



ADAPTATION FUND

AFB/PPRC.33/40  
26 March 2024

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Adaptation Fund Board  
Project and Programme Review Committee  
Thirty-third Meeting  
Bonn, Germany, 16-17 April 2024

Agenda item 20)

## **OPTIONS FOR MODIFICATIONS OF PROJECT FORMULATION GRANTS**

## Introduction

1. At its thirty-second meeting, the Project and Programme Review Committee (PPRC) of the Adaptation Fund Board (the Board) considered proposed adjustments on implementation fees and execution costs presented in document AFB/PPRC.32/22. The document highlighted an issue related to project costs that implementing entities (IEs) have brought to the attention of the secretariat, which is the size of project formulation grants. Following the PPRC discussions and based on its recommendations, the Board requested the secretariat to *“Consider, including through a consultative process, changes to the size of the project formulation grants for projects that require enhanced capacity building during the project preparation stage...[and] to report to the PPRC at its thirty-third meeting”* (Decision B.41/20).

2. The current document presents considerations on changes to the size of the project formulations following consultations undertaken by the Secretariat with the IEs, pursuant to the above-mentioned Board decision.

## Background on project formulation grants in the Adaptation Fund

3. The Board at its eleventh meeting discussed the document “Funding for Project Formulation Costs” (AFB/11/6) and agreed that:

- i. *project formulation grants (PFG) should be given once a project concept has been approved*
- ii. *consideration should be given in terms of differentiating between NIEs and MIEs, since some NIEs might have financial difficulties in trying to formulate project or programme proposals;*
- iii. *a flat rate should be given for project formulation costs;*
- iv. *a list of eligible activities and items still needed to be prepared;*
- v. *the grant should be additional to the project cost; and*
- vi. *the fate of funds if the final project document was rejected should be determined.*

4. There was consensus, at that meeting, that a three-tiered system should be considered for project formulation grants: endorse a project concept with a PFG amount, endorse a project concept without a PFG amount, or reject the project concept. Following the discussion, the Board decided:

*“To request the secretariat to reformulate the document, to include a comparison of eligible activities provided by other funds for project formulation grants, to take into account guidance provided by the Board at the present meeting, and to submit the document to the Board at its twelfth meeting, through the EFC. The EFC should review and finalize the process and policy of the project formulation grant focusing, in particular, on: the issue of unspent project funds; the procedures followed by other funds in that regard; and the determination of a flat-rate”. (Decision B.11/18)*

5. A document was prepared by the secretariat in response to the above mandate and presented at the third Ethics and Finance Committee (EFC) meeting, which made specific

recommendations to the Board at its twelfth meeting. Having considered the recommendation of the EFC, the Board, in its Decision B.12/28, decided that:

- (a) *Project Formulation Grants (PFGs) will only be made available for projects submitted through NIEs. The Board would continue reviewing the question of PFGs for projects submitted through MIEs and would solicit comments from members and alternate members by February 14, 2011; the views would be compiled by the secretariat for presentation to the Board at its March 2011 meeting;*
- (b) *If a country required a project formulation grant, a request should be made at the same time as the submission of a project concept to the secretariat. The secretariat will review and forward it to the PPRC for a final recommendation to the Board. A PFG could only be awarded when a project concept was presented and endorsed;*
- (c) *A PFG form, reproduced in Annex V, should be submitted;*
- (d) *Only activities related to country costs would be eligible for PFG funding;*
- (e) *A flat rate of up to US\$30,000 shall be provided, inclusive of the management fee, which cannot exceed 8.5 per cent of the grant amount. The flat fee would be reviewed by the Board at its thirteenth and all subsequent meetings;*
- (f) *If the final project document is rejected, any unused funds shall be returned to the Adaptation Fund Trust Fund;*
- (g) *Once a project/programme formulation grant is disbursed, a fully developed project document should come to the Board for approval within 12 months. No additional grants for project preparation can be received by a country until the fully developed project/programme document has been submitted to the Board; and*
- (h) *The Trustee was instructed to remove the set-aside of US\$100,000 for project preparation that had been decided at the June 2010 meeting, as project preparation would be approved on a project-by-project basis.*

6. The Board, at its twenty-second meeting, in decision B.22/24, approved the document AFB/B.22/6 which included, in the options for the Readiness Programme, grants for Project Formulation Assistance (PFA) which would provide support for project formulation to accredited National Implementing Entities (NIEs) in addition to Project Formulation Grants (PFGs). NIEs that are at the concept development stage of the Fund's project cycle process have the option to request a PFG up to a maximum of US\$30,000 together with their submission of the project concept to the Board. To compliment the PFG and support the undertaking of specialist technical assessments during project preparation and design, the PFA grant is available for each accredited NIE up to a maximum of US\$20,000 per project and can be accessed by submitting a request to the Board through the Adaptation Fund Board Secretariat.

