



ADAPTATION FUND

AFB/EFC.3/5
December 7, 2010

Adaptation Fund Board
Ethic and Finance Committee
Twelfth Meeting
Cancún, December 13, 2010

FUNDING FOR PROJECT FORMULATION COSTS

I. BACKGROUND

1. The Board at its eleventh meeting discussed the document, *Funding for Project Formulation Costs* (AFB/11/6) and agreed that:
 - i. project formulation grants (PFG) should be given once a project concept has been approved
 - ii. consideration should be given in terms of differentiating between NIEs and MIEs, since some NIEs might have financial difficulties in trying to formulate project or programme proposals;
 - iii. a flat rate should be given for project formulation costs;
 - iv. a list of eligible activities and items still needed to be prepared;
 - v. the grant should be additional to the project cost; and
 - vi. the fate of funds if the final project document was rejected should be determined.

There was consensus that a three tiered system should be considered for project formulation grants: endorse a project concept with a PFG amount, endorse a project concept without a PFG amount, or reject the project concept.

Following the discussion, the Board decided:

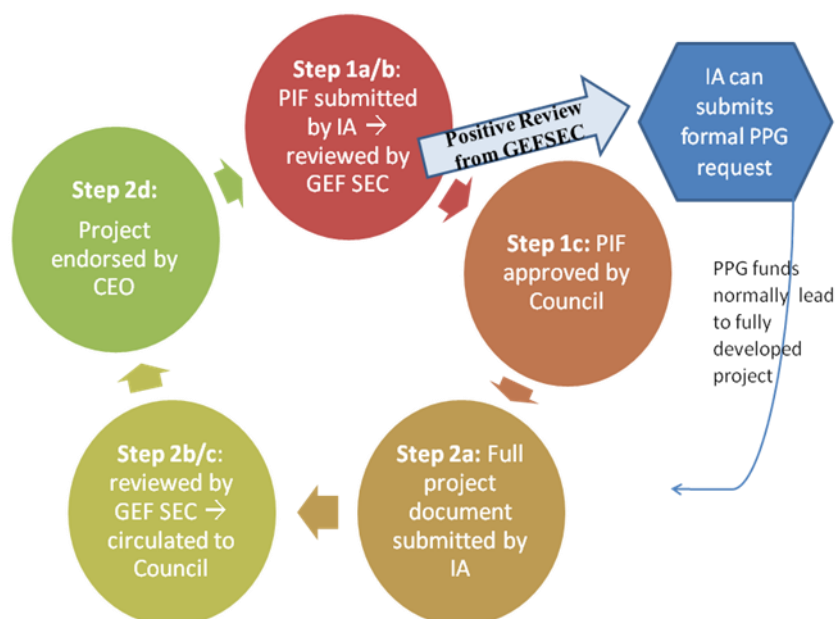
To request the secretariat to reformulate the document, to include a comparison of eligible activities provided by other funds for project formulation grants, to take into account guidance provided by the Board at the present meeting, and to submit the document to the Board at its twelfth meeting, through the EFC. The EFC should review and finalize the process and policy of the project formulation grant focusing, in particular, on: the issue of unspent project funds; the procedures followed by other funds in that regard; and the determination of a flat-rate.

