



ADAPTATION FUND

The Adaptation Fund and Direct Access

Supporting developing countries in undertaking concrete measures to adapt to the adverse effects of climate change

October 2012

INTRODUCTION

The purpose of the Adaptation Fund is to help developing countries undertake **concrete measures to adapt** to the adverse effects of climate change. Among the questions faced by the parties to the Kyoto Protocol in creating the Fund was that of how to channel climate-change adaptation financing to projects on the ground in developing countries in an **expedited, efficient and effective manner** that is consistent with national priorities, needs, and circumstances. The Kyoto Protocol Parties developed a model that strongly reflects the principles laid out in the Paris Declaration on Aid Effectiveness, specifically, **ownership, harmonization, alignment, mutual accountability, and results** and which has resulted in developing country institutions taking the lead in defining, planning and implementing actions to respond to their adaptation needs.

While multilateral institutions do play a major role in implementing Adaptation Fund projects, the Adaptation Fund Board has made concerted efforts to support the implementation of the **“direct access,” modality**, the transfer of financial resources directly to eligible countries rather than through a third party. Based on the experiences of the Adaptation Fund, this memo describes the observed **benefits and lessons learned** from nearly three years of administering direct access. While many developing countries prefer the direct access modality, they have the choice of employing whichever modality best suits their circumstances. In many of the cases where the multilateral entities are engaged, there still is a benefit to the institutional capacities of countries to engage in adaptation action.

BACKGROUND

Any national institution (in a Non-Annex I country that is a party to the Kyoto Protocol) wishing to directly access project or program funding must first apply to be **accredited by the Fund**. This process is intended to assure the Adaptation Fund Board that the applicant country institution meets **the fiduciary standards** decided upon by the Conference of the Parties meeting as the Parties to the Kyoto Protocol (CMP). The standards were designed to determine whether a country has the staffing, experience, expertise, and internal controls necessary to properly manage project implementation and grant amounts of up to \$10 million disbursed by the Adaptation Fund over the course of several years. These fiduciary standards must be met by applicants to the satisfaction of a reviewing body, the Accreditation Panel, and includes three broad categories: **financial integrity and management; institutional capacity; and transparency and self-investigative powers**. To date, **national**

institutions representing twelve countries¹ have become eligible through the accreditation process to submit proposals for projects that would then receive direct access to funding. Three of those institutions, in Jamaica, Senegal, and Uruguay, already have projects in various stages of implementation.

During the accreditation process the Accreditation Panel's experts, who have had long careers in auditing and evaluating the efficacy of institutions, consult closely, and often frequently, with applicant institutions. The experts provide detailed advice and explanations for how the applicants can strengthen various aspects of their fiduciary standards in order to become eligible for project funding. Regional workshops, held in conjunction with the UNFCCC secretariat to familiarize Parties with the accreditation process, have also contributed to greater awareness and a rise in application submissions. The Accreditation Panel and the Adaptation Fund Board secretariat thus play a dual role of both vetting and advising the applicants, whose identities are kept confidential until they become fully accredited National Implementing Entities (NIEs).

As shown in Annex 1, the accreditation process is just one step toward directly accessing resources from the Fund, with the next step being submissions for project support and implementation. The stages are linked; accreditation will have presumably laid the groundwork for effective project management by the accredited institution. Once accredited, all implementing entities that submit applications for funding will then identify priority interventions for projects that align with their national climate change strategies, and perform all supervisory, oversight, and implementation functions for those projects.

BENEFITS

Increased Capacity of Institutions

While support for building the capacity of developing-country institutions is not part of the Fund's mandate, the inclusion of direct access in its financing approach has nonetheless contributed to increased capacity in countries by providing applicant entities with an opportunity to improve institutional procedures.. The United Nations Environment Programme's (UNEP) Direct Access Support Programme noted that the Adaptation Fund "requires countries to have strong fiduciary systems and processes in place. Countries that have assessed their capacities in this area have initiated reforms and put in place ... programmes to strengthen their fiduciary capacities."² Early progress on improving the fiduciary standards of accreditation applicants includes the following:

- *Raising awareness:* Several entities gained an increased awareness about the need for a strong and collective anti-fraud policy and a zero-tolerance attitude towards corruption. They responded by taking what for them was the novel step of placing antifraud policies and communications channels for lodging complaints on their websites.
- *Preserving institutional knowledge and enhancing internal management:* Applicant entities have enhanced their own documentation and recording of critical institutional information. One institution that was successfully accredited reported that many of its internal processes and guidelines had been completely undocumented at the outset. The accreditation application process became an opportunity to engage all units and levels within the organization in reviewing their own modes of work with the aim to document and provide evidence of fiduciary capacities.
- *Opening communication channels:* UNEP noted that the Fund's accreditation process is facilitating coordination and communication across different government ministries that are handling climate

¹ Argentina, Belize, Benin, India, Jamaica, Jordan, Kenya, Mexico, Rwanda, Senegal, South Africa, and Uruguay

² United Nations Environment Programme: Direct Access Support Programme:

<http://www.unep.org/climatechange/adaptation/AccessToAdaptationFinance/UDASP/InsightsandLessonsLearned.aspx>

finance and “help(ing) to ensure the effective management of climate finance” in the future. UNEP has also fielded requests for the Fund’s assessment tools to be shared across government departments. The accreditation process has thus contributed to increasing cohesion between a variety of ministries responsible for finance, the environment, and science and technology, as well as national development banks.

