



ADAPTATION FUND

AFB/PPRC.24/3
4 March 2019

Adaptation Fund Board
Project and Programme Review Committee
Thirty-third meeting
Bonn, Germany, 12-13 March 2019

Agenda item 4

WINDOW FOR ENHANCED DIRECT ACCESS UNDER THE MEDIUM-TERM STRATEGY

Background

1. The Adaptation Fund (the Fund) was the first climate fund to fully operationalize direct access to climate finance through which National Implementing Entities (NIEs) are able to directly access financing and manage all aspects of climate adaptation and resilience projects, from design through implementation to monitoring and evaluation. The Fund also pioneered enhanced direct access (EDA) when the Adaptation Fund Board (the Board) approved at its twenty-fourth meeting two regular sized projects for Costa Rica¹ and South Africa² through decisions B.24/8 and B. 24/15 , respectively. The projects were unique in that they were the first to put into practice an implementation model that had been presented as a theoretical solution³, in which decision-making on the programming of climate finance would be devolved further downstream at the national level, beyond the donor and grant applicant. In EDA, national mechanisms can be used to make decisions on which projects will be funded at the national and sub-national level.

2. At its thirtieth meeting the Board approved the Fund's medium-term strategy (MTS) through decision B.30/42. At its thirty-first meeting, the Board subsequently approved the implementation plan for the MTS and included new funding windows that could be opened under the MTS in complement of the Fund's existing funding windows. At this meeting, the Board decided:

(a) *To approve the implementation plan for the medium-term strategy for the Fund for 2018–2022 contained in the Annex I to document AFB/B.31/5/Rev.1 (the plan);*

(b) *To request the secretariat:*

(i) *To facilitate the implementation of the plan during the period 2018–2022;*

[...]

(iii) *To prepare, for each proposed new type of grant and funding window, a specific document containing objectives, review criteria, expected grant sizes, implementation modalities, review process and other relevant features and submit it to the Board for its consideration in accordance with the tentative timeline contained in Annex I to document AFB/B.31/5/Rev.1, with input from the Board's committees;*

[...]

(Decision B.31/32)

3. Having recognized that there was a high level of interest among the Fund's stakeholders on EDA, a specific funding window on EDA was included in the MTS implementation plan to complement the Fund's existing funding window for single-country projects. It is also noted that

¹ Project titled: Reducing vulnerability by focusing on critical sectors (agriculture, water resources, and coastlines) in order to reduce the negative impacts of climate change and improve the resilience of these sectors implemented by *Fundecooperación para el Desarrollo Sostenible* (Fundecooperacion)

² Project titled: Taking adaptation to the ground: A Small Grants Facility for enabling local level responses to climate change implemented by South African National Biodiversity Institute (SANBI)

³ <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2013/05/Enhanced-Direct-Access-April-2013.pdf>

EDA had attracted the interest of other climate funds, particularly the Green Climate Fund, which in 2015, decided to invest in a five-year pilot on EDA⁴.

4. The present document responds to Board decision B.31/32 and outlines the objectives, review criteria, review process, implementation modalities and several options to fund the window for EDA, based on the Fund's experience with approved EDA projects and lessons learnt by other stakeholders involved with EDA.

The purpose of Enhanced Direct Access

5. The purpose of EDA is to empower the developing country recipients of international climate finance beyond what can be achieved through the Direct Access modality alone, by devolving decision-making in the programming of internationally allocated funds to the national and sub-national levels. This means that the screening, review and selection of projects would be done at the national and sub-national level with stronger stakeholder engagement in the decision-making on proposed resilience initiatives at those levels.