2. The present document has been prepared by the secretariat in response to the above mandate.

II. PRACTICES BY GLOBAL FUNDS ON PROJECT FORMULATION FUNDING

3. This section presents a survey of practices by other global funds to address the cost of project formulation. It reviews the policies of the Global Environment Facility, the Climate Investment Funds, the Multilateral Fund (Montreal Protocol), and the Global Alliance for Vaccines and Immunization (GAVI).
 - a) Global Environment Facility (GEF Trust Fund, LDCF, SCCF)
4. The GEF policies, especially the project cycle, changed between GEF-3 (2002-2006) and GEF-4 (2006-2010).
5. In GEF-4, the project cycle is a two-step process (see figure 1):
 - i. In the first step, a project identification form (PIF) is submitted by the Implementing Agency, reviewed by the GEF Secretariat for inclusion and approved by the Council.
 - ii. In the second step, a full project document is submitted by the Implementing Agency, reviewed by the GEF Secretariat, circulated to the Council and endorsed by the GEF CEO.
6. As soon as the PIF has been reviewed positively by the GEF Secretariat (and even before the Council Approval), the Implementing Agency can receive upfront a project preparation grant (PPG), based on the formal submission of a request for PPG. The PPG request includes:
 - a) a description of the project preparation activities and
 - b) a timeframe that has to be less than 22 months.
7. PPG finances mainly consult services for the preparation of the project, including their travel. Some activities or items are not eligible (funding of pilot activities during the preparation, cost of capital goods like offices, cars, etc.).
8. Although no ceiling is defined, usually preparation grants are between \$50,000 and \$350,000 (less than 5% of the project amount). In addition, a 10% fee (10% of the amount of the PPG) is immediately granted to the Implementing Agency to oversee the preparation.
9. In most cases, the preparation leads to a full project document that finally gets endorsed by the CEO. In rare cases, local circumstances in the country may request a cancellation of the project before its endorsement by the CEO. In such a case, the PIF and the PPG are cancelled and any unused funding is returned to the Trustee. The funding that has already been used is not reimbursed.

Figure 1: GEF-4 Project Approval Cycle



10. In GEF-3 and before, the project cycle was a three step process (see figure 2):

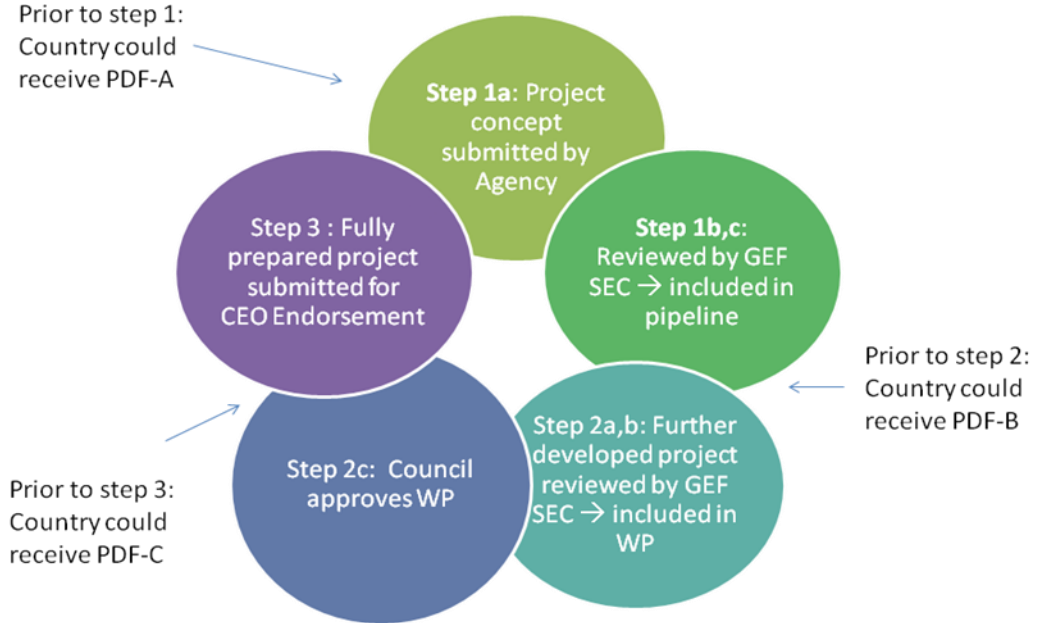
- i. In the first step, a project concept was submitted by the Implementing Agency, reviewed by the Secretariat, and included in a project pipeline.
- ii. In the second step, the project document (not necessarily fully complete) was prepared and submitted by the Implementing Agency, reviewed by the GEF Secretariat for inclusion in a Work Program and approved by the Council.
- iii. In the third step, the fully prepared document (including all execution arrangements, a full budget, etc.) was submitted by the Implementing Agency for GEF CEO endorsement.

11. Three different possibilities for project development costs were available: Project Development Facility (PDF): A, B or C.