7. When the Board approved the funding window for enhanced direct access (EDA) in 2020 it specified that EDA proposals submitted through the two-step project approval process are eligible for the project formulation grant and project formulation assistance grant as per the approved criteria by the Board for those grants (Decision B.35.b/10);

8. The PPRC in its twenty-eighth meeting discussed issues related to the PFG and PFA, given that their uses can be quite similar, and that PFA-eligible activities are also eligible for funding under PFGs. In addition, some NIEs have expressed that US\$ 30,000 is insufficient to cover all the activities needed during project preparation. Given that the differences between the two types of grants is not very pronounced, the PPRC recommended eliminating PFAs entirely and revising the PFG maximum amount instead, which would help make the process of applying for such grants more streamlined and efficient. Having considered the recommendation of the PPRC, the Board decided to “raise the maximum amount of individual project formulation grants available to national implementing entities to US\$ 50,000, [and] to discontinue project formulation assistance grants for future review cycles”. (Decision B.37/1)

9. PFG for regional projects were determined as the Board, through its Decision B.25/28, approved the pilot programme on regional projects and programmes, as contained in document AFB/B.25/6/Rev.2. The approved document contained provisions for the approval of project formulated grants for regional project and programme proposals, at different development stages, as follows:

*“It is proposed that the Board open a structured call for MIEs and RIEs to submit pre-concepts for regional projects and programmes. The optional pre-concepts would be very brief proposals of maximum 5 pages that would explain the proposed regional adaptation project/programme. The pre-concepts would be screened and technically reviewed by the secretariat, and subsequently reviewed by the PPRC. Together with the pre-concept, the proponent could submit a Phase I PFG request, up to the maximum level of US\$ 20,000. While endorsing the pre-concept, the Board could also approve the Phase I PFG request. The endorsement of the pre-concept would not create an obligation for the Board for later funding. As the next step, the proponent would submit a concept, and with it the proponent could submit a Phase II PFG request. The maximum level of the Phase II PFG would be US\$ 80,000 for proposals that had been previously granted Phase I PFG, and US\$ 100,000 for proposals that bypassed the optional pre-concept stage. While endorsing the concept, the Board could also approve the Phase II PFG request. The endorsement of the concept would not create an obligation for the Board for later funding, as it is the case for the national projects. The final stage of the proposal process would be the submission of the fully-developed regional project document”.*

## **PRACTICES BY OTHER CLIMATE FUNDS ON PROJECT FORMULATION FUNDING**

10. This section presents a survey of practices by other global climate funds to address the cost of project formulation. It reviews the policies of the Global Environment Facility, the Climate Investment Funds (CIFs), and the Green Climate Fund (GCF).

### Global Environment Facility (GEF Trust Fund, LDCF, SCCF)

11. As described in the guidelines on the project and program cycle policy<sup>1</sup>, a Project Preparation Grant (PPG) is the funding provided by the GEF to support preparation of a full-sized

<sup>1</sup>[https://www.thegef.org/sites/default/files/documents/GEF\\_Guidelines\\_Project\\_Program\\_Cycle\\_Policy\\_20200731.pdf](https://www.thegef.org/sites/default/files/documents/GEF_Guidelines_Project_Program_Cycle_Policy_20200731.pdf)

project (FSP) or medium-sized project (MSP). The GEF stipulates that where feasible, PPG could complement other sources of finance for project preparation. Requesting PPG funds is optional.

12. The GEF CEO decides whether to approve the PPG. Requests for PPGs can be submitted as part of the submission of a Project Identification Form (PIF) for both FSPs or for MSPs using a two-step approval process. PPGs can also be requested separately any time before the CEO endorsement submission of FSPs or CEO approval submission of MSPs. In addition, letters of Endorsement (LOEs) are required for PPGs.