Benefits and challenges of Enhanced Direct Access

6. There are some benefits to implementing EDA over traditional direct access. These benefits include:

- Increased country ownership over project activities
- Greater in-country decision-making over fund allocation
- Raised profile of the NIE organization internationally and in-country.
- Can help strengthen and “fine-tune” an organization's policies, procedures, and standards, and align with international standards
- Can help strengthen institutional and individual capacities at the sub-national and local level and enable the use and strengthening of domestic channels of directing resources to those levels
- Can strengthen alignment of funded projects with domestic priorities
- Can stimulate innovation through the establishment of national or local mechanisms
- Can help to increase efficiency in the management of donor funds⁵

7. Although EDA can offer opportunities and help build the capacity of local organizations to programme adaptation finance and design and implement their own projects, it also poses several challenges such as:

⁴ Decision B.07/03 by the Green Climate Fund Board.

⁵ See the submission by Oxford Institute for Energy Studies to the UNFCCC Transitional Committee on the issue of Thematic Funding. Windows (Workstreams II & III), available at: https://unfccc.int/files/cancun_agreements/green_climate_fund/application/pdf/oies_submission_on_ws_ii_and_iii.pdf

- Requires more substantial financial management capacities across the different levels of project execution
- Can entail challenges in transferring requisite project design and development capacities to local stakeholders and communities which would allow them to increase their awareness of climate risks and impacts, link those with their development issues, and be able to design and implement the activities and measures that would help them address those risks
- Can result in higher management and operational costs due to additional levels in the funding model
- Multiple levels in channeling funding can result in complex implementation arrangements which require strong project design and management skills as well as streamlined decision-making across the levels

Lessons learnt from the Fund and other stakeholders

8. The Fund has been implementing EDA through two of its projects approved in October 2014. The projects have sparked a high level of interest from the Fund's stakeholders and there is a real demand from communities to be able to address climate risks and adverse impacts through EDA and the delivery of national or local mechanisms. Lessons learnt from these projects include:

EDA is costly in the short term but worth it

9. EDA requires, at least initially, a higher level of technical assistance, monitoring and oversight (e.g. development of capacity building tools and higher level of monitoring through increased number of field visits), and contracting at multiple levels, which has an implication on the overall operational costs. Therefore, any specific funding window for EDA might need a higher provision for management and execution costs.

10. However, EDA can be considered worth the investment because it enables projects to pilot innovative measures at a small scale, which could be later replicated or scaled up. It also allows funding research and action activities that could have been otherwise difficult to finance through the usual concrete adaptation projects funded by the AF. It also raises awareness of small, local organizations on climate change issues and builds their capacity to address climate related risks and impacts by enabling such local organizations to identify their adaptation needs by themselves and implement the adequate measures to address those needs.

There is no one-size-fits-all

11. The EDA project in South Africa revealed the complexity of EDA implementation arrangements and the importance of streamlining decision-making across multiple levels. Addressing this issue early on during project design and development is important for establishing implementation arrangements according to the relevant context.

12. Both EDA projects in Costa Rica and South Africa revealed that conducting extensive and thorough stakeholder engagement and analysis at the project design phase is very important to identify capacity gaps, training and learning needs. Consultations with multiple stakeholders can also motivate buy-in from national and local government and other stakeholders, clarifying the

role of national and local actors in the process, which can have implications for project sustainability. The project could in turn influence national and local policies.

13. It is important to establish a flexible system with institutional arrangements that can adapt to changes internal and external to the project and to community needs as necessary.

EDA facilitates innovation

14. As EDA specific projects are determined at the country-level through specific requests and proposals made by local beneficiaries, it offers opportunities for piloting innovation, and the generation of knowledge for replication and can promote the development of public private partnerships. As such, there is need to institute long-term monitoring that addresses change in community vulnerability over time. Such monitoring should allow for data collection and gathering of knowledge across multiple levels which can help build the case for scaling-up EDA projects.

15. EDA as a model requires establishing a level of trust with communities and, there are huge benefits to be gained from partnerships with organizations and institutions that have worked with those communities over time, e.g, local NGOs that have been working in the area for a long time which allows the possibility of building from past experiences or successes that could be replicated through national or local mechanisms.

