Project and Programme Review Committee
Twenty-ninth Meeting
Bonn, Germany (hybrid meeting), 5-6 April 2022

Agenda item 17

ANALYSIS OF THE ISSUES RELATED TO THE USE OF UNIDENTIFIED SUB-PROJECTS

Introduction

1.   At the twenty-eighth meeting of the Project and Programme Review Committee (PPRC), the secretariat of the Fund reported to the PPRC that the recent review cycles had shown that a large proportion of the submitted proposals included unidentified sub-projects (USPs). For many of those proposals, adequate justification for the use of USPs had not been provided.

2.   USPs are currently defined as activities contained in a proposed project or programme, whose nature or the specific environment in which they will take place, or both, may not be known by the time of submission of the proposal, and therefore it is impossible to identify all the environmental and social risks related to them (Document AFB/B.32-33/7, Annex 2).

3.   Proposals with USPs can have benefits especially when designed to enable devolving decision-making in the programming of allocated funds to the national and sub-national levels. Such proposals may contribute to empowering developing country recipients of international climate finance beyond what can be achieved through proposals whose activities are more fully identified in advance, or through the Direct Access modality alone. However, USPs often present an additional layer of complexity when it comes to compliance with the Fund's Environmental and Social Policy (ESP) and Gender Policy (GP). The complexity of designing adequate ESP and GP compliance mechanisms for projects that use USPs, coupled with the lack of adequate justifications for their use, has the potential to, at best, contribute to increase the number of times a proposal undergoes the review and revision process, thus extending the time between first submission and approval. Therefore, it is in the interest of increasing the efficiency and effectiveness of the Fund's processes to ensure upfront that the use of USPs do add value to the particular project/programme as opposed to the alternative (i.e., full identification prior to implementation), and that, in such cases the use of USPs is adequately justified.

4.   In line with this, following the recommendation of the PPRC, the Board decided to request the secretariat to analyse the issues related to the use of unidentified sub-projects and present the findings to the PPRC at its twenty-ninth meeting (Decision B.37/1).

5.   The secretariat has carried out an analysis of all fully-developed proposals submitted to the 24th meeting of the PPRC (March 2019) up to those considered during the 28-29th intersessional meeting of the PPRC (March 2022). All proposals were considered irrespective of their final approval outcome. Only proposals submitted as part of the regular funding window and those submitted through the pilot programme for regional projects/programmes were included. The details of the analysis and its results are available in Annex 1.

6.   In order to determine whether a proposal included USPs (regardless of whether they were correctly labelled as such in the proposal itself), several approaches were used to determine if a proposal included USPs, including based on the components table, the detailed description of the activities and an additional assessment based on other elements from the proposal as relevant. For those proposals with USPs the justification for their use was checked. These proposals were also examined for whether an Environmental and Social Management Plan (ESMP) was included and, when so, whether it included a process for handling USPs during implementation.

7.   Two aspects of the project/programme proposal review sheets were considered in the analysis. First it was determined whether actual USPs in the initial submission had been identified as such. Regardless of the outcome of that determination, any subsequent clarification requests (CRs) or corrective action requests (CARs) related to USPs were also reviewed.

Findings

8.   The review resulted in 88 proposals being included in the analysis. The proposals were submitted by 6 NIEs, 5 RIEs and 7 MIEs.

9.   The actual use of USPs in project/programme proposals has been widespread throughout the study period. There does appear to be a tendency in the last five PPRC review cycles of a growing share of proposals with USPs. For only around 20 per cent of the proposals it was ascertained that there were no USPs involved.

10.   Most USPs encountered are those that are not fully unidentified but within a fixed framework that – sometimes to a very high degree – limits the possible activities and possible locations. Almost no USPs involve activities for which the environmental and social setting is determined but that are otherwise fully open.

11.   Overall identifying and/or acknowledging the use of USPs in proposals did not happen as often as it should have, as a number of proposals submitted did appear to contain unidentified elements that were not specifically identified or treated as USPs. On the other hand, when USPs were identified and/or acknowledged in the proposal, then this was mostly adequately done.

12.   Projects/programmes with USPs seemed to be less likely than a project without them to have submitted an ESMP that complies with the requirements. Only a quarter of the projects identified to include USPs provided an adequate justification for doing so from the outset, including compelling reasons for why full identification of project activities and/or their locations is not possible at the project design stage.

13.   IEs also struggle with the identification of ESP risks for their proposals, and in particular when a project/programme contains USPs, often there are shortcomings to the ESP risk review, and in a number of cases, USPs make up the core of the proposal.

14.   The ESP and GP compliance for projects/programmes with substantive co-financing is further compounded by the use of USPs. On top of the issues inherent to USPs, there is the additional complication of demonstrating comprehensive compliance with the ESP and GP. Depending on the implementation arrangements, it may not be clear in the co-financed project/programme which USP activities are AF-funded or funded by partners, for example.

15.   It is clear from the data collected and the analysis that was carried out that the use of USPs is widespread and not declining over time. There is scope for improvement in the use of USPs at most or all levels, including the justification for their use, the design of adequate arrangements for USPs to comply with AF policies during implementation, compliance with a number of other funding requirements, and the adequacy of the proposals review process. It appears that often USPs are inherent to the project but not acknowledged. Even in the few projects/programmes where USPs are used in line with the guidelines and guidance, compliance with the ESP and GP is potentially weakened, simply by the fact that the

compliance of the sub-projects with the ESP and GP does not undergo a full technical review. The design of the funding application template does not have provisions for USPs which could guide the user to include the necessary elements. Lastly, the guidance should contain greater details to guide the IEs on how to provide adequate information on USPs, including justification for their use, as well as to design an effective process for identifying and managing ESP risks during implementation.

16.   At the same time, most USPs in the proposals appear to be at least partially identifiable, which facilitates the design and implementation of management measures in the form of ESMPs for the USPs. On the other hand, the ESMPs that should provide the process for ESP and GP compliance for the USPs during implementation, are inadequate or lacking in almost 90 per cent of the cases.

17.   PFGs seem to lead to a significant reduction in the use of USPs in the proposals whose preparation was supported by them.

Recommendation

18.   The PPRC may wish, having considered document AFB/PPRC.29/42, to recommend to the Board to:

(a) Request 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 and to present it for consideration by the PPRC at its twenty-eighth meeting;

(b) Encourage implementing entities to consult with the secretariat on matters related to USPs during project/programme formulation.

