



ADAPTATION FUND

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Adaptation Fund Board
Project and Programme Review Committee
Fourteenth meeting
Bonn, Germany, 18-19 March 2014

Agenda item 8

MULTIPLE EXECUTING ENTITIES PARTNERS FOR THE IMPLEMENTATION OF LOCAL ADAPTATION ACTIONS

ANALYSIS OF THE POSSIBLE EFFECTS ON ADMINISTRATIVE COSTS

Background

1. At its thirteenth meeting, the Project and Programme Review Committee (PPRC) of the Adaptation Fund Board (the Board) reviewed nine project and programme proposals. During the discussion of the project and programme proposals the secretariat had raised the issue of the effect on administrative costs when Implementing Entities were proposing the use of several Executing Entities and implementing partners. This had been the case in one proposal reviewed by the PPRC at that meeting. It was observed that under such proposed arrangements, the execution costs requested had exceeded the 9.5 per cent that had been approved by the Board in Decision B.13/17. During the review of that proposal, based on the Board's policies on operational costs, the secretariat had requested that the Implementing Entity revise the related costs accordingly.

2. During the discussion it was acknowledged that while the cap on execution costs should not be exceeded, there may be some advantages in having several executing entities involved in project delivery, including the building of capacity in smaller institutions that might not otherwise have the opportunity to work on such projects.

3. The PPRC discussion was reported to the Board at its twenty-second meeting. After considering the conclusions and recommendation of the PPRC, the Board decided *to request the secretariat to examine the possible effects on administrative costs of the use of multiple Executing Entities and implementing partners to promote local development and execution of adaptation actions, and to report its findings to the fourteenth meeting of the PPRC.*

(Decision B.22/13)

4. In addition to the PPRC discussion, the Ethics and Finance Committee (EFC) of the Board had discussed, at its fourteenth meeting, issues related to the changes in implementation arrangements reported to the secretariat by a government official for a project currently implemented by an MIE. The Committee had decided to take this case as an opportunity to remind MIEs about the importance of making implementation arrangements as clear as possible at the project design stage and in discussions with government.

5. Having considered the comments and recommendations of the EFC, the Board decided *to request the secretariat to issue a letter to the accredited implementing entities reminding them that all project/programme proposals must detail the implementation arrangements, including the identification of executing partners and their role in the project/programme execution. Those arrangements should be discussed with the government and made fully transparent prior to project/programme approval. Any changes in implementation arrangements must remain under the 9.5 per cent cap set by the Board. The changes, reasons for the changes, and any associated risks must be reported to the secretariat as soon as possible.*

(Decision B.22/20)

6. The present document discusses the issues of multiple execution and implementation partners in the context of local adaptation, by (i) providing relevant examples of such cases from other funding mechanisms, (ii) drawing from the experience of Adaptation Fund projects and programmes and finally (iii) highlighting the current debate on the need to take adaptation planning and implementation at the local level. At the end of the document, a recommendation is proposed to the PPRC for the Board to make an informed decision on this issue.

Example of funding mechanisms using multiple executing and implementing partners

The GEF Small Grants Programme

7. The Small Grants Programme (SGP) ¹ was established in 1992 by the Global Environment Facility (GEF). Its explicit objective is to develop community-led and community-owned strategies and technologies for reducing threats to the global environment – including adaptation to climate change – whilst addressing livelihood challenges. Since its inception in 1992, the SGP has provided over sixteen thousand such grants in 126 countries. SGP funds “small grants” up to a maximum of \$50,000, although in practice the average grant amount is in the \$20,000 to \$25,000 range. A “strategic projects” window has recently been added for grant-making up to a maximum of \$150,000 to allow for scaling up and to support initiatives that have to cover a large number of communities within a critical landscape or seascape. Small grants allow communities, in particular those that are poor and vulnerable, to access an appropriate level of funding as they develop their capacity, as well as allowing the programme to take measured risks in testing new methods and technologies and to innovate as needed.

8. The SGP is a Corporate GEF Programme implemented by UNDP. Supervision and technical support is provided by the global Central Programme Management Team (CPMT). The United Nations Office for Project Services (UNOPS) provides financial and administrative support services. In line with global templates, and yet to also promote “country drivenness”, a Country Programme Strategy is developed for each participating country and project ideas are generated at the community level. Each participating country has an SGP National Coordinator (NC), supported by a Programme Assistant. Proposal review and grant approval is done by a multi-sectoral National Steering Committee (NSC) with a non-governmental majority as well as the participation of the UNDP Country Office (UNDP CO).

