authors and validation by the IDB.

"P" means private sector. Projects with \* are linked to each other.

## Appendix 2: Categorized objectives for each source of ECF (extensive)

**Table 17 |** Objectives as explicitly stated in each fund's documentation

Fund	Category	Formal and Specific Objectives
GEF	<b>Mitigation</b>	
	Transform	Transition toward a low-carbon development path
	Innovate & demonstrate	Demonstrate, deploy and transfer innovative low-carbon technologies (EE, RE, low carbon transport and urban systems, sustainable management of forests and land)
	Enable	Foster enabling conditions through enabling activities and capacity building
	<b>Adaptation</b>	
	Mainstream resilience	Reduce vulnerability and increase resilience to the adverse impacts of climate change through both immediate and longer-term adaptation measures in development policies, plans, programs, projects, and actions; at local, national, regional and global level
	Enable	Increase adaptive capacity to respond to the impacts of climate change, including variability, at local, national, regional and global level; and
	Innovate & demonstrate	Promote the transfer and adoption of adaptation technology
CIF	<b>Clean Technology Fund (CTF)<sup>74</sup></b>	
	Transform	Empower transformations; foster and deliver transformational change
	Mitigate GHG	Reduce GHG emissions and provide positive incentives for the demonstration of low carbon development
	Innovate & demonstrate	Reduce GHG emissions and provide positive incentives for the demonstration of low carbon development
	Promote country ownership	Fund low carbon programs and projects embedded in national plans and strategies that scale up development and accelerate the diffusion and transfer of clean technologies
	Scale-Up	Fund low carbon programs and projects embedded in national plans and strategies that scale up development and accelerate the diffusion and transfer of clean technologies
	Provide SD co-benefits	Realize environmental and social co-benefits, illustrating the potential of low-carbon technologies in contributing to sustainable development and MDGs/SDGs)
	Ensure cost-effectiveness	Promote acceptable investment per ton of CO2 reduced or avoided

<sup>74</sup>To remain consistent with previous assessments, the analysis integrates "cost-effectiveness" as objective for the management of CTF funds (often part of eligibility criteria); for the same reason, it will not cover the following objectives of CTF: i) Support international cooperation on climate change. ii) Utilize skills and capabilities of MDBs to raise and deliver new and additional resources. iii) Share experiences and lessons learned in responding to climate change challenges.

Fund	Category	Formal and Specific Objectives
CIF	<b>Scaling-up Renewable Energy Program in Low-Income Countries (SREP)<sup>75</sup></b>	
	Transform	Assist low-income countries to foster transformational change to low carbon pathways by exploiting renewable energy potential
	Provide SD co-benefits	Highlight economic, social and environmental co-benefits of RE programs
	Scale-up	Help scale up private sector investments to achieve SREP objectives
	Leverage	Enable blended financing from multiple sources for RE programs
	Learn	Facilitate knowledge sharing and exchange of international experience and lessons
	<b>Forest Investment Program (FIP)<sup>76</sup></b>	
	Transform	Initiate and facilitate transformational change in developing countries' forest-related policies & practices
	Mitigate GHG	Facilitate the leveraging of additional and sustained financial resources for REDD, leading to an effective and sustained reduction of DD and enhancing the sustainable management of forests
	Leverage	Facilitate the leveraging of additional and sustained financial resources for REDD [...]the leverage sought is of at least 4:1. Also considers whether self-sustaining and economically viable models are created
	Innovate & demonstrate	Pilot replicable models to generate understanding and learning of the links between the implementation of forest-related investments, policies and measures and long-term emission reductions and conservation, sustainable management of forests and the enhancement of forest carbon stocks in developing countries
	Learn	Provide valuable experience and feedback in the context of international deliberations on REDD
	Provide SD co-benefits	Co-benefits such as enhancement of livelihoods (technical and financial capacities, new jobs) biodiversity and ecosystem services; strengthening governance and tenure
	Ensure cost-effectiveness	Promote acceptable investment per ton of CO2 reduced or avoided.
	<b>Pilot Projects for Climate Resilience (PPCR)</b>	
	Mainstream resilience	Pilot and demonstrate an approach for the integration of climate risk and resilience into development policies and planning
	Enable	Strengthen capacities at the national level to integrate climate resilience into development planning
	Scale-up / leverage	Scale-up and leverage climate-resilient investment, building on other ongoing initiatives
	Learn	Enable learning-by-doing and lesson sharing of lessons at country, regional and global levels

<sup>75</sup>Previous CSD/CCS analysis of SREP (Honduras' Support to the Transmission Program for Renewable Energy in West and North Zones) considered the following concepts: i) Create an enabling environment for renewable energy. ii) Catalyze increased investments in renewable energy in total sector investment iii) Improve the long-term economic viability of the renewable energy sector. iv) Increase energy access. Nonetheless, these were not identified as formal objectives of SREP. Therefore, they have been substituted with those found in the CTF-SCF/TFC Enterprise Risk Management Framework Report validated by the CIF Committees.