Annex I: Analysis of the issues related to the use of unidentified sub-projects

Introduction

At the twenty-eighth meeting of the Project and Programme Review Committee (PPRC) of the Adaptation Fund (AF), the secretariat of the Fund reported to the PPRC that the recent review cycles had shown that a large proportion of the submitted proposals included unidentified sub-projects (USPs). For many of those proposals, adequate justification for the use of USPs had not been provided and they appeared to be part of the original project/programme design. USPs present additional challenges for compliance with the Fund's Environmental and Social Policy (ESP) and Gender Policy (GP). The complexity of designing adequate ESP and GP compliance mechanisms for projects that use USPs, coupled with the lack of adequate justifications for their use, can, inter alia, contribute to prolonging the review and revision process of the proposals. Therefore, it is in the interest of increasing the efficiency and effectiveness of the Fund's processes that the unnecessary use of USPs is minimized from the outset, and that, when the use of USPs is required, it is adequately justified. In line with this, the Board, following the recommendation of the PPRC, took the decision to request the secretariat to analyse the issues related to the use of unidentified sub-projects and present the findings to the PPRC at its twenty-ninth meeting (Decision B.37/1).

Background on the use of USPs in AF projects/programmes

All activities funded by the AF are required to comply with the applicable policies and guidelines of the Fund. This applies to the proposals submitted through the regular programme as well as those under the Pilot Programme for Regional Projects and Programmes, the Enhanced Direct Access funding window and the Innovation facility. USPs may have a direct impact on such compliance. USPs were not a project/programme modality by purposeful design but their conceptualisation was the outcome of issues identified during the review of funding applications, which came to the forefront with the adoption of the ESP in 2013. Since then, the issue has been addressed also as part of a larger effort to further improve project formulation, and relevant guidance has been developed and capacity built with all partners in the project cycle.

The adoption of the ESP in November 2013 added or made explicit a number of requirements for projects/programmes submitted for AF funding, including the following:

> "*8. The policy requires that all projects/programmes be screened for their environmental and social impacts, that those impacts be identified, and that the proposed project/programme be categorized according to its potential environmental and social impacts.*",

> "*28. (…) The screening process shall consider all potential direct, indirect, transboundary, and cumulative impacts in the project's/programme's area of influence that could result from the proposed project/programme.*",

> "*29. (…) The results of the environmental screening shall be included in the project/programme proposal initially submitted by the implementing entity to the Adaptation Fund Board secretariat (the secretariat).*" and

> "*33. Implementing entities shall identify stakeholders and involve them as early as possible in planning any project/programme supported by the Fund. The results of the environmental and social screening and a draft environmental and social assessment, including any proposed management plan, shall be made available for public*

consultations that are timely, effective, inclusive, and held free of coercion and in an appropriate way for communities that are directly affected by the proposed project/programme."

(OPG Annex 3).

The GP (approved in March 2016, updated in March 2021) also added or made explicit a further number of requirements for projects/programmes submitted for AF funding, including:

"*Comprehensiveness in scope and coverage*

14. The Fund applies its gender policy to all its adaptation activities irrespective of project/programme size or focus, whether implemented by multilateral, regional or national implementing entities accredited to the Fund.

15. The policy will be implemented throughout the Fund's operational processes with guidelines to be issued by the Secretariat for the benefit of the Fund's external partners, Designated Authorities (DAs) and Implementing Entities (IEs).

16. Fund IEs will be required to undertake an initial project/programme-specific gender assessment with a view to establishing a gender baseline, describing gender differences, analyzing gender-differentiated impacts and risks as per the ESP process ("do no harm"), and to detailing opportunities to pro-actively address gender gaps given their intersectionalities as well as to promote the empowerment of women and girls for the proposed activity ("do good"). Fund IEs will articulate corresponding gender-responsive measures addressing differential gender needs, equitable participation and equitable distribution of benefits, resources and rights as part of the overall project/programme, ideally as a project/progamme-specific gender action plan; (…)"

(OPG Annex 4).

Both the ESP and the GP emphasize their universal and comprehensive applicability to all project/programme activities financed by the Fund. Neither the ESP nor the GP have provisions for projects/programmes where comprehensive risks identification has not been possible or has not been carried out by the time such a proposal is submitted. As such, this is a ground for not approving an application for project/programme funding.

Part of the rationale for requiring that all ESP-related risks be identified for all project/programme activities by the time of submission is to ensure that all funding requests are treated equally and fairly in terms of ESP compliance.

In some particular cases, not all project/programme activities can be identified by the time of submission of the funding application. Instead, this can only be done at a later stage during implementation. Examples of such projects/programmes may include activities that are critically dependent for their formulation on the outcome of other, preceding activities of the same project/programme and that can only be fully formulated on the basis of these prior achievements. This is for instance the case for projects/programmes that include a grants facility, where applications for funding of (small) activities will be invited during implementation, within objectives and an operational framework that are clearly defined in the project/programme proposal. The establishment of the grants facility, with the required capacity building, including development of rules, is a pre-condition for the formulation of the activities it will fund. In such cases, it may be impossible to identify by the time of submission all the environmental and social risks associated with these grant activities since the nature of the activities or the specific environment and social setting in which they will take place, or both, may not be known or not known for all. This also applies especially, for example, to the programming under the Enhanced Direct Access (EDA) window. Other examples are projects/programmes that will pilot a number of innovative adaptation activities, select the most

successful ones and then roll out a larger number of investments based on the outcome of the pilot activities, and therefore, this also has special implications on the programming under the innovation funding windows of the Fund.

