



ADAPTATION FUND

UPDATED GUIDANCE FOR IMPLEMENTING ENTITIES ON THE USE OF UNIDENTIFIED SUB-PROJECTS

Note: This updated guidance was adopted by the Adaptation Fund Board at its thirty-ninth meeting (Decision B.39/52). It supersedes the previous guidance, contained in Annex 2 of document AFB/B.32-33/7.

Introduction

1. The Adaptation Fund Board (Decision B.38/41) requested the secretariat to prepare a document containing updated guidance on unidentified sub-projects (USPs), including further elaborated criteria on the use of USPs in a project/programme.
2. Existing guidance on the use of USPs is published as Annex 2 of document AFB/B.32-33/7 (please see Annex 1). The guidance has been updated to reflect current practices of the use of USPs, and to be more specific to the targeted users of the guidance. As such, this guidance document has been prepared primarily for Implementing entities (IEs).

Background

3. The Operational Policies and Guidelines of the Fund require that projects and programmes funded by the Fund comply with the Fund's Environmental and Social Policy (ESP) and the Gender Policy (GP). This implies, among other matters, that environmental and social risks related to a project or programme are identified by the time of submission of a proposal. For projects/programmes that are submitted using the two-step process, already the concept note needs to include that environmental and social risks identification.
4. To identify environmental and social risks of project/programme activities, these activities need to be sufficiently formulated. The nature and the characteristics of the activity need to be known, as well as the environment and the specific social setting in which the activity will take place. In general, projects and programmes need to be formulated to the point where adequate risks identification is possible before being submitted for funding. The project formulation process should take that into consideration.
5. However, sufficiently formulating project activities is not always possible because certain aspects of a project/programme may not yet be known. Sometimes it is not desirable to have all the project/programme activities fully identified at the time of submission of the funding request. This may be the case for activities that depend on the outcome of other major project activities, or where there are clear benefits to not identifying all activities beforehand. This is the case e.g. when a project/programme includes a small grants facility where the project/programme will provide grants to certain activities on the basis of applications.
6. Nevertheless, the ESP and GP require that for all activities risks are identified before they can be implemented.

Definition of Unidentified Sub-Projects

7. Project/programme activities that have not been formulated, at the time of submission of a funding request, to the extent that their environmental and social risks can be identified in line with the ESP are called Unidentified Sub-Projects (USPs).
8. This is a functional definition and may involve the whole range of minor activities of a project or programme to entire components.

9. The environmental and social risks associated with an activity are determined by the combination of two factors: (i) risk components that are inherent to the activity, and (ii) risk components related to the environment and social setting in which an activity will take place. In general, if one of those two factors is not or insufficiently known, adequate environmental and social risk identification is not possible. It is important that locations are known with sufficient precision and certainty.

10. Based on the combination of these two factors, different types of USPs can be distinguished, as shown in Table 1 below.

Table 1.

Type of USP	Characteristics
Fully unidentified: both the activity and the location are not determined	These are the most flexible type of activities as they will be identified and selected during implementation. These are also the type of the USPs with the highest risk of not complying with the ESP and/or GP.
Fully unidentified, within fixed framework	Similar to fully unidentified USPs, but within a framework that determines which kind of activities are allowed or acceptable locations. The framework usually includes eligibility or exclusion criteria for types of activities or locations that are often based on considerations for ESP and GP compliance.
Partially unidentified: specific activity identified, location to be determined	The inherent risks of the activities are already known so that much of ESP and GP compliance determination can be done during project formulation. Compliance with ESP and GP may be much less demanding as tailored tools for risks identification and management can be designed during project/programme formulation.
Partially unidentified: specific location identified, activity to be determined	The environmental and social settings for the activities are already known, permitting much GP and ESP compliance work to be done during project formulation; ability to select the most suitable activity for each location, and to build capacity or carry out other preparatory activities prior to final location selection.
Mix of USP types	Different types of USPs may be included in a project/programme. Depending on the mix, this could have all the disadvantages of the fully unidentified USP type.
Fully identified activity ¹	Both the location and the nature of the activity are determined so that environmental and social risks can be fully identified.

¹ This is not a USP type but included here as reference

11. The use of USPs in a project/programme increases the overall risk of unwanted negative environmental and social impacts. The challenges for an IE to meet the ESP and GP requirements increase considerably with the use of USPs. Compared to projects/programmes without USPs, the funding approval of projects/programmes with USPs tends to take considerably longer because of the challenge posed to meet the additional safeguard requirements to ensure comprehensive and adequate compliance with the ESP and the GP during project implementation.