<sup>76</sup>Consistency with previous work by CSD/CCS has been sought. Therefore, "cost-effectiveness" and "Provide SD co-benefits" will be assessed, despite not being a formal objective of FIP; the latter is included in all CIF monitoring and reporting for this program. Conversely, the FIP objective "Provide valuable experience and feedback in the context of international deliberations on REDD" is not covered in this assessment; nevertheless, it will be part of the focus for the collection of lessons learned.

Fund	Category	Formal and Specific Objectives
FCPF	Mitigate GHG	Provide financial and technical assistance to REDD countries in achieving emissions reductions from deforestation and/or forest degradation
	Enable	Provide financial and technical assistance to REDD countries in building capacity to benefit from possible future systems with positive incentives for REDD
	Innovate & demonstrate	Pilot emissions reduction performance-based payment systems generated from REDD activities to ensure equitable benefit sharing and promote future large scale positive incentives for REDD
	Provide SD co-benefits	Test ways within the REDD approach to conserve biodiversity and sustain or enhance the livelihoods of local communities
	Learn	Disseminate the knowledge gained through the development and implementation of the FCPF and related programs
GCF	Transform	Promote paradigm shift towards low-emission and climate-resilient development pathways
	Mitigate GHG	Limit or reduce GHG from energy generation and access; transportation; forests and land use; buildings, cities, industries, and appliances.
	Mainstream resilience	Adapt to the impacts of climate change by increasing resilience of ecosystems and ecosystem services; health, food, and water security; livelihoods of people and communities; infrastructure and built environment.
	Provide SD co-benefits	Promote environmental, social, economic and development co-benefits
	Cost-effectiveness	Cost-effectiveness and efficiency regarding financial and non-financial aspects. Demonstration that the proposed financial structure provides the least concessionality needed to make the proposal viable, and that it will not crowd out private and other public investment
	Promote country	Contribute to country's priorities for low emission and climate-resilient development as identified in national climate strategies or plans, such as nationally determined contributions (NDCs), nationally appropriate mitigation actions (NAMAs), national adaptation plans (NAPs) or equivalent; alignment with technology needs assessments (TNAs)

**Source:** Produced by the authors with information from: CTF and SCF Trust Fund Committees (2012); GCF (2015 & 2018); GEF (2018); FCPF (2013).

Direct references: CTF and SCF Trust Fund Committees (2012). Available at: [https://www.climateinvestmentfunds.org/sites/cif\\_enc/files/meeting-documents/ctf\\_scf\\_9\\_risk\\_management\\_0\\_0.pdf](https://www.climateinvestmentfunds.org/sites/cif_enc/files/meeting-documents/ctf_scf_9_risk_management_0_0.pdf) GEF (2019)a: GEF Strategy on Adaptation to Climate Change. <https://www.thegef.org/topics/climate-change-adaptation> GEF (2019)b: GEF Strategy on Mitigation of Climate Change. <https://www.thegef.org/topics/climate-change-mitigation> GEF (2018) Focal Area Elements (Dropdown Menu for Table A). [https://www.thegef.org/sites/default/files/documents/17GEF%207%20Focal%20Area\\_Non%20FA%20Elements%20Dropdown%20Menu%20for%20Table%20A\\_rev\\_4-8-2019.docx](https://www.thegef.org/sites/default/files/documents/17GEF%207%20Focal%20Area_Non%20FA%20Elements%20Dropdown%20Menu%20for%20Table%20A_rev_4-8-2019.docx) GCF (2018): Initial Investment Framework. [https://www.greenclimate.fund/documents/20182/239759/Initial\\_investment\\_framework\\_\\_activity-specific\\_sub-criteria\\_and\\_indicative\\_assessment\\_factors.pdf/771ca88e-6cf2-469d-98e8-78be2b980940](https://www.greenclimate.fund/documents/20182/239759/Initial_investment_framework__activity-specific_sub-criteria_and_indicative_assessment_factors.pdf/771ca88e-6cf2-469d-98e8-78be2b980940); FCPF (2013): Carbon Fund Methodological Framework- FCPF Charter. <https://www.forestcarbonpartnership.org/system/files/documents/FCPF%20Carbon%20Fund%20Methodological%20Framework%20Final%20Dec%2020%202013.pdf>