In 2015 the secretariat developed a guidance document[1] to assist implementing entities in complying with the ESP. The guidance document was posted on the website of the Fund and circulated to the designated authorities, the Board members and the implementing entities (IEs). The document included guidance to IEs on reviewing compliance of project/programme proposals with the ESP through their environmental and social management system (ESMS) and included guidance on activities/sub-projects which could be unidentified at the time of proposal submission, as follows:

> "*For projects/programmes with activities/sub-projects unidentified at the time of submitting a proposal for funding, the IE will develop an ESMS for the project/programme and describe it with details in the proposal. In such cases, the project/programme ESMS will contain a process for identifying environmental and social risks for the unidentified activities/sub-projects and, when needed, the development of commensurate environmental and social management elements that will complement and be integrated in the overall ESMP. The project/programme ESMS will specify any other related procedures, roles, and responsibilities.*" (op. cit., p. 3)

As the ESP and the GP themselves do not include USP-specific provisions, the Board decided in March 2019 to adopt additional guidance for implementing entities to comply with the ESP and the GP during the formulation and implementation of projects and programmes that include USPs:

> "*b) Approve the guidance document for implementing entities to comply with the ESP and the GP during the formulation and implementation of projects and programmes including unidentified sub-projects, as presented in Annex 2 of document AFB/B.32-33/7;*"

(Decision B.32-33/17)

Annex 2 of document AFB/B.32-33/7 specifies that the ESP requires that environmental and social risks associated with all the activities that will be undertaken by a project/programme have been identified at the time of submission of the proposal. This either assumes that all project/programme activities have been identified and formulated at that time to the extent that effective identification of all environmental and social risks is possible, or, alternatively, implies that environmental and social risk identification will be completed once all project/programme activities have been identified. There are cases where it is impossible to identify by the time of submission of a proposal all the environmental and social risks associated with the proposed activities because:

> "*the nature of the activities or the specific environment in which they will take place, or both, may not be known. Such activities are referred to as Unidentified Sub-Projects (USPs).*"

(Annex 2, AFB/B.32-33/7).

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[1] Updated in 2016: https://www.adaptation-fund.org/wp-content/uploads/2016/07/ESP-Guidance_Revised-in-June-2016_Guidance-document-for-Implementing-Entities-on-compliance-with-the-Adaptation-Fund-Environmental-and-Social-Policy.pdf

The related guidance for implementing entities to comply with the ESP and GP during the formulation and implementation of projects and programmes including USPs was included in Annex 2 to AFB/B.32-33/7.

The guidance to IEs included measures to limit and avoid any unjustified use of USPs as well as a process to ensure that USPs would be the subject of an equally rigorous and effective process of risks identification in line with the ESP, but which would be performed during implementation of a project/programme instead of as part of project/programme development. Projects/programmes with USPs must include a justification as to why these activities cannot or should not be identified prior to submission of the funding application. In all other cases, identifying project/programme activities to the extent that adequate and comprehensive ESP risks identification is possible is considered to be a part of project/programme formulation. Compliance with ESP and GP for USPs needs to be achieved through a mandatory Environmental and Social Management Plan (ESMP). This shall include a detailed description of the process that will be applied during project implementation to ensure ESP and GP compliance for the USPs equivalent to that which is required for applications containing fully-identified activities.

While the guidance provides key principles and requirements, it does not provide specific details such as examples of justifications or benchmarks as to why these activities cannot be identified prior to submission of the funding application or cases where USP are not justified and the reasons for that. Similarly, no examples of ESMP for USPs is provided within the guidance, or details for the specific ESMP funding and capacity requirements that are needed for proposals with USPs. More detailed guidance is difficult to provide given the potential variety of USPs, and depending on their number, complexity and scale, and the sensitivity of the environments and social settings in which they will take place. Therefore, the assessment of USPs, their justification and level of compliance with ESMP still carries a high degree of subjectivity and is the source of high level of inconsistencies and challenges both for the IEs and the reviewers.

USPs are currently defined as activities for which it is impossible to identify, by the time of submission of a proposal, all the environmental and social risks because the nature of the activities or the specific environment in which they will take place, or both, may not be known (Annex 2, AFB/B.32-33/7). From an operational perspective, this definition is adequate in that it also covers the other issues related to the use of USPs.

Rationale for USP use

In most cases, use of USPs in projects/programmes is directly related to the extent to which the formulation of the proposed project/programme is complete[2] as indicated by OPG Annex 5. This includes among others the requirement that "The screening process shall consider all potential direct, indirect, transboundary, and cumulative impacts and risks that could result from the proposed project/programme." This is consistent with the ESP requirements that "all environmental and social risks shall be adequately identified and assessed by the implementing entity in an open and transparent manner with appropriate consultation" (p. 3, OPG Annex 3) and that "As a general rule, the environmental and social assessment shall be completed before the project/programme proposal submission to the Adaptation Fund" (op. cit., p. 7).

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[2] "Please note that a project/programme must be fully prepared (i.e., fully appraised for feasibility) when the request is submitted." (Annex 5 to OPG Amended in October 2017)

Fully formulated proposals with acknowledged USPs are typically projects/programmes that have identified specific benefits of a USP approach and that have considered how in that case the funding requirements for AF proposals can be met. This often has a rationale not dissimilar to the EDA window (B.35.b/10), that aims to empower 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. As such those fully formulated projects/programmes with acknowledged USPs complement the EDA window.

	Project/programme formulation complete	Project/programme formulation incomplete
USPs acknowledged	🟩	🟧
USPs not acknowledged	🟧	🟥

Figure 1. Proposal approval and implementation risks of projects/programmes with USPs

Project/programme proposals that have not been fully formulated despite the absence of insurmountable obstacles or particular benefits of doing so, sometimes include and acknowledge USPs as a method to complete formulation of the proposal during implementation. Existing and perceived capacity gaps that preclude the full formulation of the project/programme are cited as justification for a USPs approach.

Fully identified projects/programmes may also include USPs without acknowledging those as such. This may be the case e.g. for projects/programmes with a grants facility with a narrowly defined scope for allocation of the grants. Typically, those projects/programmes lack the required implementation arrangements to comply with the ESP and GP for the USPs.

Proposals for projects/programmes that are not fully identified and that do not acknowledge USPs are typically those likely to have the greatest proposal approval and implementation risks, meaning that they potentially can either take longer to reach approval, or be approved despite omissions, potentially leading to actual implementation risks.

Overview and analysis of issues related to use of USPs

Projects/programmes with USPs always carry higher risks not only during implementation, but also, as mentioned, for the review and approval process.

The compliance with the ESP and GP at the time of project/programme approval is one of the challenges. This may be because the inherent environmental and social risks of the unidentified activities cannot be determined at an appropriate scale of detail or specificity and robustness. Equally, the specific environmental and social setting may by unknown or not sufficiently specific to be meaningful and adequate. In terms of GP compliance, it may be difficult or impossible to undertake a gender assessment for a USP.