Current support for EDA by the Adaptation Fund Board secretariat

16. Due to high level of interest by various stakeholders, the Adaptation Fund Board secretariat (the secretariat) has been engaging about EDA through the readiness programme. The NIEs for South Africa and Costa Rica shared their project experiences at the fifth annual NIE seminar held in August in Washington, DC, and have also discussed aspects of their projects during readiness webinars. The secretariat is exploring the possibility of hosting a dedicated workshop on EDA in partnership with other funds, and the secretariat participated at the Green Climate Fund (GCF) Empowering Direct Access Workshop held in May 2018 in Songdo, Republic of Korea at which EDA was also discussed.

17. There is potential to promote EDA within the existing secretariat activities including seminars, workshops, and new readiness activities identified in the 2018-2022 MTS such as country exchanges as well as Adaptation Fund knowledge products, which could help develop the portfolio of EDA projects.

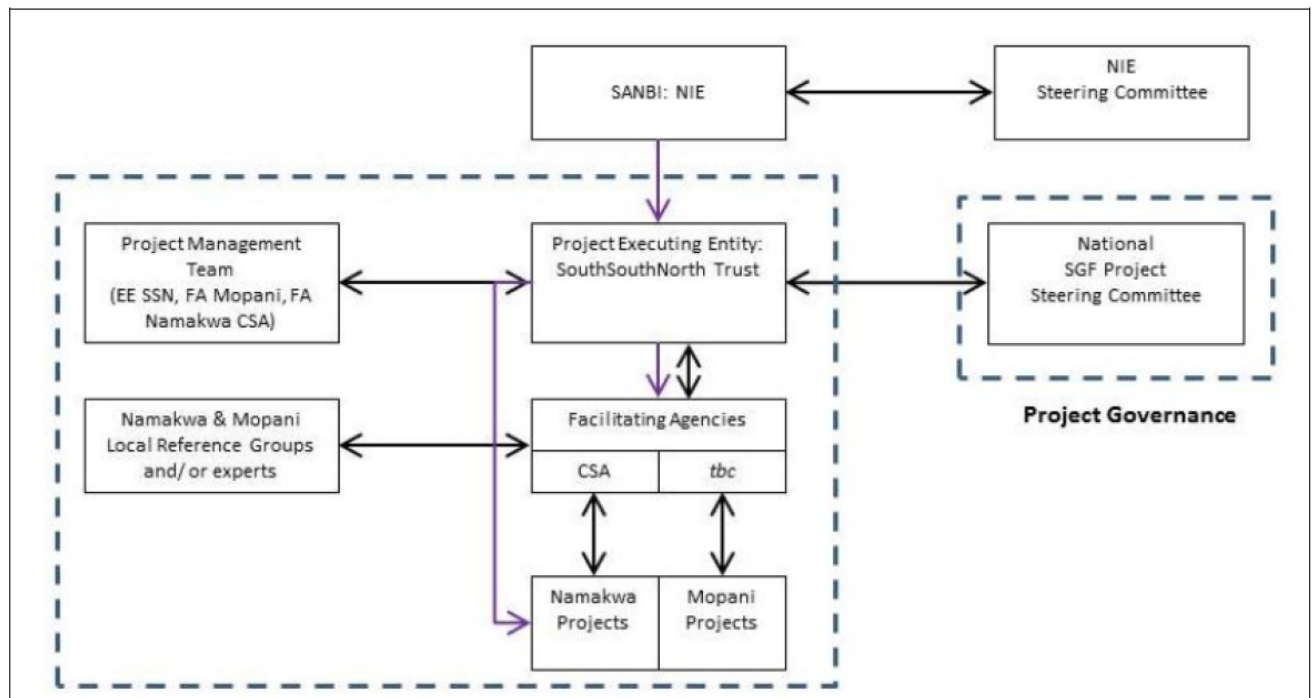
18. The EDA models as implemented by each of the two NIEs under the Adaptation Fund are depicted in figure 1 and figure 2 below.

Figure 1: Implementation and execution arrangements for the *Fundecooperación para el Desarrollo Sostenible* (Fundecooperación) project: Reducing vulnerability by focusing on critical sectors in order to reduce the negative impacts of climate change and improve the resilience of these sectors



Source: PowerPoint presentation by Fundecooperacion at 4th Adaptation Fund annual NIE seminar held in Puntarenas Province, Costa Rica.

