

# Financing adaptation to climate change through Social Investment Funds? Preliminary research results.

Günther Schulz-Heiss, Consultant

Britta Horstmann, German Development Institute/ Deutsches Institut für Entwicklungspolitik (DIE)

# Motivation and background of the study (1)



## Guiding principles and requirements of adaptation finance:

- **target the vulnerable** (UNFCCC, Preamble, Art. 3.2, Art. 4.4, Art. 4.9; KP, Art. 12.8)
- **efficient and effective distribution** of international CCA finance to local levels  
(UNFCCC, Art. 3.3; Governing instrument Green Climate Fund)
- **need for an integrated approach and country-drivenness** (UNFCCC, Art. 3.4; UNFCCC Art. 3.3)
- **use and integration of multitude of channels and sources**

# Motivation and background of the study (2)



## Challenges:

- ❖ How to deliver large-scale international and national funds for CCA to
  - a vast number of vulnerable communities
  - mostly small-scale adaptation projects
  - in a broad array of sectors
  - at the local level ?
- ❖ How to upscale implementation from single (pilot) projects to CCA programs?

## Opportunities:

- ❖ Which role can Social Investment Funds (SIFs) play to deliver international funds for adaptation to climate change at the local level?

# What are SIFs ? A working definition



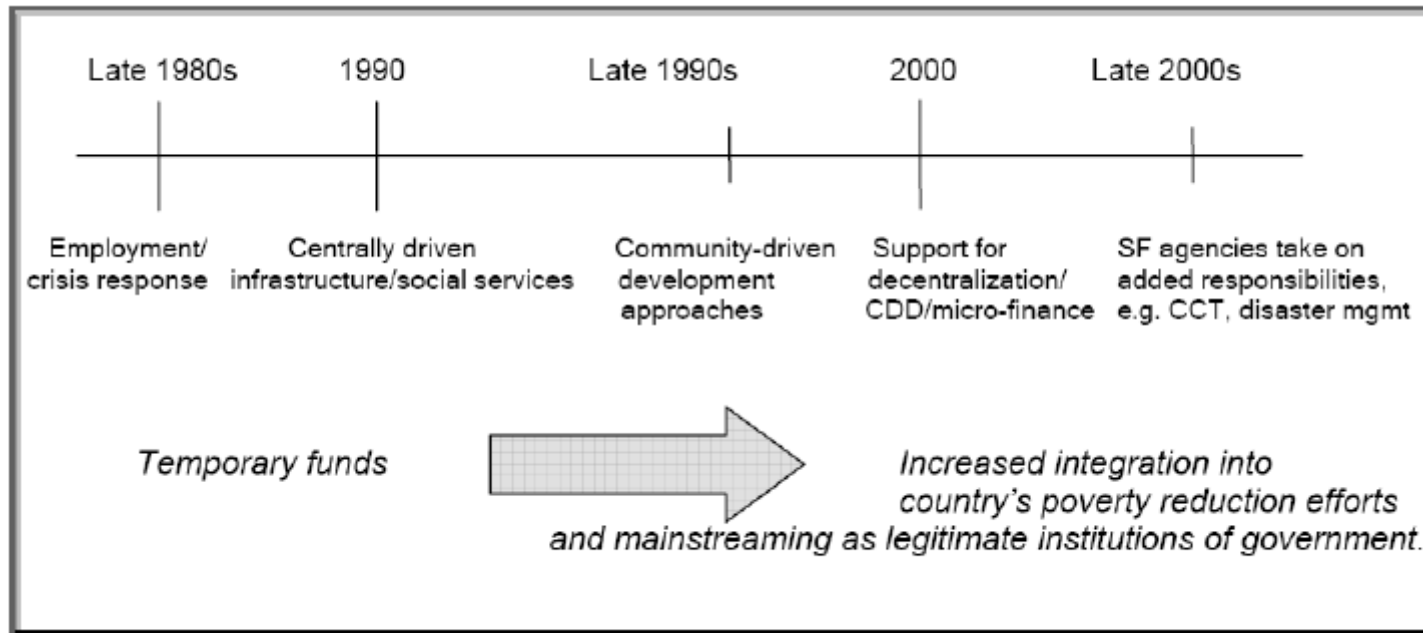
- ❖ The core business of SIFs is handling large volumes of small-scale projects very similar to many currently piloted for CCA at local level :