- Before step 1 (thus before the submission of a project concept), the country could receive a PDF-A, funding of up to \$25,000 to prepare a project concept (later revised to up to \$ 50,000).
- Before step 2 (after inclusion of the project in the projects pipeline), the country could receive a PDF-B to prepare the project. These grants could be up to \$350,000 for projects in single countries, and up to \$700,000 for project involving preparatory activities in multiple countries as in the case of regional/global projects.
- Before step 3 (after approval of the project by the Council) and where required for large projects, the country could receive a PDF-C, a grant of up to \$1 million to complete technical design and feasibility work.
- In addition, the Implementing Agency would receive a fee of 9% of the PDF once the project was finally endorsed by the GEF CEO (please note the difference between GEF-3 and GEF-4: in GEF-4, the Agency fee is granted upfront).

12. If the project was cancelled during preparation, the unused PDF amount would be returned to the GEF Trust Fund¹.

Figure 2: GEF-3 Project Approval Cycle



b) Strategic Climate Fund (PPCR, FIP, SREP)

13. The Strategic Climate Fund is comprised of three targeted programs: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Scaling-up Renewable Energy Program in Low-Income Countries (SREP). Funding is channeled through five Multilateral Development Banks (MDB). The operational guidelines for these programs were approved recently.

14. The PPCR provides for a two-phase process for programming resources in pilot countries and regions. The objective of Phase 1 is to prepare a Strategic Program for Climate Resilience (SPCR) that provides an investment framework based on country priorities for climate change adaptation. Once this strategic program has been approved by the PPCR Sub-Committee, projects are approved by the PPCR Sub-Committee through a decision-by-mail and then by the Board of the respective MDB, Phase 2 (see figure 3).

- Phase 1: *SPCR Design*. An initial joint mission by the government and the MDB, whose outputs are a work plan, a timeline, and a budget for supporting Phase 1 activities leading to the formulation of the Strategic Program for Climate Resilience. This proposal is submitted to the PPCR Sub-committee for funding. A grant of up to \$1.5 million is

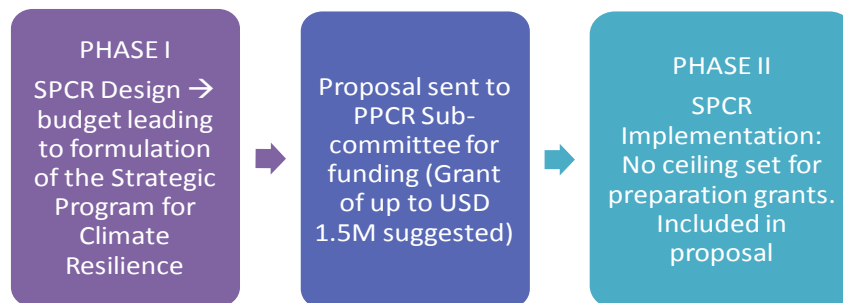
1. ¹An analysis was conducted on all PDF-B and PDF-Cs approved under GEF-2 and GEF-3 (between 1998 and 2006). In total 708 project preparation grants were approved for a total value of \$227 million (GEF-2 + GEF-3 = \$5,700 million). This mechanism proved successful: out of the 708 approved PDFs, 595 (84%) resulted in full projects being developed, approved and endorsed. The other PDFs, representing a funding value of \$34 million, had been dropped.

suggested for these preparation activities. This grant is channeled through the MDB. The country then prepares, in collaboration with the MDBs, its Strategic Program for Climate Resilience. This can include an analysis of climate risks, an institutional analysis, knowledge and awareness raising, key capacity building actions, and a consultative planning process to agree on a common vision and strategic approach for climate resilience and to define priority actions and investment needs to implement this approach. A final joint mission by the government and the MDB will produce the final design of the SPCR to be approved by the PPCR Sub-Committee.

- Phase 2: SPCR Implementation. No ceiling is set for the preparation grants for projects under the SPCR. However, funds for project preparation are included within the envelope requested for the SPCR (and thus in the country’s envelope). The project preparation grants are disbursed upfront. The country and the MDB prepare the individual investment proposals in detail. The average grant funds available per country pilot program range from \$ 40-50 million and for the regional pilots from \$ 60-75 million. The access to highly concessional loans is optional. It was agreed that each pilot can access up to 20% of the total available concessional finance amount. The Sub-Committee will keep this ceiling under review and reevaluate after the submission of the first three to five Strategic Programs.”