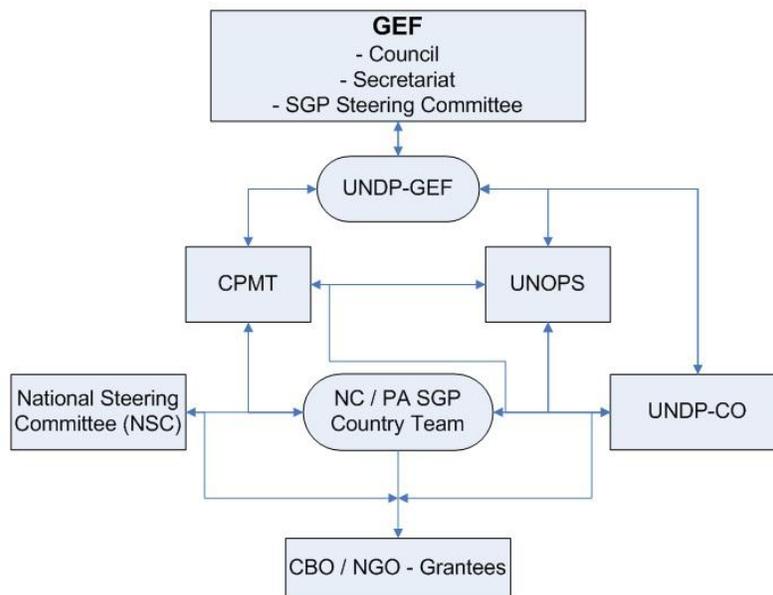


Figure 1: Organizational structure of the GEF SGP

¹ <https://sgp.undp.org/>

9. A recent joint evaluation report from the GEF and UNDP Independent Evaluation Offices², released in January 2014, found that despite the widely recognized high level of effectiveness of individual projects, actual expenditures on ‘non-grant’ activities (which include both programme management and programme support costs) were calculated to **have ranged from 27 per cent (under the third phase of SGP) to 25 per cent (under the fourth phase of SGP) to 26 per cent (under the latest, fifth phase of SGP)**. A Technical Paper on the Management Costs of the Small Grants Programme³, prepared under the overall evaluation of the SGP in 2008, found that during its third operational phase, the SGP’s reported program management costs were about 25 per cent in FYs 2005 and 2006. After factoring in the project fees paid by the GEF to UNDP for hosting the Programme, this figure increased to 28 per cent. When dedicated project grants aimed at addressing programme management issues were included, the proportion rose to 31 per cent.

10. Programme management costs include UNDP’s fee as the Implementing Entity, the costs for running the global Central Programme Management Team (CPMT) and UNOPS services. Programme support costs include M&E, capacity development to implement and manage small grants, knowledge management and miscellaneous activities to support mainstreaming, replication, scaling-up and market transformation for the small grants provided by the Programme.

11. It should be noted that the support costs incurred by the Programme have been widely accepted by the GEF Council and all the stakeholders, given the obvious costs of M&E performed by the NGO grantees. Also, the joint report noted that the previous joint evaluation report of the SGP (2008) “confirmed the importance of capacity development and knowledge management within the SGP, for example noting that *“Country programmes seek to influence policies and institutions through awareness raising, sharing of knowledge; and developing or strengthening of institutional capacities.”* The overall finding was that *“the SGP’s knowledge-sharing practices have been satisfactory”*. It did, however, express concerns that *‘(i) moves to reduce management costs may impact negatively on these efforts’* and *‘(ii) the graduation of highly experienced and performing country programme out of the SGP may undermine knowledge sharing and inter-country capacity development.’*”

12. Recognizing the necessity of “non-grant” technical and support activities to ensure effective grant-making, the Evaluation’s first recommendation stated: “The level of management costs should be established on the basis of services rendered and cost-efficiency rather than on the basis of an arbitrary percentage.” The evaluation concluded that non-grant activities generating global benefits, for example, knowledge production and sharing, capacity development and other non-grant technical work should not be classified as administrative costs. Following this recommendation, SGP included a new focal area “capacity development” in its programming since 2011. All these are validated by the 2013 Joint SGP Evaluation (Phase 1) with its recommendation to “consolidate the process of aligning costs to performance, to services rendered, and to country needs and opportunities” noting that “there should be no global cap” on capacity development for project management, knowledge management, M&E, and scaling up. Non-grant costs to facilitate grant-making and strengthen the capacity of local stakeholders are considered important to ensure effective implementation as well as assure post-project sustainability, a critical element of adaptation.