Other challenges include demonstrating that the USPs are concrete adaptation activities and how these activities contribute to climate resilience. Demonstrating cost-effectiveness and consistency with national strategies and policies, meeting relevant national technical standards, avoiding duplication with other funding sources, effective and adequate consultation of stakeholders and beneficiaries, applying the full cost of adaptation reasoning, demonstrating sustainability of the project/programme outcomes all may become incomplete, inadequate, uncertain or otherwise problematic. Similarly, implementation arrangements may become less effective as the results framework for the project proposal – including milestones, targets and indicators – may be incomplete.

Most other aspects of a project/programme proposal, such as alignment with the Results Framework of the Adaptation Fund or the disbursement schedule with time-bound milestones may not be affected as these aspects are generally determined at a level higher than that of activities. Learning and knowledge management to capture and disseminate lessons learned are also usually little or not affected.

Compared to projects/programmes without USPs, the funding approval of projects/programmes with USPs can take considerably longer. In addition to what has been stated above, this can be the case because of the challenge posed to IEs to meet the additional safeguard requirements to ensure comprehensive and adequate compliance with the ESP and GP during project implementation. Whilst the same standards apply to all AF-funded projects/programmes, the burden on the IE to demonstrate ESP and GP compliance for projects/programmes with USPs can be considerable.

Table 1 provides an overview of a number of types of USPs based on the extent to which the related activities are unidentified. These types range from fully unidentified – with the nature of the activity and the environment or social setting undetermined beyond the overall project/programme framework – to fully identified activities included here only for comparison. In between, USPs may be fully unidentified but within a fixed framework that severely narrows their scope and possible location. Such frameworks are often designed to a priori exclude a number of possible USPs to avoid certain risks or levels of risk. Other USP types are those where only one of the two conditions for ESP risk identification is undetermined, i.e. either the nature of the activity or the specific location and social setting, but not both. A final type of USP is considered not at the level of specific activities but at that of the project/programme as a whole, where a mix of other USP types may be included. For each type, the potential benefits of that type are listed, as well as disadvantages and their possible mitigation.

Table 1. Different types of USPs with their benefits, disadvantages and possible mitigation

Type of USP	Benefits	Disadvantages	Possible mitigation
Fully unidentified	Opportunities for enhanced direct access, local ownership, for USPs identification based on initial project/programme outputs, opportunities for tailored adaptive management, limited investment and expertise requirements for formulation	Compliance with ESP and GP dependent on IE performance implementing project/programme ESMP	Limited under the direct access modality with little direct involvement in implementation by the secretariat, and limited to no opportunities to monitor in a way permitting corrective guiding actions
		Incomplete information for other funding requirements (cost-	None

Type of USP	Benefits	Disadvantages	Possible mitigation
		effectiveness, indicators, etc.)	
		Proposal requires performant ESMP, typically delaying approval	Capacity building with IEs on the use of USPs and design and implementation of ESMPs, and on the use of ESP and GP as project/programme design tools

Development and use of an ESMP template |
| | | Larger and more important role for Executing Entities (EEs), that are not accredited and have not demonstrated capacity and commitment to comply with AF ESP and GP | Selection and capacity building of EEs |
| Fully unidentified within fixed framework | Similar to those of fully unidentified type but all with a reduced scope, making management easier and facilitating the use of tailored tools | Similar to those of fully unidentified type but much easier to manage and comply with ESP and GP. The framework usually includes exclusion criteria for types of activities or locations that are often based on considerations for ESP and GP compliance.

Compliance with ESP and GP still dependent on IE performance implementing project/programme ESMP but this may be much simpler. The fixed framework needs to be well designed based on ESP and GP principles | Capacity building with IEs on the use of USPs and design and implementation of ESMPs, and on the use of ESP and GP as project/programme design tools

Implementation of ESMPs

Capacity building on designing a fixed framework for USPs

Development and use of an ESMP template |

Type of USP	Benefits	Disadvantages	Possible mitigation
Specific activity identified, location to be determined	The inherent risks of the activities are already known, permitting much of ESP compliance work to be done during project formulation; ability to select most suited activity for each possible location, to select suitable locations for certain activities, and to build capacity or carry out other preparatory activities prior to final location selection. Other funding requirements, in particular cost-effectiveness, are easier to meet.	The scope of the selected activities may be too narrow to find a matching location.

Compliance with ESP and GP still dependent on IE performance implementing project/programme ESMP but this may be much simpler. | Capacity building with IEs on the use of USPs and design and implementation of ESMPs, and on the use of ESP and GP as project/programme design tools.

Development and use of an ESMP template |
| 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. Other funding requirements, in particular indicators, are easier to meet. | The scope of the selected locations may be too narrow to find a matching activity.

Compliance with ESP and GP still dependent on IE performance implementing project/programme ESMP but this may be much simpler. | Capacity building with IEs on the use of USPs and design and implementation of ESMPs, and on the use of ESP and GP as project/programme design tools

Development and use of an ESMP template |
| Mix of USP types | As above, depending on the mix, with increased flexibility but without some of the disadvantages of the fully unidentified type | | |
| Fully identified activity | Compliance with ESP and GP used as project/programme design tool, risks identification process and findings subject | Requires purposeful and specific use of ESP and GP as project design tools | - |

Type of USP	Benefits	Disadvantages	Possible mitigation
	to consultation, compliance review by AFB Secretariat and PPRC		

Experience and current practice of projects/programmes with USPs

Methods

An analysis of all fully-developed proposals submitted to the 24th meeting of the PPRC (March 2019) up to those considered during the 28-29th intersessional meeting of the PPRC (March 2022) was undertaken. To avoid duplication only their first and final submissions – as far as received within this period - were included and only the latest version used in the analysis. All proposals were considered irrespective of their final approval outcome. The proposal documents used were those of the final submissions to the technical review. The review reports that were used were those of the final technical review. The analysis was based on the PPRC Document for each proposal as posted on the AF website. Only proposals submitted as part of the regular funding window and those submitted through the pilot programme for regional projects/programmes were included. The PPRC Documents were used as unique identifier for each submission.