Figure 3: PPCR Phase I and II

- Proposal sent to PPCR Sub-committee for funding (Grant of upto USD 1.5M suggested)



15. The FIP provides for a two-step process: an investment strategy (IS) is developed by the countries with support by the MDBs and endorsed by the FIP Sub-Committee. At that point, the FIP Sub-Committee also approves a notional envelop of FIP resources for the preparation of projects and programs under the Investment Strategy. Based on the approval, program or projects consistent with the IS are prepared. Programs or projects are approved by the FIP Sub-Committee through a decision-by-mail and than by the Board of the respective MDB (see figure 4).

- Step 1. Preparation of FIP investment strategy, including project ideas. (1) The FIP investment strategy (IS) is developed through a joint mission process led by the government in collaboration with the MDBs. A preparation grant of up to \$250,000 is available for analytical and assessment activities necessary to develop a comprehensive IS. Funding is made available upfront and approved by the MDBs. (2) The FIP

investment strategy is endorsed by the FIP Sub-Committee. Preparation grants for proposed projects and programs can be approved at the same time by the FIP Sub-Committee. No ceiling is defined for such preparation grants; however, funds for project preparation are included within the envelope requested for the Investment Strategy (and thus in the country's envelope). The project preparation grants are disbursed upfront. (3) The country and the MDB prepare the individual investments proposals in detail.

- Step 2. Implementation. The program or project proposals consistent with the IS are to be approved by the FIP Sub-Committee through a decision-by-mail and then appraised and implemented by the MDBs.

Figure 4: FIP Investment Strategy



16. Similarly to the PPCR, the SREP provides for a two-phase process for programming resources in pilot countries. The objective of Phase 1 is to prepare an Investment Plan that provides an investment framework based on country priorities for creating new economic opportunities and increasing energy access through renewables. Once this investment plan has been approved by the SREP Sub-Committee, projects are approved by the SREP Sub-Committee through a decision-by-mail and then by the Board of the respective MDB under Phase 2 of the program.

- **Phase 1: Pre-Investment support for the development of the investment plan and associated advisory services.** An initial MDB scoping mission, if requested by the government, to assist in planning and preparing the Joint Mission. Following the scoping mission, government may request an advance grant of up to \$375,000 for early preparatory work. Once the necessary preparatory work is complete, a Joint Mission by the government and the MDB will take place, resulting in outputs including a work plan, a timeline, and a budget for supporting Phase 1 activities leading to the formulation of the Investment Plan. This proposal is submitted to the SREP Sub-committee for funding. A grant of up to \$1.5 million is available for these preparation activities. This grant is channeled through the MDB. The country then prepares, in collaboration with the MDBs, its Investment Plan. The Plan should include a description of the programmatic goals for scaling up renewable energy, proposed uses of SREP resources and activities for other development partners, as well as concept briefs for proposed investments. If needed, a final joint mission by the government and the MDB will produce the final design of the Investment Plan to be approved by the SREP Sub-Committee.
- **Phase 2: Implementation of Investment Plan.** No ceiling is set for the preparation grants for projects under the SREP. However, funds for project preparation are included within the envelope requested for the Investment Plan (and thus in the country's envelope). The project preparation grants are disbursed upfront. The country and the MDB prepare the individual investment proposals in detail. The average funds available

per country pilot program range from \$ 25-50 million, with a reserve of \$60 million which countries may request funds from once all the investment plans have been endorsed.

c) Multilateral Fund for the implementation of the Montreal Protocol (MLF)

17. Since its inception in 1994, the MLF has funded the preparation of Country Programs to allow countries to assess their needs to comply with the Montreal Protocol (Ozone Depleting Substances, ODS). Most of the preparation grants were around \$100,000, but they could reach up to \$1.5 million for larger countries. The resulting programs often overestimated the countries need, which resulted in difficulties in the prioritization of projects.
18. Subsequently, first project-by-project approaches were undertaken, taking only limited account of the country programs. With increasing experience of countries and implementing agencies, sector plans were undertaken, later also national plans. These plans are results based, multi-phased undertakings, where after an initial payment has been agreed to subsequent tranches are only funded if agreed quantifiable and verifiable national targets have been met. A new set of plans is presently under initial discussions and will be approved for the majority of the 142 eligible countries before the end of 2011.
19. In addition, the MLF Secretariat performs country needs assessments for all eligible countries based on quantitative objectives prescribed by the Montreal Protocol. These needs assessments are the basis to include or not to include projects in the business plan of the MLF. If a project has been included in the business plan, the country can then access funding for preparation. Generally, these preparation grants range from \$20,000 to \$30,000. Once the project is included in the business plan, preparation funding approval and, subsequently, project approval are typically decided based on increasingly detailed criteria; therefore, typically, preparation grants are not cancelled. Cancellation is possible through a well defined, multi-step process, often related to local barriers to implementation such as various forms of crisis; in this case the unspent balance is returned to the Trustee.