² “Joint GEF/UNDP Small Grants Programme Evaluation: Preparing for GEF-6”

(<http://www.thegef.org/gef/sites/thegef.org/files/documents/SGPEvaluation-Phase%201.pdf>)

³ http://www.thegef.org/gef/sites/thegef.org/files/documents/SGP-Technical_Paper-2008%281%29.pdf

13. To conclude, despite the number of executing entities and implementing partners involved, the global level of the SGP implementation and the large size of the Programme (US\$ 154,455,533 for the GEF fourth period) have helped reach “economies of scale” in the administrative costs of the Programme, thereby stabilizing “non-grant” costs at around one-fourth of the total Programme budget. However, at the country level, costs could be very high, depending on the number and size of grants provided annually, the costs of living or whether the country program is in its start-up phase, in which case the management costs tend to be higher during this initial phase. Hence, management costs have ranged from 17 per cent to 50 per cent of total programme expenditures in some countries.⁴

Comparative analysis of other small grants programmes

14. As part of the technical paper on management costs of the SGP⁵, a comparative analysis of twelve small grants programmes, including the SGP, was made. The programmes were different in terms of their range (number of countries covered) and size and geographic scope (one-country or regional/global). These were:

- Development Alternatives Poorest Area Civil Society (PACS) Programme (India)
- World Conservation Union National Committee of the Netherlands (IUCN NL)
- Eurasia Foundation
- Overseas Territories Environment Programme (OTEP)
- World Bank Small Grants Program (SmGP)
- Global Greengrants Fund (GGF)
- Ramsar Convention on Wetlands Small Grants Fund (SGF)
- Wetlands for the Future
- Indo-Canadian Environment Facility (ICEF)
- Critical Ecosystems Partnership Fund (CEPF)
- Protected Areas Conservation Trust (PACT) (Belize)

15. One of the findings of the analysis was that in the case of the SGP, the proportion of management costs, on average, was lowest for country programs when they annually invested about US\$ 1.0 to US\$ 1.1 million, hence showing that, controlling for region, age of program in a country, cost of living, and country status, there may be economies of scale based on the size of the programme.⁶ Reported programme management costs for the reviewed programmes varied from 10 to 32 per cent of total programme expenditure. In terms of cost efficiency, it was observed that while single-country programmes like PACT have reported management costs similar to the SGP’s, i.e. 27 per cent of total programme expenditures, the SGP put more emphasis on program-level M&E and on capacity building of grantee institutions.

16. In the context of the Adaptation Fund, the case of single-country small grants programmes such as PACT provides useful information on the range of management costs incurred by such programmes, taking into account the caveat that those costs usually do not include capacity building of the grantees or M&E.

⁴ Ibid.

⁵ Ibid.

⁶ The amount of core funding that each country is entitled to under the SGP ranges from \$200,000 to \$1.2 million, depending on the maturity of the programme.

The Bangladesh Climate Change Resilience Fund (BCCRF) and its Community Climate Change Project (CCCP)

17. The BCCRF⁷ is a Multi-Donor Trust Fund implemented with support from the World Bank, by the Government of Bangladesh and designated agencies. The fund was established in May 2010 with financial support from Denmark, European Union, Sweden and United Kingdom, subsequently followed by Switzerland, Australia and the United States. This mechanism should enable the Government of Bangladesh to channel over US\$ 188 million grant funds to millions of people to build their resilience to the effects of climate change.

18. The World Bank's responsibilities include support to the implementation of the BCCRF, ensuring due diligence and coordination, support to grant processing, progress reporting and monitoring, and accounting and financial management.

19. To cover the costs of fiduciary management and other expenses incurred by the World Bank, a deduction of one per cent from the total contribution of the donor is envisaged. In addition, programme administration and management costs, secretariat costs, and costs related to project activities (including appraisal and supervision) are charged to the Trust Fund based on actual costs, and up to a maximum of US\$ 4,148,518.⁸ The eligible categories of expenditures include overheads, short-term consultants' fees, contractual services, equipment cost lease, temporary staff costs, extended term consultants, staff costs, travel expenses and media and workshops costs.