Figure 2: Implementation and execution arrangements for the South African National Biodiversity Institute (SANBI) Small Grants Facility Project



Source: Adaptation Fund Board document AFB/B.32/8: Report of the portfolio monitoring mission in South Africa

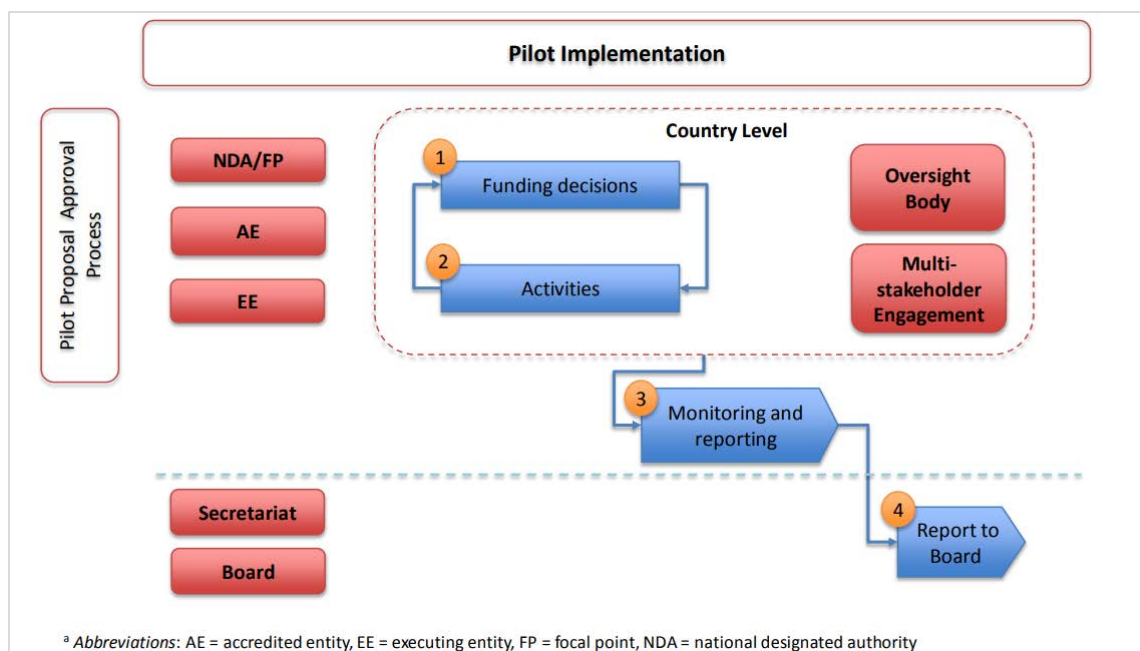
Other Funds supporting EDA

19. The Green Climate Fund implemented EDA as a pilot in 2015. At its 10th Board meeting, the GCF agreed to initially provide up to US\$ 200 million for at least 10 pilots, including at least four to be implemented in small island developing States, least developed countries and African States⁶. The implementation of the pilot phase follows an approach which uses the regular project review and approval process under the GCF. However, it includes an additional layer of devolved decision-making for funding specific activities at the country level and requires the establishment of a mechanism to increase oversight and multi-stakeholder engagement at the country level. The oversight body must have GCF national designated authority (NDA) involvement and multi-stakeholder engagement. Submission of a proposal for the pilot does not require the inclusion of individual projects or programmes because decision-making for the funding of specific pilot activities will be devolved at the country level. However, the proposal is expected to describe⁷:

- (i) The scope of activities that will be considered for financing in conformity with the Fund's eight result areas;
- (ii) The country/entity level approval process of specific pilot activities set up in conformity with the Fund's investment framework and results management framework; and
- (iii) The institutional arrangements set up to ensure oversight and multi-stakeholder engagement.