To determine if a proposal included USPs, a couple of different approaches were used. The reviewed proposals were searched for the terms "USP" and "unidentified" and "sub-project", and the outcome of that search was recorded as 'mentioned' or 'not mentioned' in the proposal. The components table of the proposal was reviewed and based on the information presented it was determined if USPs were certain, likely or absent from the proposal. Where necessary to clarify the information in the components table a further rapid consultation was done of the detailed description of the project/programme activities. The safeguards consultant of the secretariat used that information, complemented with other elements from the whole proposal as relevant, to make an additional assessment on the presence of USPs in a proposal.

For those projects considered likely or certain to contain USPs, the type of USPs was determined based on the description provided in **Table** *1*.

Section II.K (II.L for regional projects/programmes) of the proposals – with an overview of the environmental and social impacts and risks identified as being relevant to the project/programme – was reviewed to determine if USPs were acknowledged in those cases where the proposal was found to include USPs. In addition, for those proposals it was determined if USPs had been included in the risks identification, which would not be appropriate given the nature of USPs.

For those proposals with USPs the justification for the use of USPs was checked. The findings were recorded as 'no justification', 'justification included but inadequate' and 'justified'. Also for these proposals was determined if an ESMP was included and when so that included a process for USPs. The adequacy of the process was determined, the case being.

Two aspects of the review sheets were considered in the analysis. First it was determined whether actual USPs in a proposal had been identified as such. Regardless of the outcome of that determination, any clarification requests (CRs) or corrective action requests (CARs) related to USPs were assessed for adequacy.

Information in the review sheets on the full cost of adaptation reasoning and on mentioned co-financing in the proposals was used to determine if there was co-financing for a project, with a view of assessing any links between a project/programme having co-financing and the use of USPs.

Other information relevant to review process was also collected such as the number of submission, the type of submission process and the type of IE. For those proposals assessed to be including USPs, the value of the project/programme component(s) with the USP activities was recorded.

Results

The review resulted in 88 proposals being included in the analysis. The proposals were submitted by 6 NIEs, 5 RIEs and 7 MIEs. **Figure 2** shows the share of the proposals containing USPs received for each PPRC meeting in the study period.
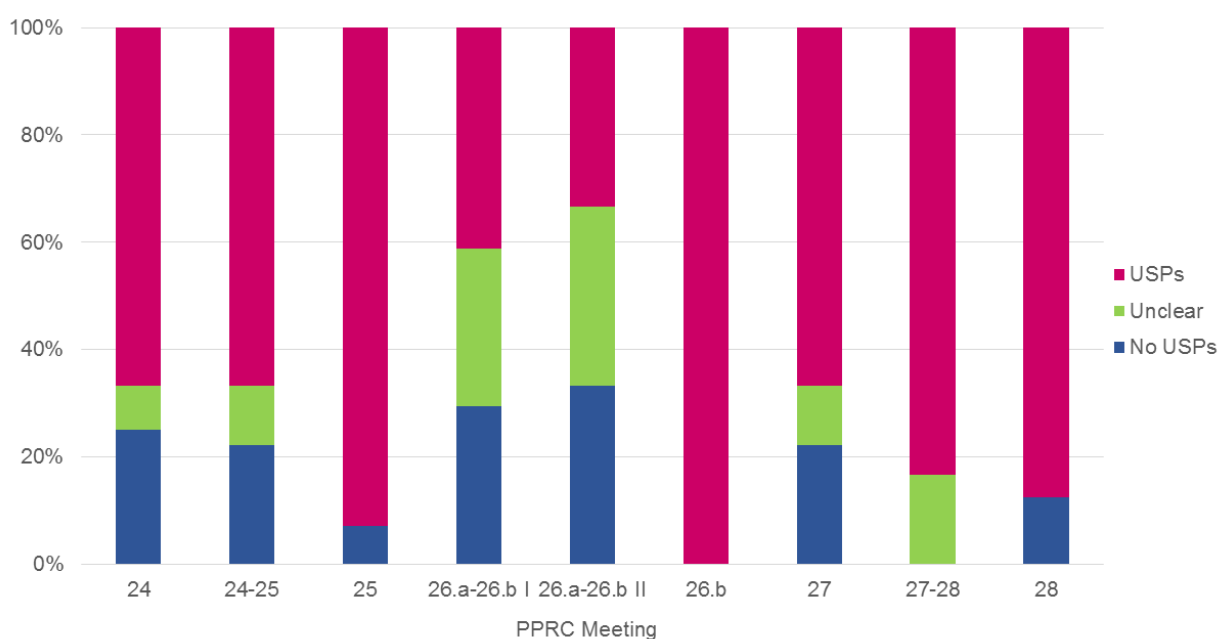
Figure 2. Proposals with USPs as assessed, by PPRC

1. **Types of USPs used**

The typology of USPs described in **Table 1** was used to categorise the USPs used in the proposals analysed. Fully unidentified USPs are almost exclusively used by MIEs and RIEs, with only 2 NIEs submitting a proposal containing fully unidentified USPs.
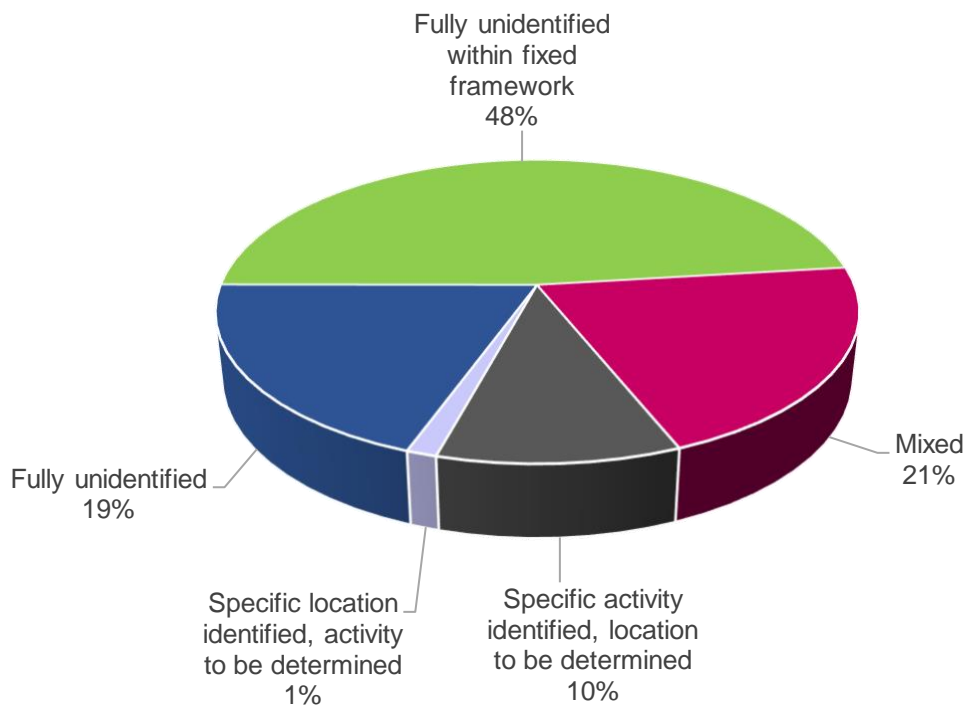
Figure 3. Distribution of USP types3in proposals assessed to have USPs