## Appendix 3: CPI Framework of instruments to address barriers to investment

**Table 18 |** Instruments the market perceives as needed to address barriers to investment in priority sectors

Sectors	Barrier	Instrument
Renewable Energy (RE)	Policy Risks	Insurance mechanisms and guarantees
	Mismatch between local currency revenues and repayment obligations	Local currency lending or currency swaps with tenors aligned with contracts and payback periods; currency hedging tools
	Limited market liquidity	Early-stage pre-construction and construction financing, e.g., convertible contingent recovery grants or equity for high-risk investment, subordinated debt
	Gap between equity required by lenders and availability of equity from developers	Subordinated debt with concessional sources of finance taking on a portion of the first-loss position
	Limited institutional investment capital	Investment vehicles (securitization or bundling)
	Limited institutional investment capital	Investment vehicles (securitization or bundling)
Energy Efficiency (EE)	Lack of capacity to evaluate EE investments and develop adequate investment/financing approaches	Grants for technical support/capacity building
	High-risk perceptions/lack of confidence in financial viability	Insurance instruments, partial guarantees or performance-based financial incentives
	High upfront costs	Long-term debt capital and investment subsidies
	Insufficient regulatory frameworks and misaligned incentives	Technical assistance and policy advice
Low Carbon and Climate-Resilient Cities	Unstable regulatory and tax policies	Technical assistance and policy advice
	Risk of unilateral changes to concession agreements that alter investors' returns	Counter-parity risk guarantee
	Lack of access to long-term debt for infrastructure projects due to lack of creditworthiness and high default risk	Credit enhancement with concessional finance, technical support (e.g., to issue bonds)
	Inability to integrate climate considerations in investment planning and design	Technical assistance to support pre-investment vulnerability assessment/project structuring

Sectors	Barrier	Instrument
Climate-Smart Land Use, Including Agriculture and Forestry	Gaps in regulatory frameworks	Grants for policy dialogue and technical assistance
	Credit default risks associated with farmers' inadequate credit history and collateral	Risk management solutions such as first-loss coverage
	Exposure to weather-related risks	Risk mitigation and transfer mechanisms such as parametric insurance; grants to support the collection of relevant data
	Lack of business-relevant information on potential hazards, exposure, and climate vulnerability	Provision of business-relevant data; impact assessment tools
	Lack of equity capital to develop adaptation/resilience products and services	Seed private equity funds/ patient capital and venture capital with lower returns expectations

**Source:** Climate Policy Initiative, 2016: The Role of Climate Investment Funds in Meeting Investment Needs.

## Appendix 4: Working group

### Workshop: Lessons Learned in Climate Finance Access and Implementation: What is the Way Ahead?

The workshop took place on Wednesday, October 30, from 9 am to 1 pm at the IDB offices in Washington, DC. A total of 34 people attended the workshop, both in-person and through the online platform “Teams.”

Objective of the workshop: Share key findings from the analysis on the IDB ECF

access and implementation to generate a dialogue to jointly define priorities and concrete strategies to improve ECF access and implementation.

Participants rated workshop 4.2 on a scale of 1 to 5; they appreciated the concise and interactive format, concrete examples, and learning from experience in other sectors and COFs. All feedback was incorporated into this report.



## Appendix 5: Signs of transformational change as developed by the Evaluation and Learning Initiative at the CIF

**Table 19 |** Framework for signals of transformational change

Type of signal	Systemic Change	Scale	Sustainability
<b>Early signals</b>  Relevant program design & implementation enabling preconditions for transformation	<b>Targeted programming for systemic change:</b> <ul style="list-style-type: none"> <li>• System approaches</li> <li>• Barrier identification</li> <li>• Combinations of programming areas</li> </ul>	<b>Targeted programming for scaling, e.g.:</b> <ul style="list-style-type: none"> <li>• Plans for scaling up/out,</li> <li>• Demonstration/replication</li> <li>• Financing approaches</li> <li>• Market development</li> </ul>	<b>Targeted programming for sustainability, e.g.:</b> <ul style="list-style-type: none"> <li>• Monitoring systems</li> <li>• Ownership transfer</li> <li>• Capacity development</li> <li>• Sustainable financing</li> <li>• Adaptive planning</li> </ul>
<b>Interim signals</b>  Interim outcomes external to the program boundaries evident	Meaningful progress on activities to overcome barriers across relevant areas, e.g.: <ul style="list-style-type: none"> <li>• New institutions/capacity</li> <li>• Enhances governance structures</li> <li>• New policies/regulations</li> <li>• New planning processes</li> <li>• New financing structures built</li> <li>• New infrastructure underway</li> </ul>	Increased activity that might facilitate scaling, e.g.: <ul style="list-style-type: none"> <li>• New finance programmes</li> <li>• Investor conferences</li> <li>• Evidence of pipeline development</li> <li>• Supply chain expansion</li> <li>• New distribution networks</li> <li>• Delivery platforms established</li> </ul>	Progress on changes to ensure long term sustainability: <ul style="list-style-type: none"> <li>• Ongoing financial support</li> <li>• Processes for long-term financing</li> <li>• Monitoring processes established</li> <li>• Follow-on projects in design</li> <li>• Long-term target planning</li> </ul>
<b>Advanced signals</b>  Long-term, self-sustaining outcomes materializing	Evidence for system change outcomes that influence decisions or behaviors, e.g., changes in: <ul style="list-style-type: none"> <li>• Planning decisions and outcomes</li> <li>• Uptake of incentives</li> <li>• Changes in budgetary allocations</li> <li>• Increased awareness levels</li> <li>• Changes in consumption patterns</li> <li>• Improved affordability</li> <li>• Increased technology availability</li> </ul>	Evidence for scaling outcomes, e.g., changes in volumes/scope of: <ul style="list-style-type: none"> <li>• Changes in # of market participants</li> <li>• Increasing financing flows</li> <li>• GHG reductions</li> <li>• # of consumers/service users</li> <li>• Changes in technology sales</li> <li>• Increased geographic coverage</li> <li>• National-subnational linkages</li> <li>• Community participation</li> </ul>	Evidence for sustainability outcomes, e.g., changes in: <ul style="list-style-type: none"> <li>• Reduced fossil fuel subsidy regimes</li> <li>• Lower concessionality</li> <li>• Greater enforcement</li> <li>• Increased monitoring</li> <li>• Use of adaptive programming</li> <li>• Mainstreaming and integration</li> <li>• Copycat initiatives</li> </ul>