d) Global Alliance for Vaccines and Immunization (GAVI)

20. Requests for GAVI are made by governments of eligible countries by specific deadlines set each year. Proposals are screened by the GAVI Secretariat for eligibility and completeness, after which each proposal is pre-assessed by a World Health Organization expert group that writes a report to the Independent Review Committee (IRC). The IRC recommendations are sent to the GAVI Board for decision.
21. The types of support available are health system strengthening support, new vaccine support, injection safety support, immunization services support, and civil society organization support. Countries can request up to \$50,000 to prepare proposals on health system strengthening support. In addition, technical support to prepare proposals is provided by WHO, UNICEF or bilaterals.

Table 1: Summary of Project Formulation Grants across Organizations

Organization	Type of project formulation funding	Amount Ceiling (USD)	Activities Funded	Unused Funds/Project Cancelled/Not Approved
GEF-3	Project Development Facility (PDF)	PDF-A: 25K PDF-B: up to 350K PDF-C: up to 1M		
GEF-4	Project Preparation Grant (PPG)	50K-350K >%5 of project amount	PPG finances mainly consultant services for the preparation of the project, including their travel.	If project and PPG are cancelled, any unused funding is returned to the Trustee. The funding that has already been used is not reimbursed.
PPCR	Budget leading to formulation of the Strategic Program for Climate Resilience	Grant of 1.5M	Feasibility studies and associated analytical and design tasks. Grants could also support project or program preparation-related consultations, workshops and training	
Multilateral Fund	i. Preparation of Country Programs ii. Projects included in MLF business plan	i.100K ii.20-30K	Consultancies (i.e. national and where needed international experts)	Unused funds from project preparation must be paid back. Same for those not approved (rare)
GAVI	Prepare proposals on health system strengthening support	Up to 50K		

III. RECOMMENDATION

22. Based on the Adaptation Fund Board’s decisions at the eleventh meeting, the EFC may wish to consider the following proposal for the use of project formulation grants under the Adaptation Fund:

- a. A project formulation grant (PFG) can only be awarded if a project concept is presented and endorsed;
- b. Project formulation grants will fund country costs for project preparation;
- c. An implementing entity can receive an additional [8.5%] to manage the grant;
- d. A flat rate of [30,000 USD] will be provided, in addition to the project grant amount;
- e. If the final project document is rejected any unused funds should be returned to the AF; and
- f. Once project grants are disbursed a fully developed project should come to the Board for approval within [12 months].

If a country requires a project formulation grant, a request should be made with the submission of a project concept to the PPRC. The request should include a brief description of what the funds will be used for and a budget break-down. The Board may wish to consider approving the

one-page template for project formulation grant attached as Annex 1. If the project concept and associated project formulation grant is approved, the Board will direct the Trustee to disburse the project formulation grant to the implementing entity in order to assist in the preparation of the full project document within the [12 month] timeframe.



Project Formulation Grant (PFG)

Submission Date:

Adaptation Fund Project ID:
 Country/ies:
 Title of Project/Programme:
 Type of IE (NIE/MIE):
 Implementing Entity:
 Executing Entity/ies:

A. Project Preparation Timeframe

Start date of PFG	
Completion date of PFG	

B. Proposed Project Preparation Activities (\$)

Describe the PFG activities and justifications:

List of Proposed Project Preparation Activities	Output of the PFG Activities	USD Amount
Total Project Formulation Grant		

C. Implementing Entity

This request has been prepared in accordance with the Adaptation Fund Board's procedures and meets the Adaptation Fund's criteria for project identification and formulation

Implementing Entity Coordinator, IE Name	Signature	Date (Month, day, year)	Project Contact Person	Telephone	Email Address