2. USP identification in proposals

The likelihood of USPs based on the components table of a proposal was compared with the IE's identification of USPs in its proposal. This provides an appreciation for the adequacy of the USP identification in proposals (**Figure 4**).
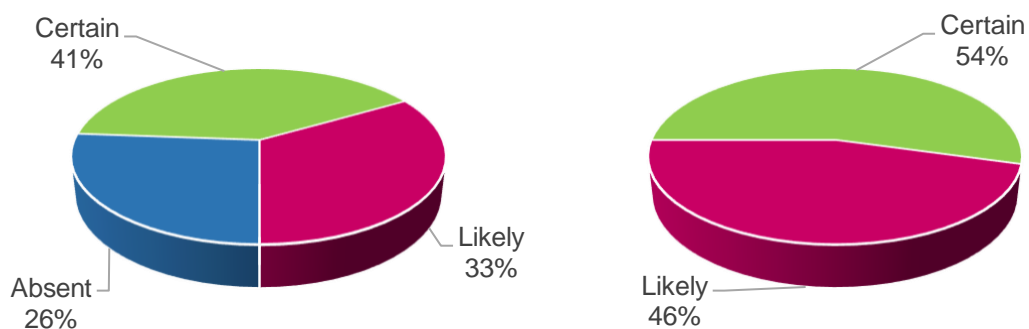

Figure 4. Likelihood of use of USPs based on the components table of the proposal. Left: in case the IE did not mention the use of USPs, right: in case the IE did mention the use of USPs.

The adequacy of an IE's identification of USPs in its proposal was further considered based on a comparison with the likelihood of USPs based on an assessment of the whole proposal (**Figure 5**).

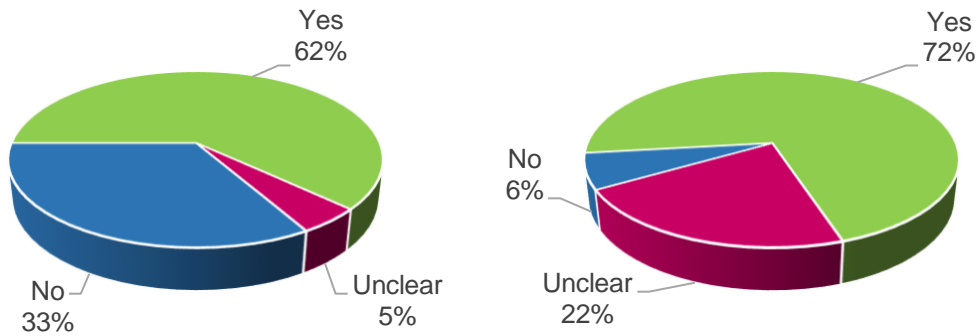[3] Percentages in this section may not add up to 100 due to rounding.

Figure 5. Likelihood of use of USPs based on an assessment of the whole proposal. Left: in case the IE did not mention the use of USPs, right: in case the IE did mention the use of USPs.

3. USP identification in the review process

The information collected also allows to develop an appreciation of the adequacy of the review process of projects/programmes submitted for funding with respect to the use of USPs. Of the 23 proposals that at the same time mentioned "USP" or "unidentified" or "sub-project", and for which it was certain on the basis of the components table, and for which a whole-proposal assessment confirmed the use of USPs, five reviews did not identify or address the use of USPs, despite none of the proposals having an adequate mechanism to deal with USPs. Two other reviews that did address the USP issue did not formulate adequate CRs or CARs.

Of the 17 proposals that did not include a reference to USPs but for which, already based on the components table, it is certain that they include USPs, eight reviews identified that USPs were not acknowledged and those all formulated adequate CRs and CARs. Nine reviews did not identify the USPs issue and no related CRs or CARs were made.

No incorrect identifications of USPs were made in any of the reviews.

4. ESMPs

Of all the proposals submitted in the reviewed period 91 per cent included an ESMP. Of the 59 proposals that were assessed to include USPs, all but 3, or 93 per cent, had an ESMP. Of half of those the USP review process included in the ESMP was unclear or inadequate. 11 per cent of the ESMPs included adequate processes for the identification and management of ESP and GP related issues for the USPs. Nearly four out of ten of the proposals with USPs and with an ESMP did not have such a process for the USPs (**Figure 6**).
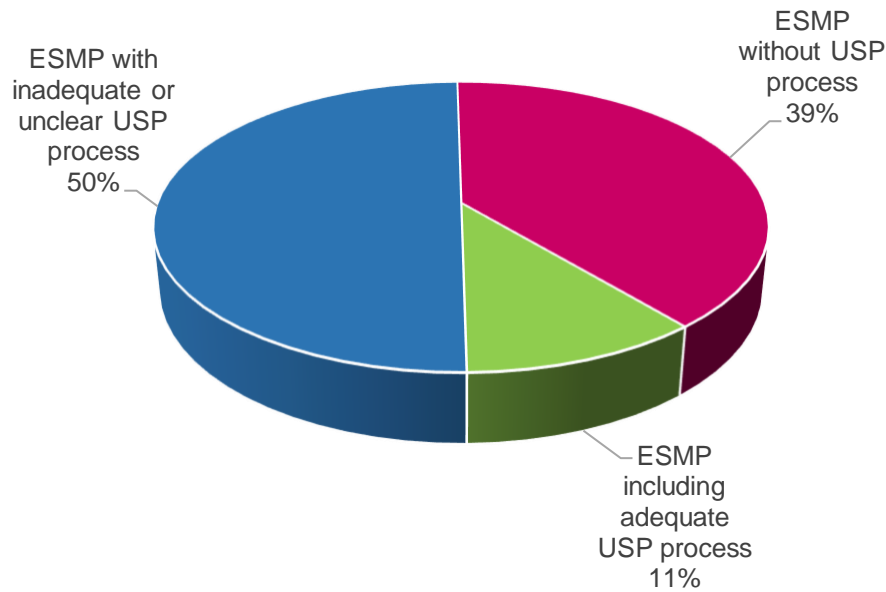
Figure 6. Adequacy of USP process in proposals with USPs and with an ESMP.