**Note:** Relevance is captured in early signals, particularly program design.

**Source:** CIF & ITAD (2020): Signals of transformational change. Insights from the Evaluation of Transformational Change in the Climate Investment Funds.

## Appendix 6: NDC Pipeline Accelerator Multi-Donor Trust Fund (ACL)

The ACL was established in mid-2017 by the Board of Executive Directors of the IDB as an instrument to directly help LAC countries deliver on their commitments under the Paris Agreement and the agreed United Nations 2030 Agenda, including the 17 Sustainable Development Goals (SDGs). It supports both national and subnational entities, and actors from the public and private sector, through technical cooperation, investment grants, and externally funded contractuals.

The ACL Fund specifically focuses on: (i) supporting IDB Group member countries to prepare the necessary investments to meet their climate and sustainable development objectives; (ii) mobilizing and providing resources to cover additional costs associated with planning, identifying, preparing and managing sustainable projects; and (iii) accelerating these sustainable projects through the project cycle.

Within the larger context of the NDC Invest Platform<sup>77</sup>, the ACL has supported projects in the sectors of transportation, private sector investment, urban resiliency, water, housing, and urban development, capital markets, and climate risk management. Some of the concrete activities it has financed include capacity building for project design, preparation, and implementation; production of robust data to inform decision-making and MRV; promotion of NDC country ownership beyond the ministries of environment; linking of development challenges to

climate action to maximize economic and social co-benefits; support for the design of resilient and sustainable infrastructure; implementation of high-quality stakeholder consultation processes.

The ACL framework has five proposed outcomes: (i) increased public and private sector capacity to plan and prepare sustainable investments; (ii) developed pipelines of bankable sustainable projects; (iii) increased IDB Group financing for sustainable projects; (iv) reduced or removed LAC GHG emissions; and (v) mainstreamed climate adaptation and resilience in project preparation.

The ACL is particularly salient to the objectives of access and use of ECF since it is based on the premise that a relatively small grant can help identify and address critical barriers to project planning and encourage the mobilization of additional resources from external sources. By promoting the design of initiatives with a programmatic nature and high replication potential to generate results with transformational impact, this can enhance the impact and accelerate the delivery of sustainable investments across LAC.

As of August 2019, the ACL has received a total of \$18.1 M in contributions and has 16 projects under its portfolio with a total accumulative amount of \$8.37 M committed, and around \$4.26 in co-funding. Going forward, it is expected that the ACL will mobilize approximately US\$3 billion in external resources during its lifetime, which will help unlock market barriers for an estimated US\$9 billion to increase new investment opportunities (public and private) and to access international climate finance in LAC.

**Source:** NDC Pipeline Accelerator Multi-Donor Trust Fund Interim Report (2019) & Annual Report (2018). IDB Office of Outreach and Partnerships, in partnership with: the Nordic Development Fund (NDF), the Minister for Foreign Trade and Development Cooperation of the Kingdom of the Netherlands and Ministry for Foreign Affairs Sweden.

<sup>77</sup>Launched in 2016, it is a “one stop shop” that brings together relevant IDB Group’s services and activities under a single umbrella. It enables a better pooling of IDB Group’s expertise and resources, matching country requests with the best possible solutions