20. Grants between US\$ 15 million and US\$ 25 million are available to fund proposals submitted by government line ministries. Resources are also available, as sub-grants, to NGOs or CSOs through the "Community Climate Change Project" (CCCP), with the Palli Karma-Sahayak Foundation (PKSF) as the lead coordinating executive entity of the Fund, and a budget of US\$ 12.5 million.

21. The CCCP aims at enhancing the capacity of selected communities to increase their resilience to the adverse impacts of climate change and provides sub-grants between US\$ 20,000 and US\$ 1 million to NGOs for implementing sub-projects focused on community-based climate change adaptation. Administrative costs for this project are US\$ 1.66 million which finance technical assistance to: (a) establish a project management unit (PMU) within PKSF to manage the project and monitor the implementation of sub-projects. The administrative budget also finances the operating costs of the Fund, including equipment, financial management, procurement, technical assistance, and administrative expenses; and (b) build the technical capacity of PKSF to appraise sub-project proposals submitted by NGOs; and to operationalize the procedures for Fund management. Another component of the project includes knowledge management, Monitoring and Evaluation (M&E), and capacity building for a budget of US\$ 0.44 million.

22. Overall, administrative costs of the CCCP, including capacity building and knowledge management costs represent 16 per cent of the project budget. These costs do not include the

⁷ <http://bccrf-bd.org/Default.aspx>

⁸ Of the total US\$ 4.14 million, programme management costs are estimated at US\$ 2.02 million. The balance of US\$ 2.12 million is the cost estimate for project appraisal and supervision (of approximately 4-6 projects). The calculations were based on assumptions about staffing and other costs as well as the average Bank budgets for appraisal and supervision of projects financed by World Bank loans and credits.

costs incurred by the execution of sub-projects funded by the project. Indeed, applicant NGOs can submit proposals for sub-projects and can retain up to 10 per cent of the sub-project’s budget as overhead costs. Costs incurred by the World Bank for the management of the overall BCCRF are not taken into account here.

23. Therefore, the combined administrative costs related to the coordinating executing entity function of the CCCP by PKSf and overhead costs requested from NGOs for the execution of sub-projects represent around 25 per cent of the total project budget, which is consistent with examples from single-country small grants programmes presented earlier. If capacity building, knowledge management costs are excluded, the administrative costs would represent 21 per cent of the total project budget, which is still higher than the 18 per cent cap set by the Adaptation Fund, to cover both implementing entity fees and execution costs.