- *New functions:* Other improvements made by applicants have included adding an internal audit function,³ providing statements on the internal control framework, or establishing an audit committee, but it is still too early to determine exactly what impacts these changes will have on institutions.

Preparation for Project Implementation

Direct access gives developing countries the ability to manage their own funds and projects, strengthening country ownership through the consultative process and engagement of executing entity partners, and raising the profile of issues relating to climate change and adaptation at the national level. The Adaptation Fund can report the following benefits:

- *Improving intragovernmental collaboration and amplifying the voices of stakeholders:* Centre de Suivi Ecologique, the accredited national implementing entity for Senegal, reported that the accreditation process brought about a change in institutional dynamics by enabling various levels of government hierarchy and stakeholders to collaborate more closely. The project has benefitted from input by an array of governmental and non-governmental organizations, including a sizable community of artisanal fishermen and fish-processing industries, tourism operators, agricultural producers on the inland side of the coastal zone, a women’s group and an environmental non-governmental organization.
- *Fostering transparency and competition in project formulation:* Another accredited NIE reported that the project to be proposed for funding from the Adaptation Fund was selected in an open and competitive process, where a significant number of organizations from the country participated. The exercise seems to have enhanced the transparency of the allocation of funding for national adaptation priorities while encouraging the participation of a range of stakeholders across the country.
- *Raising standards for executing entities:* Participation in direct access has induced implementing entities to raise the standards of executing entities in order to comply with the reporting and procurement requirements of the Adaptation Fund.
- *Improved compliance with environmental and social safeguards:* While environmental and social safeguards are assessed as part of the project/program review process and not at the accreditation stage, it has been observed that direct access projects have demonstrated strong compliance with these standards. They have been particularly mindful of engaging with local stakeholders (particularly women) and communities on project-related environment and social issues.

Preparation for the Future of Climate Finance

Both applicants and the various entities that comprise the Adaptation Fund have been accruing experience and expertise that may prove valuable for the future of climate finance.

- *Attracting resources:* Applying for direct access to the Adaptation Fund is helping countries prepare to receive project financing from the Global Environment Facility (GEF) and the direct access modality of

³ One NIE has strengthened the Finance Subcommittee of its Board of Directors to include audit functions.

the Green Climate Fund (GCF) by enhancing their visibility and expertise. The improvements in capacity that occur as a result of direct access can also improve a country's ability to attract funding from other sources.

- *Creating options for the GCF:* From the Fund's perspective, the Accreditation Panel and the Adaptation Fund Board secretariat are developing the relevant expertise necessary for assisting the GCF in adaptation operations. The accreditation process has allowed them to identify potential issues more easily based on recurrent gaps in applications and project submissions by NIEs. Over time, the accreditation process has evolved to become consistent and streamlined through a strong communication network and online application program. The project review and monitoring and evaluation processes have also become more efficient with time, thus completing the direct access cycle.

Motivating South-South Cooperation

The competitive nature of the accreditation process and the prestige that accompanies successful accreditation implies that accredited entities can serve as motivators for others to take similar steps to improve their capacities. Representatives of accredited NIEs shared their experiences in regional and sub-regional workshops on NIE accreditation organized by the UNFCCC secretariat in 2011 and 2012. However, even before the workshops and especially after them, countries directly consulted with the accredited NIEs to solicit their advice on accreditation. In one example, representatives of CSE (Senegal) assisted the government of a Southeast Asian country in preparing its accreditation application.

LESSONS LEARNED

- Even if it may be a challenge in many developing countries to identify institutions that meet the accreditation criteria, it is possible for both Least Developed Countries (LDCs) and Small Island Developing States (SIDS) to have NIEs accredited. Out of the 12 NIEs accredited by September 2012, five were either from an LDC or a SIDS.
- In the Fund's experience, the likelihood of accreditation of an autonomous entity (government or other) that has worked with either multilateral development organizations or foreign donors has been higher than that for government ministries.⁴
- The Adaptation Fund was established to fund concrete adaptation activities and as such is not the appropriate source to draw on for capacity development for applicant entities.
- An NIE does not necessarily have to be from the environment or climate ministry or have climate change activities as its core focus. As the accreditation process involves strict assessment of compliance with the fiduciary standards, financial institutions, such as development banks have become eligible. In one country, the accredited entity was a national development bank, while in another it was a unit of the Ministry of Environment that then became an autonomous and administratively independent organization within the public sector for the specific purpose of channeling direct access resources.
- While the opportunity to access support is desirable it may not be the choice of all countries. As such the Adaptation Fund also offers the opportunity to utilize multilateral or regional implementing entities that have been assessed according to the same criteria as the national entities. Direct access is not an obligation or prerequisite to obtain funding, but rather introduces flexibility – allowing countries to select the most appropriate mechanism to finance adaptation projects.

⁴ Two out of 12 accredited NIEs are ministries. Similarly, among those entities that the Board has not accredited, following the Panel's recommendation, three out of four were ministries. Among the applicant NIEs under review for more than three Panel meetings, only one out of nine is a ministry.

ANNEX 1: THE DIRECT ACCESS PROCESS