“agencies that finance small projects in several sectors targeted to benefit poor and vulnerable groups based on demand generated in a participatory manner by local groups and screened against a set of eligibility criteria. Social funds operate as intermediate agencies that appraise, finance, and supervise implementation of social investments identified and executed by a wide range of actors, including local governments, nongovernmental organizations (NGOs), local offices of line ministries, and community groups“ (Bhatia 2005, 1)

# Evolution of SIFs – a “3-generations-model”



- ❖ SIFs have adapted to changing national policy environments becoming part of the institutional landscape in many countries



Source: de Silva & Sum 2008, 3

# What makes SIFs different? 11 key features



|   | Feature                             | Distinction of SIFs  |
|---|-------------------------------------|--|
| 1 | Ownership & governance structure    | SIFs are government-owned public entities with a high degree of managerial and operational autonomy.   |
| 2 | Management approach                 | In areas key to efficiency of operations, especially staffing, SIFs adopt management approaches typical to private sector entities.                        |
| 3 | Type of products (outputs)          | Small-scale public investments (“projects”) in a variety of sectors are the core business of SIFs.   |
| 4 | Volume of operations                | SIFs handle large volumes of small-scale projects.   |
| 5 | Mass production and standardization | A large output of a limited variety of small-scale projects allows SIFs to benefit from economies of scale and contribute to mainstream national policies. |

Source: Schulz-Heiss

## What makes SIFs different? 11 key features



|    |                                   |  |
|----|-----------------------------------|--|
| 6  | Clients and product pricing       | SIF output responds to demand from local-level clients participating in project selection and funding.   |
| 7  | Project cycle management          | SIFs delegate the execution of considerable parts of the project cycle to the private sector, communities and/or local governments.                      |
| 8  | Project assessment                | SIFs approve projects on the basis of eligibility criteria reflecting cost-effectiveness and other objectives of national policies.                      |
| 9  | Targeting and resource allocation | To assure their resources reach the most vulnerable communities, SIFs use a variety of proven techniques and adapt them to changing policy environments. |
| 10 | Transparency                      | Publicly disclosed operations manuals and above-average standards of financial reporting allow stakeholders to anticipate and control SIF operations.    |
| 11 | Funding                           | SIFs help their governments mobilize international and domestic resources to implement national policies.  |

Source: Schulz-Heiss

# Regional expansion of SIFs



- ❖ Over the last 25 years, SIFs have been established in nearly all continents and regions in more than 60 countries across the globe.

Countries with SIFs Receiving Worldbank Loans, 2005 (sample <sup>a</sup>), by regions

| AFRICA  | EUROPE AND CENTRAL ASIA  | LATIN AMERICA AND THE CARIBBEAN   | MIDDLE EAST AND NORTH AFRICA                    | SOUTH ASIA            | EAST ASIA AND THE PACIFIC                      |
|---|--|---|---|-----------------------|--|
| Angola<br>Benin<br>Comoros<br>Eritrea<br>Ethiopia<br>Ghana<br>Guinea<br>Lesotho<br>Madagascar<br>Malawi<br>Mali<br>Nigeria<br>São Tomé and Príncipe<br>Tanzania<br>Togo<br>Zambia<br>Zimbabwe | Albania<br>Armenia<br>Bosnia and Herzegovina<br>Bulgaria<br>Georgia<br>Kosovo<br>Moldova<br>Romania<br>Ukraine<br>Uzbekistan<br>Tajikistan<br>Turkey | Argentina<br>Belize<br>Bolivia<br>Ecuador<br>El Salvador<br>Guatemala<br>Guyana<br>Haiti<br>Honduras<br>Jamaica<br>Nicaragua<br>Panama<br>Peru<br>Saint Lucia | Algeria<br>Egypt<br>Yemen<br>West Bank and Gaza | Pakistan<br>Sri Lanka | Cambodia<br>Lao PDR<br>Philippines<br>Thailand |

Note: <sup>a</sup> The sample had been prepared for a task manager survey at the Worldbank; it excludes rural funds, indigenous funds and the like (Source: compiled from Bhatia 2005, 103-104)



# Financial expansion and current magnitude of SIFs



- ❖ SIFs have earned Governments' trust and IFIs consider the fiduciary risks as comparatively low
  - Governments, banks and donors have entrusted SIFs to manage resources exceeding USD 10 bn, in a sustained manner over more than 20 years.
  - The average SIF has shown to be worth a fiduciary risk of close to USD 200m.
  - SIFs have an average annual turnover close to USD 10m. – a size proven to be big enough to integrate new topics and funds

# Potentials and limits of SIFs



- ❖ SIFs have shown to be a useful, but not a universal tool to implement national policies.