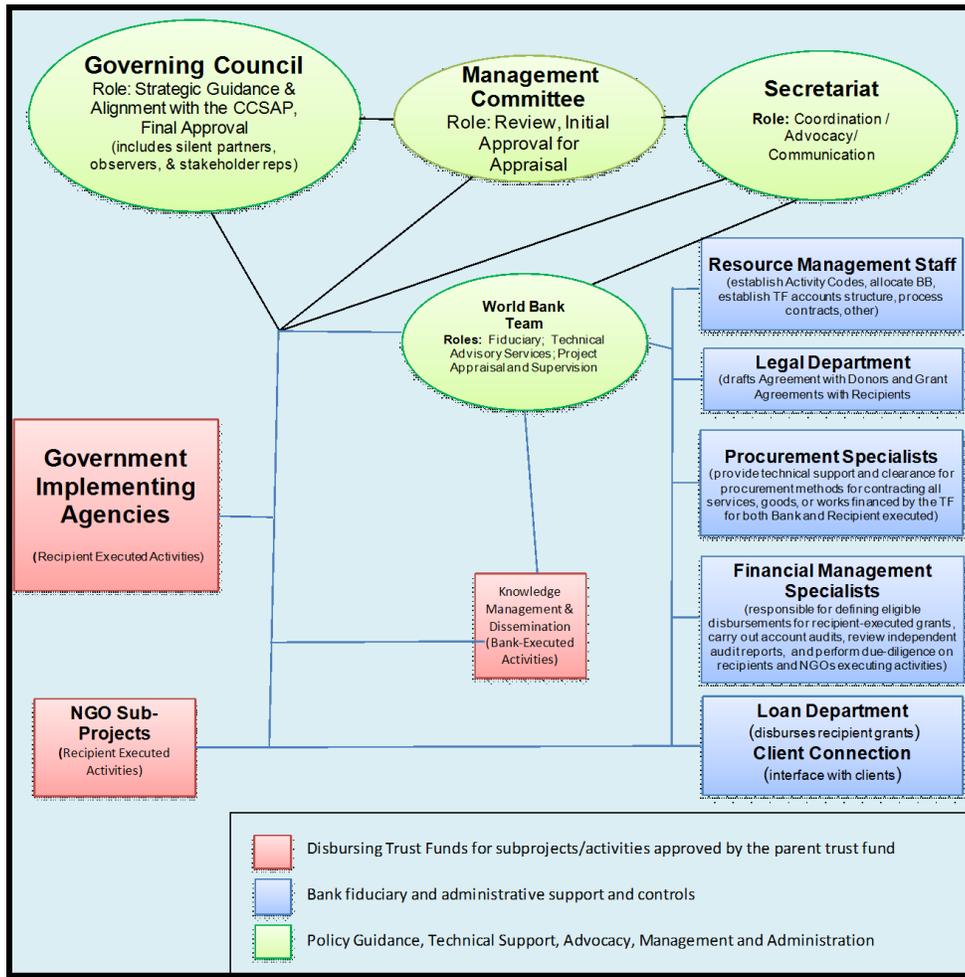


Figure 2: Organizational chart of the BCCRF

Examples of Adaptation Fund proposals with a small-grants component

Approved programme for Cook Islands: Strengthening the Resilience of our Islands and our Communities to Climate Change (UNDP, US\$ 5,381,600)

24. The objective of the programme is to strengthen the ability of all Cook Island communities, and the public sector, to make informed decisions and manage anticipated climate change driven pressures (including extreme events) in a pro-active, integrated and strategic manner. One of the main focuses of the programme will be the establishment of a Small Grants Programme. Hence, the SRIC programme will establish and implement arrangements to extend the current national operation of the UNDP/GEF Small Grants Programme (SGP) to (i) support building capacity for climate change adaptation (CCA) and disaster risk reduction (DRR) in the Pa Enea and (ii) the implementation of approved DRR and CCA measures proposed by Island Councils and Administrations, as well as by communities and other players. Grants will be provided to approve projects that will build the capacity and enhance the resilience of Pa Enea and their communities and enterprises through CCA and DRR. SRIC funds will be used solely for operations within the Cook Islands. They will be used to support national administration and management of the SRIC SGP as well as for the grant making. Grant making and other appropriate activities will be overseen by the existing National Steering Committee of the Cook Islands SGP and guided by a strengthened Cook Islands Country Strategy for the SGP. The SGP activities will also be supported by the SRIC-CC programme manager and by the SRIC Focal Points in each Pa Enea.

25. The combined execution costs and implementing entity fees for this programme represent 17.8 per cent of the total programme budget before the fees. These do not include costs incurred by the execution of the small grants, i.e. national administration and management of the SRIC SGP. The SGP budget for capacity building and DRR and CCA measures is US\$ 930,000. Details of the execution arrangements of the SGP are not provided in the document. If overhead costs are hypothetically estimated relative to the execution of those small grants by selected NGOs, CSOs or councils as up to 10 per cent of the SGP budget, additional administrative costs of US\$ 93,000 may be expected. This would bring the total administrative costs to 20 per cent of the total programme budget, before the fees.

Endorsed project concept for South Africa: Taking adaptation to the ground: A Small Grants Facility for enabling local level responses to climate change (SANBI, US\$1,985,007)

26. This proposed project, the concept of which was endorsed by the Board in the twenty-first meeting, would seek to increase climate resilience in productive landscapes and socio-economic systems in communities in two pilot district municipalities in South Africa, by working directly with local stakeholders and anticipated beneficiaries through a small granting mechanism. The main component of the project would be the establishment of a Small Grants Facility (SGF) to support planning and implementation of adaptation responses by vulnerable communities in the Mopani and Namakwa District Municipalities through a suite of interventions supported through at least 12 small grants to local level CBOs and NGOs in order of US\$ 100,000 each.

27. The project would be administered through an Executing Entity, which would be responsible for receiving and disbursing funds. The two main models under consideration are the national Green Fund or the LandCare programmes implemented in terms of the Expanded Public Works Programme, which has already established a small grants facility. Further work would be undertaken to engage with the appropriate institutions and agree on the most effective and efficient mechanism that minimizes the administration costs for the Small Grant Facility and best

provides a platform for possible capitalization of a future fund. Most of the project cycle management processes would be delivered through a partnership between Gender CCSA and Conservation SA, who have been stated to have excellent and complementary track records in community engagement and grant making, including project identification, development, training and management support. They would act as joint Facilitating Agencies between the Executing Entity and the grantees.