5. USPs justification

For the proposals that were assessed to include USPs, the justification – if any – provided for their use was identified and it was determined if the justification was adequate.
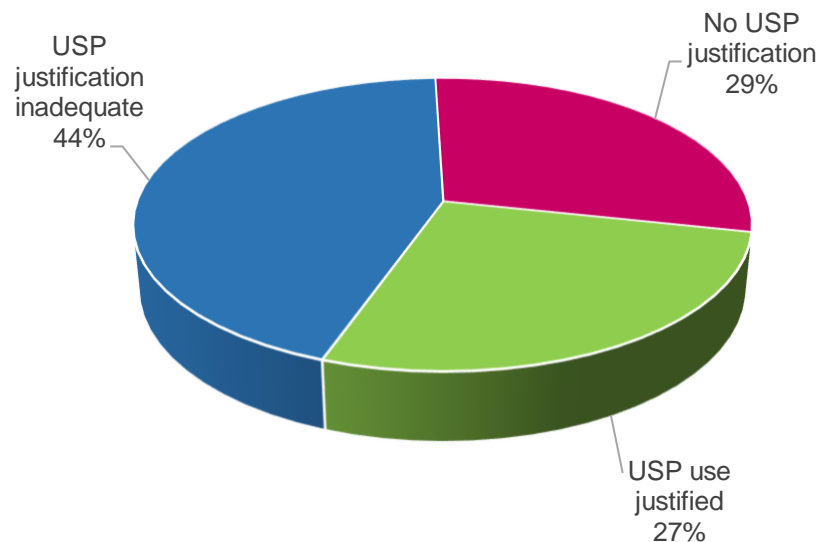

Figure 7. Adequacy of USP use justification in proposals assessed to have USPs.

6. Section II.K / II.L risks identification

IEs are required in their proposals to identify the environmental and social risks associated with the proposed activities. For projects/programmes with USPs, this is by definition not

possible for the USPs, and risks associated with the USPs should not be included in the risks identification presented in section II.K for single-country proposals or section II.L for regional proposals. Of the 59 proposals assessed to have USPs, only 4 had excluded the USPs in the identification of ESP-related risks. For 14 proposals it was unclear if USP-related risks had been included, and for 41 proposals all project activities, including the USPs, had been considered. 28 of the proposals did acknowledge their use of USPs in this section of the proposal document.

7. Proportion of USP-containing component(s) within a project/programme

The proportion of the project/programme component(s) containing USPs was recorded as the percentage of the total project/programme cost (i.e. excluding IE fee cost). In only a few cases was the entire cost of a component allocated to USPs, typically those components include identified activities accompanying or enabling the USPs. Using the cost of the whole project/programme component is thereby overestimating the actual value of the USPs, and an analysis at output or activity level would provide a more accurate valuation. USP components constitute up to 94 per cent of the total project/programme cost, with a mean of 52 per cent. When USPs are used, they usually are not a minor element of a proposal.

8. Co-financing

All nine proposals that included co-financing also included USPs. The same applies to 13 proposals for which it is unclear if there is co-financing.

9. Project Formulation Grants

Where that information was available from the PPRC Documents that were included the review, any award of a Project Formulation Grant (PFG) was recorded. If the information was not available this was recorded as 'unclear'. **Figure *8*** shows the link between the award of a PFG and the relative frequency of the use of USPs as assessed based on the whole proposals.
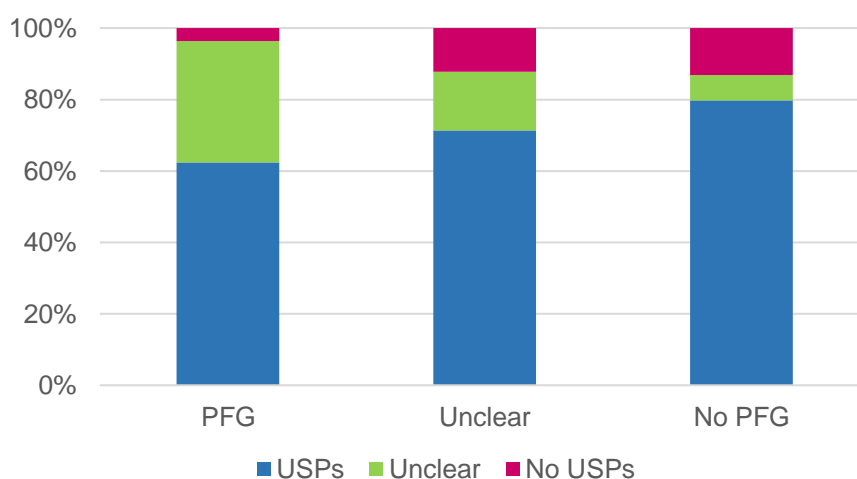

Figure 8. Proposals with assessed USPs by PFG grant award.

Discussion

The actual use of USPs in project/programme proposals has been widespread throughout the study period. There does appear to be a tendency in the last five PPRC review cycles of a growing share of proposals with USPs although the number of proposals is probably too small for solid conclusions. It is also remarkable that the share of proposals for which it can be ascertained that there are no USPs involved is only around 20 per cent.

The use of fully unidentified USPs is overall limited for this type with the greatest compliance challenges. The bulk of USPs used are those that are fully unidentified but within a fixed framework that – sometimes to a very high degree – limits the possible activities and possible locations. Almost no USPs involve activities for which the environmental and social setting is determined but that are otherwise fully open.