Requirements for the use of USPs

12. As a principle, all environmental and social risks should be identified by the time of submission of a project/programme proposal. Project/programme activities should be sufficiently formulated for this to be possible. USPs should be avoided whenever possible.

13. When such risks identification is not possible because some project/programme activities have not been sufficiently formulated, these activities may be included as USPs, if certain conditions are met:

a) Justification

14. The use of USPs in a project or programme needs to be duly justified. A justification for the proposed use of USPs needs to be included in a project/programme proposal. The justification (i) needs to provide the reasons why an activity cannot be formulated at the design stage and (ii) must describe the specific benefits of not formulating an activity at that stage. It should further (iii) explain how these benefits outweigh the increased risk on non-compliance with the ESP and GP.

15. All Adaptation Fund funded projects/programmes need to go through an extensive process of consultations during the design stage. Stakeholder identification and consultations of stakeholders are a normal part of all projects/programmes formulations and are not sufficient justification for the use of USPs.

b) Permissible types of USPs

16. Based on the type of USP, some activities cannot be allowed as USP. USPs that are fully unidentified – for which both the nature of the activity and the environmental and social setting in which the activity will take place are unknown – must not be included in a project/programme as USP.

17. A notable exception to this rule would apply to some types of innovation project. This is due to the inherent/structural differences in the definition and design of some innovation projects, specifically those for which the emphasis is on designing and implementing a *process*, rather than on achieving a defined set of outputs.

c) Environmental and Social Management Plan

18. Projects/programmes with environmental and social risks may need to implement measures to avoid, minimize, mitigate or otherwise manage these risks. This means that an Environmental and Social Management Plan (ESMP) needs to be prepared and included in a project/programme proposal. An ESMP describes the risks that have been identified, the negative impacts that are expected and the measures that are needed to manage or avoid those negative impacts. An ESMP needs to be a real plan, so must also include information on who will be responsible for the implementation of the ESMP, who will have which role, how the management activities will be funded, and what information will be collected to monitor the implementation of the ESMP and report on it accordingly.

19. Under the access modality of the Fund, the IE is accountable for all environmental and social damage caused by a project or programme it implements. In practice, most risks of negative impacts exist with the execution of project/programme activities, for which executing entities (EEs) are responsible. The role of the IE is to supervise and monitor the EEs in their execution of project/programme activities. The EEs are the ones that will have to apply most of the management measures included in an ESMP, and it is the role of the IE to ensure that the EEs do so, that they have the capacity to do this well (both in human resources and in operational capacity) and that they are committed to avoid unwanted negative impacts.

20. An ESMP needs to explain how the IE will supervise the EEs and ensure they have the required capacity.

21. For the allowed and justified USPs, a proposal needs to ensure through the ESMP that the USPs will go through the same risks identification process and subsequent safeguards steps as the fully formulated activities that are included in a project or programme proposal, including consultation.

22. This needs to be achieved by developing an ESMP for the project/programme, or by expanding the ESMP already prepared for the fully formulated activities with environmental and/or social risks. For the fully identified activities, the environmental and social risks need to be identified before submission of the proposal, and any management measures should be included in an ESMP.

Implications of the use of USPs

a) During project/programme formulation

23. ESP and GP are project or programme design tools. USPs diminish or exclude this function during project or programme design.

24. Using USPs increases the amount of work and the resources needed during implementation to ensure compliance with the ESP and GP.

25. Using USPs in a project/programme has consequences for a number of elements of its formulation. Already during preparation of the proposal, some information will not yet be available, e.g. on vulnerable groups involved or the gender composition of the target population. This should be taken into account when preparing a proposal and be reflected where needed.

26. The use of USPs affects not only the ability to demonstrate compliance with the ESP and GP. Other essential elements of a project or programme proposal are also affected, to a varying degree. Specifically, this involves the demonstration of cost-effectiveness of the proposal; demonstrating economic, social and environmental benefits, particularly to vulnerable communities; showing consistency with national policies and plans; demonstrating the justification of the financing based on the full cost of adaptation reasoning; and demonstrating sustainability of project/programme outcomes. These elements need to acknowledge the uncertainties associated with any USPs and explain how the funding requirements are met regardless.