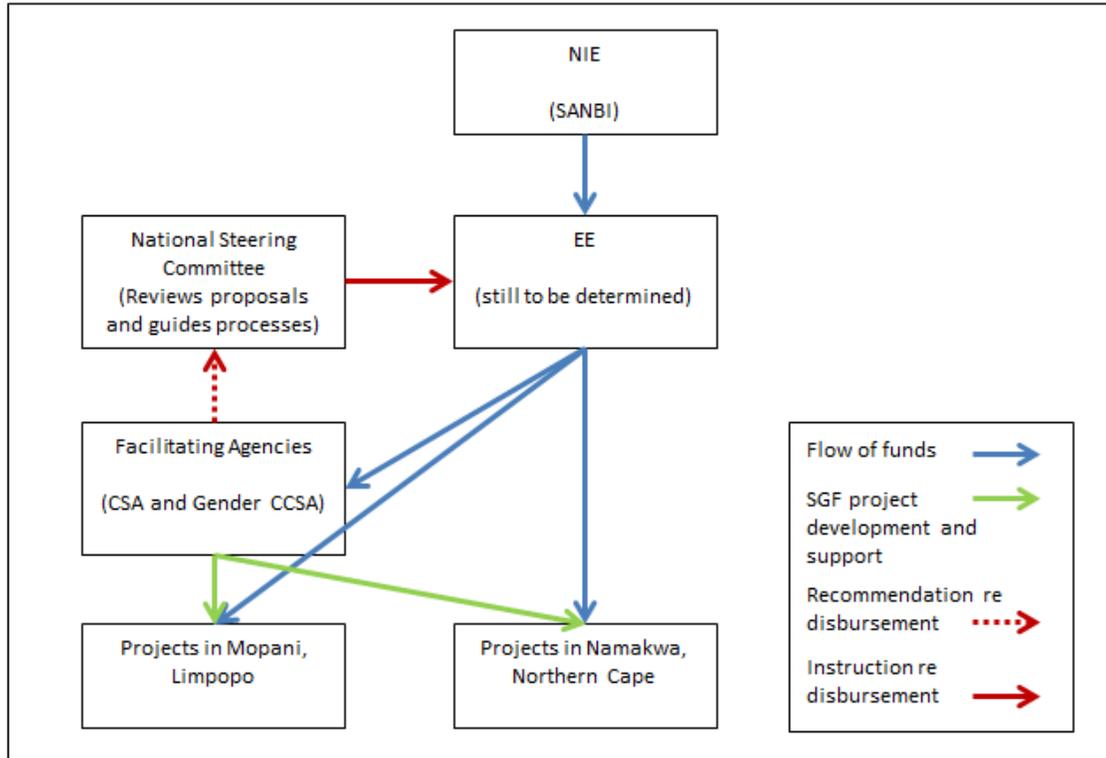


Figure 3: Proposed governance and implementation arrangements for the project

28. Although further details on the implementation arrangements of the SGF is expected to be provided at the time of the submission of the fully-developed proposal for this project, the Board when approving the decision of endorsement of the concept (Decision B.21/7), had requested further analysis of the costs of establishing and operationalizing the small grant mechanism, to better assess the project's cost effectiveness. The endorsed proposal had requested execution costs and implementing entity fees totalling 16.5 per cent of the total budget before the fees.

Programme submitted at the 22nd Board meeting for Kenya: Integrated programme to build resilience to climate change and adaptive capacity of vulnerable communities in Kenya (NEMA, US\$ 9,999,558)

29. The fully-developed programme proposal was submitted to the Board at its twenty-second meeting by NEMA, the National Implementing Entity (NIE) for Kenya. The overall objective of the proposed programme was to enhance resilience and adaptive capacity to climate change for selected communities in various counties in Kenya in order to increase food security and environmental management. Single projects within the programme were identified by public institutions, local NGOs and CSOs, which were expected to be the executing partners for this

programme. The executing entities and respective collaborating partners were grouped into three based on the geographical distribution and building of synergies to effectively implement programme activities across Counties in Lake Victoria Basin, Southern and Northern Regions. In each of these regions Lead Agencies were identified, that is meant to ensure there is effective coordination and reporting based on the four adaptation thematic areas.