The adequacy with which an IE acknowledges USPs in its proposal varies considerably. Of those proposals that did not include any reference to USPs, 74 per cent still was found to have USPs based on their components table and 67 per cent based on a whole-proposal assessment, with a small uncertainty. Overall IEs are highly inadequate in identifying and/or acknowledging the use of USPs in their proposals. On the other hand, when an IE indicates that USPs are included, then both the components table and the whole-proposal assessment confirm that this is frequently adequately done.

Of the 18 proposals for which all indicators for USPs were present, over a quarter of the reviews (five) did not note the use of USPs or formulated related CRs or CARs, despite none of the five proposals involved having an adequate mechanism to deal with USPs. Most inadequate review findings seem related to limited application in the review of the methods for ESP risks identification and a limited querying of statements regarding the fully identified nature of project/programme activities. Probably information outside of specific sections of the proposals dealing with ESP and GP compliance (II.K, II.L, III.C) is not sufficiently taken into account when reviewing proposals.

Projects/programmes with USPs had major difficulties including an ESMP that complies with the requirements. Only one in ten such proposals included an ESMP that also had an adequate process for identifying ESP risks and GP compliance for the USPs. For half of these proposals, the USPs process was inadequate or unclear, and two out of five such proposals did not include a USP process at all in their ESMP.

Only a quarter of the projects identified to include USPs provided an adequate justification for doing so.

IEs also struggle with the identification of ESP risks for their proposals, and in particular when a project/programme contains USPs only few get it right. USPs should not be included in the risks presented in the proposal as that risk identification is not possible, but only 7 per cent of the proposals with USPs did so.

In a number of cases, USPs make up the core of a proposal, with an introductory component (about 10 per cent of project/programme budget) to formulate the USPs component (60 per cent), and a knowledge management and lessons learning component (10 per cent), with the remainder administrative costs.

The ESP and GP compliance for projects/programmes with substantive co-financing is further compounded by the use of USPs. On top of the issues inherent to USPs, there is the additional complication of demonstrating comprehensive compliance with the ESP and GP. Depending on the implementation arrangements, it may not be clear in the co-financed project/programme

which activities are AF-funded or funded by partners and thereby not per se subject to AF requirements.

It is clear from the data collected and the analysis that was carried out that the use of USPs is widespread and may yet be increasing. The practice of the use of USPs is wanting at all levels, including the justification for their use, the design of adequate arrangements for USPs to comply with AF policies during implementation, compliance with a number other funding requirements, and the adequacy of the proposals review process. Too often USPs are concealed or not acknowledged. Even in the few projects/programmes where USPs are used in line with the guidelines and guidance, compliance with the ESP and GP is invariably weakened, just simply by the fact that the compliance process for the USPs does not entail an involvement by the secretariat that typically contributes technically to the soundness of the proposals through the review process. The design of the funding application template does not have provisions for USPs. The guidance that is available in not sufficiently effective.

At the same time, most USPs belong to the type that leaves the least freedom to identify USPs during implementation, which facilitates the design and implementation of management measures for the USPs. On the other hand, the ESMPs that should provide the process for ESP and GP compliance for the USPs during implementation, are inadequate or lacking in almost 90 per cent of the cases. PFG awards seem to lead to a significant reduction in the use of USPs in the beneficiary proposals.

Recommendations/suggestions/options:

Based on the above analysis and findings, the following recommendations, suggestions and policy options could be considered.

1. A checklist should be developed for IEs regarding the use of USPs in a project/programme. It would provide guidance to IEs on identifying the use of USPs, and on the implications of choosing USPs. Such a checklist could address four main topics as follows:

    a. Are there USPs in the proposal? Have all project/programme activities been identified to the point where comprehensive and adequate risks identification is possible as required by the ESP? Have all locations been determined, social and gender contexts assessed specifically for those locations? Have the activities been identified and selected so that all their inherent risks are known?

    b. Is the use of USPs justified? When USPs are considered then the need for their use has to be justified. What is the justification for using the USPs? What are the specific benefits of the USP approach here? What are the alternatives to USPs and their relative benefits?

    c. Have other proposal components been completed with USPs taken into account? Have only fully identified activities been included in the ESP risks identification? How have the USPs been taken into consideration in determining the proposal cost-effectiveness, the full cost of adaptation reasoning, in consultations, in the identification of indicators, in the monitoring and evaluation arrangements etc.?

    d. Is there an Environmental and Social Management Plan? And does the ESMP includes a process for identifying and managing ESP risks during implementation? Is the required capacity present? Has funding been allocated to implement the ESMP? Are

there specific arrangements for the engagement and supervision of the executing entities? Do the executing entities have the required capacity?

2. Fully unidentified USPs should not be permitted, except when within a fixed framework.

3. The requirement for a project/programme with USPs to have and implement a performant ESMP to ensure compliance with the ESP and GP for the USPs remains an ambitious goal that is rarely met. The related capacity building effort with the IEs is acknowledged and should not be abandoned.

4. At the same time, projects with justified USPs should be strengthened during and through the review process, and IEs supported to design the required management and implementation arrangements and strengthen their capacity if needed. In addition, IEs should be formally provided with an opportunity to consult with the secretariat on whether an activity would constitute a USP during project/programme formulation. It could be further effective to provide IEs with the option during implementation to submit identified USPs to the secretariat to be reviewed for ESP and GP compliance, not dissimilar to the practice for material changes to a project/programme.

5. USPs could be required to have risks identified as much as possible before submission of the proposal to reduce the uncertainty associated with implementation of the USPs and complying with the ESP and GP. Effective risks are determined by (i) those inherent to an activity in combination with the (ii) environmental and (iii) social and gender setting in which it will take place. An IE could be required, as a condition beyond and above the required justification to permit USPs, to have identified at least two of those.

6. Further effort should go into establishing and elaborating comprehensive processes and procedures for USPs. The updated version of the PPR does have provisions for that, certainly with respect to ESP and GP compliance, but not for the other characteristics that are subject to the other review criteria.

7. Projects/programmes with USPs should be monitored at a higher frequency than what is currently the case with the PPRs. Currently, there could be 14 months or more between the decision of an IE to proceed with an identified USP and the reporting PPR review by the secretariat.

8. The accreditation criteria could be reviewed to include capabilities required for IEs to adequately implement projects/programmes with USPs.