20. The GCF Board has also made readiness and preparatory support available to assist in the above aspects. Figure 1 below, extracted from GCF board document GCF/B.10/05, provides an overview of the pilot implementation following approval of the proposal by the GCF board using its regular review and approval processes.

Figure 2: Overview of GCF EDA pilot implementation process following board approval



Source: Green Climate Fund board document GCF/B.10/05: *Additional Modalities that Further Enhance Direct Access: Terms of Reference for a Pilot Phase*

⁶ See Green Climate Fund See Green Climate Fund board decision B.10/04

⁷ See Green Climate Fund board document GCF/B.10/05

Options for the window on EDA

21. Two options are presented below to incentivize project/programme submissions through the Fund's EDA modality. The proposed options would use existing mechanisms within the Fund for single country project/programme review and approval and the existing monitoring and reporting mechanisms would also apply. In addition, the challenges and opportunities related to each option are presented.

22. It should be noted that due to the additional institutional levels involved in EDA projects/programmes, it is expected that there would be additional costs related to such projects, e.g. training and capacity building, monitoring, reporting and knowledge management. It would therefore be necessary to increase the limit for execution costs and management costs for EDA projects/programmes as these have been shown to be higher⁸. In addition, EDA projects/programmes are expected to involve a number of unidentified sub-projects as the specific activities at the local level would only be clearly identified at a later stage when the mechanism for approval of funding and disbursement arrangements have been established following project/programme approval by the Board. This would also contribute to higher project management costs than for regular direct access projects/programmes.

23. The present document does not provide a preferred recommendation. The options outlined in this document are intended to assist the Board in its discussion on how to fund the window on EDA and subsequently decide on this matter.

Option 1: Providing an incentive mechanism to promote projects under EDA

24. Under this option, the Board would approve on an annual basis the provision of a funding envelope that would help provide an incentive by providing additional funds on top of the funds requested by the NIE without the incentive, in a 1:1 ratio. The incentive would not count against the cap of funding for each country that was established by the Board at its thirteenth meeting in 2011⁹ and is currently set at US \$10 million per country. The Board would approve the additional funds up to a maximum of US \$2.5 million per project/programme for a number of submitted single-country concrete projects/programmes that would promote an EDA approach. This would enable the applicant NIE to expand its disbursement mechanism to enhance the benefits and impact to vulnerable communities, of EDA. The incentive would only be available as a once-off per project/programme and would not be available cumulatively for the same project/programme if the requested additional funding by the NIE for that project/programme is below US\$ 2.5 million.

Procedures for proposal submission under option 1

25. NIEs submitting proposals for EDA under Option 1 would be required to factor-in the Board incentive when preparing proposals. As required through the Fund's existing request for project/programme proposal template, proposals would be required to submit a consolidated (project/programme amount requested plus the additional funding incentive) and detailed budget with budget notes indicating the break-down of costs at the activity level. However, based on the experience of the Fund's EDA projects, which have experienced higher costs from multi-leveled funding structures and necessitated greater oversight responsibility by the NIEs compared to

⁸ See document AFB B.32.8. Report of portfolio monitoring mission to South Africa

⁹ Adaptation Fund Board Decision B.13/23

regular concrete projects/programmes funded by the Fund, it is proposed to increase the limit for execution costs and management fees to 12% and 9.5% respectively.

Pros:

26. This option would allow for immediate funding of projects and programmes through the EDA modality using existing mechanisms for project/programme review, approval and monitoring and reporting.

27. This option would also give NIEs that have experience implementing an Adaptation Fund project/programme but that are close to reaching the country cap, an opportunity to implement EDA projects, which could lead to quick establishment of a robust portfolio of EDA projects/programmes under the Fund.

Cons:

28. Option 1 could slightly increase the rate of depletion of the Fund's resources, although the Board by setting the amount of the annual funding envelope, could adjust as needed, taking into account the available resources of the Fund. However, the potential risk to the entire direct access modality is deemed to be low.