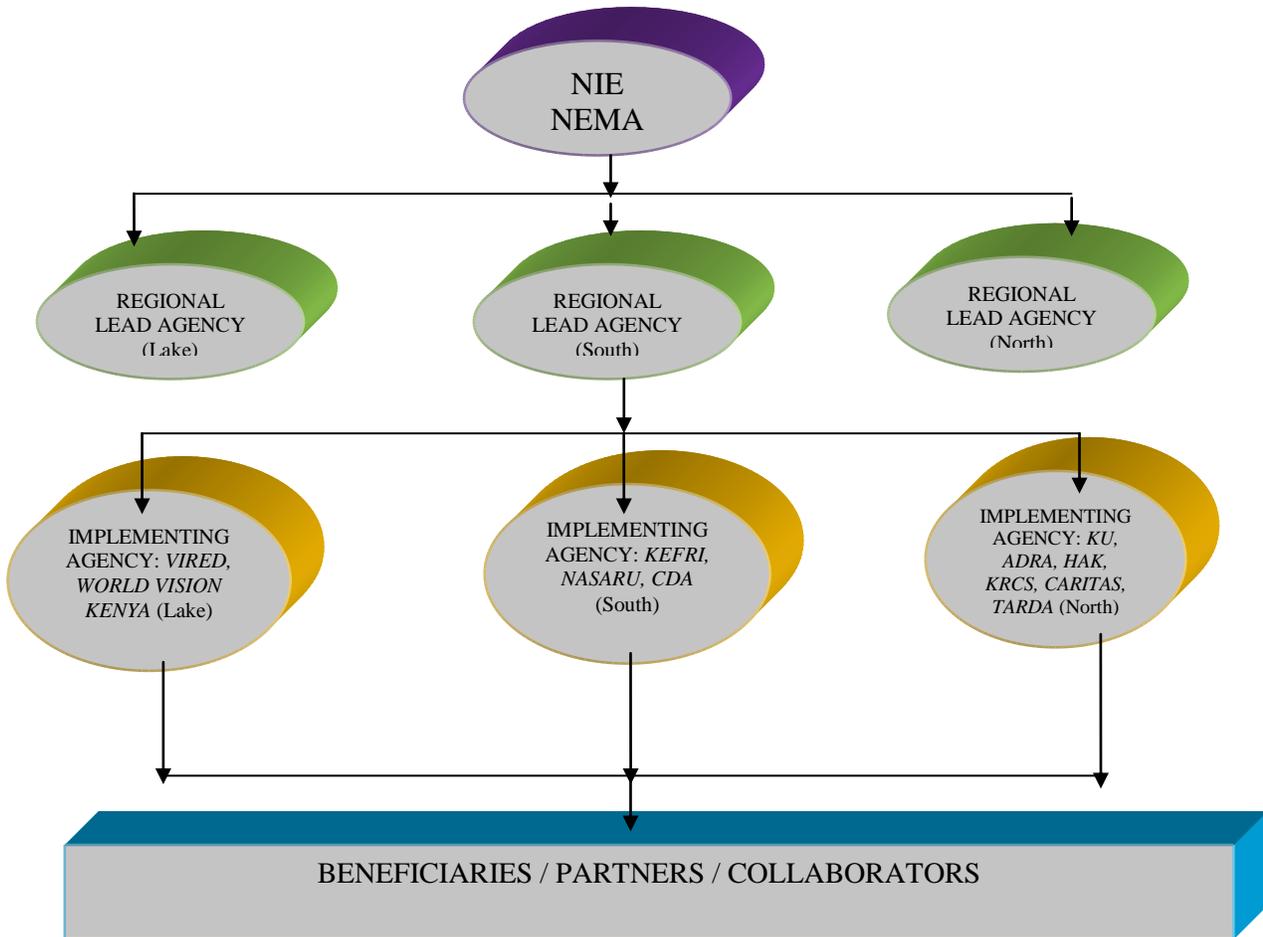


Figure 4: Organogram showing implementation arrangements

30. Along with the execution costs and implementing entity fees, the programme had identified additional operational expenses. The consequence of the proposed implementation arrangements for the programme was that cumulative operational and execution costs were estimated at US\$ 2,613,660 or 28.2 per cent of the total programme budget before the implementing entity fees, or 26.1 per cent of the total programme budget including the fees. It should be noted that the roles and responsibilities of the regional lead agencies included building the capacities of implementing agencies within the region of coverage, which in turn would provide training and capacity building services to the programme beneficiaries.