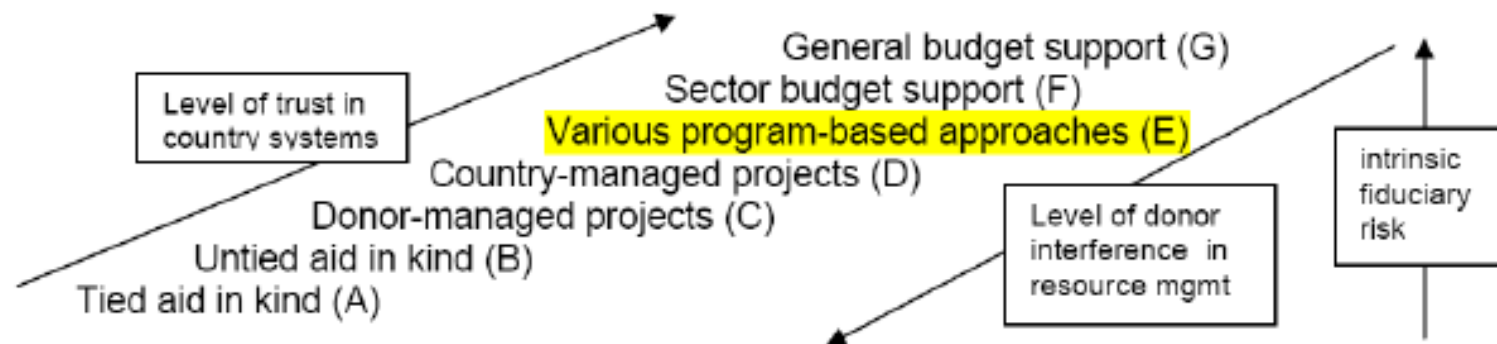
| SIFs Can best  | SIFs Can do   | SIFs Cannot  |
|--|---|--|
| <ul style="list-style-type: none"><li>• Mainstream the implementation of established national policies</li><li>• in vast geographical expanses</li><li>• through high-volume, multi-sector programs of small-size public investments ("projects") with</li><li>• community participation at the local level,</li><li>• based on proven technology</li><li>• easily to be standardized, in a cost-effective manner</li><li>• targeted at the most vulnerable communities.</li></ul> | <ul style="list-style-type: none"><li>• Contribute to fine-tuning and validation of national policies</li><li>• Mobilize additional local and external resources</li><li>• Manage the project cycle of public investment other than standardized, small-scale projects at the local level (the bigger and the more unique the project, the less suitable the SIF model)</li></ul> | <ul style="list-style-type: none"><li>• Shape national policies (policy research)</li><li>• Run public services</li><li>• Police enforcement of public norms</li><li>• Manage small-volume investment programs</li></ul> |

# Country-driven programs with SIFs



- ❖ The use of SIFs as part of “country systems” (Paris Agenda) is a more advanced, program-based mode of delivery than the traditional project approach - a step towards more responsibility of recipient countries in managing ODA.

## SIFs on the ladder of “modes of delivery” of ODA





## **SIFs meet many requirements of CCA finance**

- SIFs have tools, vast experience and a good records in targeting the most vulnerable communities and in adopting targeting techniques according to new policy issues
- SIFs are part of “country systems” and deliver international resources on a program-based approach, implying more responsibility of recipient countries in resource management.
- SIFs provide a good opportunity for an integrated approach to adaptation finance: they use different channels and sources of international and domestic finance and integrate them under a common institutional and operational roof (operations manuals)
- SIFs may be the most effective and efficient institutional set-up to implement the bulk of projects needed to adapt to climate change in a well-targeted and participatory manner on a national-wide scale.



## Limits

- Not all adaptation activities are suitable for funding through a SIF-type mode of delivery

## Recommendations

- Country studies on mainstreaming CCA into existing SIF programs
- There is a need to examine targeting techniques and tools with a view to climate change vulnerability
- An up-to-date mapping of SIFs worldwide



Thank you for your attention!

The study will be published soon.

If you would like to receive a copy by e-mail or have further questions pls. contact us:

Günther Schulz-Heiss, [pob9564@yahoo.com](mailto:pob9564@yahoo.com)

Britta Horstmann, [Britta.Horstmann@die-gdi.de](mailto:Britta.Horstmann@die-gdi.de)