29. NIEs may be tempted to submit low value project proposals in order to get multiple incentives.

Option 2: Establishing a funding window dedicated to EDA projects/programmes

30. Under this option a separate funding window of up to US\$ 5 million per country and provision of a funding envelope could be made available to NIEs submitting proposals through the EDA modality. The funding envelope could be based on the annual funding for the window on EDA as outlined in the implementation plan of the Funds MTS approved by the Board at its thirty-first meeting¹⁰. The Board could review the funding envelope on an annual basis, following assessment of EDA project/programme submission flows. The funding window would not count against the cap of funding for each country that was established by the Board at its thirteenth meeting in 2011¹¹ and is currently set at US \$10 million per country. However, if an NIE submitted a proposal that exceeds the US\$ 5 million, the amount in excess of the US\$ 5 million would be deducted from the amount remaining in the cap of funding established by the Board for that country for regular concrete projects/programmes.

31. For the funding envelope to be applied effectively, EDA proposals submitted by NIEs for consideration by the Board would be reviewed as per the standard project/programme review and approval procedures under the Fund. However, based on the experience of the Fund's EDA projects, which have experienced higher costs from multi-leveled funding structures and necessitated greater oversight responsibility by the NIEs compared to regular concrete projects/programmes funded by the Fund, it is proposed to increase the limit for execution costs and management fees to 12% and 9.5%.

¹⁰ Adaptation Fund Board Decision B.31/32

¹¹ Adaptation Fund Board Decision B.13/23

32. If the total amount of requested funding by NIEs through the EDA modality goes beyond the provisioned funding envelope during a fiscal year, the proposals submitted by those entities and recommended for approval would be placed in a pipeline.

Pros:

33. This option would encourage NIEs that have reached the country cap to submit EDA projects/programmes for funding, thereby effectively increasing overall funding available under direct access.

34. This would also ensure that sufficient funds are available for funding EDA proposals submitted by NIEs, based on the approved annual funding envelope and assessment of available resources by the Board.

Cons:

35. This option could accelerate the depletion of the Fund's resources and limit access of current and future funding available to Regional Implementing Entities (RIEs) and Multilateral Implementing Entities (MIEs) thus posing a high risk to countries that rely on these modalities.

36. As the funding window and its annual provision of resources could be limited, this could trigger a high level of EDA proposal submissions and raise expectations from countries from which those proposals were developed, while funding may not be immediately available to fund all of them.

37. Based on the above, the Project and Programme Review Committee (PPRC) may wish to consider the following:

Proposed Recommendation for option 1

Having considered the options presented in document AFB/PPRC.24/3, the Project and Programme Review Committee (PPRC) may wish to recommend to the Board:

- a) To make available to national implementing entities (NIEs), a financial incentive for projects/programmes that promote enhanced direct access (EDA), as follows:
 - (i) For projects within the incentive window, not more than fifty percent of the budget of the EDA project, up to a maximum of US\$ 2.5 million per project/programme, would be considered outside of the country cap, and that;
 - (ii) The Board would decide the size of the incentive window on an annual basis;
- b) Request the secretariat to submit to the Board at its thirty-fourth meeting, implementation arrangements for projects/programmes submitted through the above funding window for EDA

Proposed Recommendation for option 2

Having considered the options presented in document AFB/PPRC.24/3, the Project and Programme Review Committee (PPRC) may wish to recommend to the Board to:

- a) Make available to national implementing entities (NIEs), a window for projects/programmes that promote enhanced direct access (EDA).
- b) Decide that the window to promote EDA projects/programmes shall be in the form of a grant up to a maximum of US\$ 5 million per country, which would be over and above what the country could access under the country cap established by the Board for regular concrete projects/programmes.
- c) Decide that NIEs may submit either proposals that are up to US\$ 5 million and are solely funded within the window, or proposals that exceed US\$ 5 million, in which case the amount in excess of US\$ 5 million would count towards the country cap established by the Board for that country for regular concrete projects/programmes.
- d) Request the secretariat to submit to the Board at its thirty-fourth meeting, implementation arrangements for projects/programmes submitted through the above funding window for EDA.