31. The proposal was reviewed by the Board at its twenty-second meeting and was not approved, with a few observations made to the implementing entity, to take into account in

subsequent submission of the proposal. Also, because of the current policies of the Fund related to administrative costs, it was suggested to revise the programme's implementation arrangements in order to account for the Adaptation Fund policies on execution costs (with the 9.5 per cent cap) and implementing entity fees (with the 8.5 per cent cap), to avoid administrative costs exceeding 18 per cent of the total programme budget.

Conclusion: Financial implication of enhanced access to adaptation finance at the local level

32. The common feature of the projects and programmes presented under Section II and III of this document, with multiple levels of implementation and execution, relates to the fact that they were designed to promote access to adaptation (or environmental) finance at the local level. Several studies have discussed the topic⁹, emphasizing the benefits for climate finance flows to reach the local level, not only in terms of implementation of adaptation measures, but also through increased capacity of local institutions to plan, attract funding for and implement adaptation actions on the ground.

33. It is expected that increased local access to adaptation finance would ensure that the priorities, needs of the most vulnerable communities would be better captured, and that their knowledge and capacities to plan for and cope with the impacts of climate change would be increased. The models of adaptation programmes discussed in the present document generally aim at increasing the role of local institutions in identifying, planning and executing adaptation measures. It is recognized that most of those institutions need not only financial but also technical support to strengthen their capacities to play their expected role of planning, management and monitoring of adaptation actions.

34. However, as shown in the different examples provided in this document, the process of decentralized governance of adaptation actions comes with increased administrative costs that should be taken into consideration when designing such mechanisms. For all the initiatives studied in this document, the administrative costs of operating programmes with multiple levels of execution have averaged one fourth (between 25 and 30 per cent) of the total programme budget. In most cases, the funding mechanisms have taken into account the need for capacity building of the recipient local institutions and therefore have incorporated related activities in the operating costs of small grants programmes. Costs related to knowledge management and monitoring and evaluation (M&E) of the programmes have also been incorporated in some cases.

35. It has also been emphasized that the higher the programme budget, the more cost effective it should be. For single-country programmes, the level of the administrative costs has been linked with the number and size of grants provided annually, the costs of living or whether the program is in its start-up phase, in which case the management costs tend to be higher during this initial phase.

36. The present document provides the Board with a sample of mechanisms using multiple levels of execution of adaptation measures, in an effort to analyse the operational costs incurred by such a multi-level approach. The current policies of the Fund allow project and programme

⁹ c.f. "Reid et al., *Community-based Adaptation to Climate Change: An Overview*, in Participatory Learning and Action 60, IIED, 2009.

"Christensen et al., *Financing Local Adaptation: Ensuring Access for the Climate Vulnerable in Bangladesh*. Dhaka: ActionAid Bangladesh, Action Research for Community Adaptation in Bangladesh, Bangladesh Centre for Advanced Studies, and International Centre for Climate Change and Development, 2012."

proponents to request up to 18 per cent of total proposal budget to cover administrative costs. However, these policies were mostly based on the model of projects and programmes relying on a single implementing entity and a few executing entities for their operations. Only a few proposals submitted to the Board have suggested multiple levels of execution and implementation, mainly through a small-grants programme approach. As shown in the other programmes studied in this document, beyond the issue of the high operating costs that a multi-level approach may induce, the risk of the lack of capacity of the local implementing partners to effectively achieve the expected results of the programmes has been emphasized. Hence the need to address those concerns by allowing additional funding for strengthening the capacities of partner institutions in such programmes.

37. Therefore, when dealing with such programmes, if the Board was to maintain operational costs at the current limit set for the Fund, namely the 8.5 per cent cap on implementing entity fees and the 9.5 per cent cap on the execution costs, it would be advisable that further consideration be given to the capacity building needs of the programme implementing/executing partners, as well as their M&E and knowledge management frameworks.

Recommendation

38. The PPRC may want to recommend to the Board to:

- a) Maintain the current policies of the Adaptation Fund on project and programme operational costs, namely the 8.5 per cent cap on implementing entity fees and the 9.5 per cent cap on execution costs;
- b) Request that the secretariat gives consideration to the capacity building needs of the selected implementing/executing partners, when reviewing new project/programme submissions for which the proposed implementing arrangement is based on multiple levels of execution with an aim to allow for effective local planning and execution of adaptation actions;
- c) Allow, in such circumstances, that additional costs of up to 5 per cent of the total budget before the fees be requested by implementing entities under the execution costs, to cover for capacity building, monitoring and evaluation, and knowledge management activities that would benefit executing partners of the category of projects/programmes described under paragraph b) above.