27. Monitoring and evaluation (M&E) arrangements and alignment with the Fund's results framework need to describe how any USPs will be accounted for. The budgeted M&E plans and sex-disaggregated data, targets and indicators need to acknowledge the uncertainties associated with any USPs and explain how the funding requirements are met regardless. The same applies to the realistic, quantified expected results with indicators and targets that are gender responsive and disaggregated by sex as appropriate for the results framework.

28. A grievance mechanism is an element of all projects/programmes. For those with USPs, the design of the grievance mechanism needs to be adequate to accommodate grievances from the whole range of possible USPs. It also needs provisions so that it will also be known to stakeholders involved in USPs and able to receive complaints related to the USPs. The ESMP may need to include specific provisions to publicize the grievance mechanism.

29. The environmental and social risks reported in a proposal for a project/programme with USPs may only include those risks associated with the project/programme's already fully identified activities. The risks associated with the USPs – by definition – are unknown at this stage and should not be included.

30. Depending on the number of USPs, their complexity and scale, and the sensitivity of the environments and social settings in which they will take place, the effort to comply with the ESP may be substantial and may require allocation of funds for this purpose. Such budgetary provisions should be adequate to cover the worst-case scenario as would become apparent from the ESP compliance work during project formulation. In addition to identifying ESP risks, budgetary provisions should be made for impact assessments and the identification of avoidance, mitigation or management measures as required. The annotated budget should show how the budget allocated to this purpose is adequate. Contingency provisions may be needed as well. The budget allocations should take into account, for each USP, which entity is responsible for the risks identification and any subsequent safeguards work.

b) During project/programme implementation

31. The review process of USPs during project/programme implementation follows the same steps as those specified in the ESP for activities that are formulated prior to submission: (1) identification of environmental and social risks according to the 15 ESP principles following an evidence-based and comprehensive process; (2) commensurate assessment of anticipated impacts for those risks that have been identified; (3) the identification of adequate measures to avoid, minimise or manage such impacts; (4) a plan to apply and implement these measures. Consultation and gender considerations are essential elements of this process.

32. The review process should be included in the ESMP. The outcomes of the risks identification and any impact assessments for the USPs, as well as any subsequent management measures, must be included in the ESMP so that it contains at all times the most recent and relevant information, including that of any identified USPs. For this purpose, it is recommended that the ESMP for the project/programme is written in a way suitable to be also used as a stand-alone document.

33. Compliance with the relevant and applicable national regulations is a requirement under the Fund's ESP. During formulation of a USP, these need to be identified and the subsequent requirements need to be met. Usually, this relates to national processes of environmental and social safeguarding as well as national standards or codes that may apply.

34. For each USP, records will be kept of the ESP and GP compliance process. Evidence of consultation of affected stakeholders on the ESP and GP findings should be included.

c) Monitoring and reporting

35. The presence of USPs in an approved project or programme needs to be reported in the Project Progress Report (PPR).

36. The annual PPR needs to report (i) which USPs have been further identified during the year reported on; (ii) if the ESMP has been applied to those USPs; (iii) all the environmental and social risks that have been identified for each of the USPs formulated; (iv) whether an impact assessment been carried out for each ESP risk that has been identified for the USP; (v) if adequate consultation has been held during risks and impacts identification for the USP; (vi) whether the data used to identify risks and impacts had been disaggregated by gender as required; (vii) the environmental and social safeguard measures (avoidance, mitigation, management) that have been identified for each USP; and (viii) the monitoring indicator(s) for each impact identified. The Board secretariat will review the information on USPs contained in each annual PPR, and if necessary, request further information, in the context of ensuring compliance with operational policies and guidelines and the project legal agreement.

37. The final evaluation and – the case being – mid-term evaluation shall expressly include USPs in their terms of reference when these are present in a project/programme. They will evaluate the extent to which the ESMP has been applied to the USPs during implementation of the project and the effectiveness of the process. It will review the extent to which safeguards measures have been integrated in the project/programme ESMP following USP identification, and if this was done comprehensively. It will also review if all project activities – both USPs as those that were fully identified at the time of funding approval – have been subject of a comparable risks identification process and subsequent environmental and social management measures. In this, specific attention will be attributed to the use of gender-disaggregated data and adequate stakeholder consultation throughout. The evaluation will also consider the effectiveness of the implementation of the grievance mechanism and the adequacy with which any complaints were addressed.

Support

38. Implementing entities are encouraged to consult with the Adaptation Fund secretariat on matters related to USPs during project/programme formulation.