13. The amount of PPG that can be requested is proportional to the size of the project (amount of GEF Financing excluding Agency Fee) as follows:

- a. For MSPs (projects below US\$ 2 million) the limit is US\$ 50,000;
- b. For FSPs less than US\$ 3 million, the limit is US\$ 100,000;
- c. For FSPs US\$ 3 million or greater, but less than US\$ 6 million, the limit is US\$ 150,000;
- d. For FSPs US\$ 6 million or greater, but less than US\$ 10 million, the limit is US\$ 200,000; and
- e. For FSPs US\$ 10 million and greater, the limit is US\$ 300,000.
- f. On an exceptional basis, higher PPG amounts may be approved by the CEO, based on the Secretariat's assessment of the justification provided by the GEF Agency.

14. The PPG is included as part of the total GEF resources which is the total amount of funding requested by or provided to a single GEF Project or Program. This amount includes the PPG, the Project Financing, and associated Agency Fees.

### Green Climate Fund

15. The details of the project preparation support offered by the GCF is described in the Project Preparation Facility guidelines<sup>2</sup>. The Project Preparation Facility (PPF) provides support to accredited entities to prepare funding proposals for submission to the Green Climate Fund (GCF). The PPF is designed especially to support Direct Access Entities (DAE) for projects in the micro (<US\$10 million) to small (US\$ 10-50 million) size category, with a view to enhancing the balance and diversity of the GCF project portfolio. However, all AEs (direct access and international) are eligible to apply.

16. The PPF funding modality allows AEs to receive up to US\$ 1.5 million per project or programme from GCF to undertake project preparation activities by themselves. As such, AEs organize the procurement and implementation process directly and are accountable for the oversight and reporting of the approved funding and activities. AEs who request up to US\$ 300,000 from GCF (inclusive of AE fee and project management costs) are eligible for the Simplified PPF Funding, which has a shortened template for quicker preparation and approval.

<sup>2</sup> <https://www.greenclimate.fund/document/project-preparation-facility-guidelines>

On average, the requested value of PPF support is approximately US\$ 600,000<sup>3</sup>, noting that the average size of a GCF funded adaptation project is US\$ 29 million<sup>4</sup>.

17. The financial support provided for project preparation can be in the form of grants and repayable grants. In principle, the PPF funding from the GCF should be repaid within the financial structure of the Funding Proposal, with terms and conditions to be determined at the Funding Proposal development and review process, prior to submission to the GCF Board.

18. 2. In addition to funding, the GCF offers PPF service modality which enables the GCF to use a roster of independent consultancy firms who can provide project preparation services to AEs. This PPF access modality enables the Secretariat to deploy these firms directly upon request, to AEs who face challenges in taking on the procurement, and project management of PPF activities by themselves.

19. The GCF has engaged the United Nations Office for Project Services (UNOPS) for grant management support to the Readiness Programme and PPF, including the establishment of a grant agreement, performance monitoring and disbursements under the agreement. In these cases, UNOPS will directly engage with the AE concerning execution of the agreement as well as monitoring and payment activities.

## **SURVEY OF THE ADAPTATION FUND IMPLEMENTING ENTITIES**

20. As requested by the PPRC, the secretariat has consulted with the implementing entities accredited with the Funds by means of an online survey in January 2024. Thirteen (13) entities responded to the survey, of which are nine (9) National Implementing Entities (NIEs), three (3) Regional Implementing entities (RIEs) and one Multilateral Implementing entity (MIE). The results of the survey are included in Annex II.

21. Through their responses to the survey, the IEs have highlighted that Enhanced Direct Access (EDA) projects and regular single countries projects require additional investments in project preparation. The IEs also stated a number of challenges faced when not able to access PFG funding. These include issues with the quality of the proposal, the ability to meet the Fund's requirements, in particular with stakeholder consultations which further impacts ownership of the project, and delays in approval of projects.

22. The IEs were unanimous in highlighting that the current amount of funding for PFG is low. Some compared this amount to the GCF PPF which provides more substantive amounts to cover design costs. In addition, RIE and MIE respondents highlighted the challenges for not accessing PFG funding as they don't always have internal resources to support project preparation for the AF and it is especially challenging for them to fund stakeholder consultations from other sources. This particular point is often raised in bilateral meetings that the secretariat has with RIEs and MIEs.

23. The majority of the IEs were of the view that the amount of funding for PFG is not necessarily commensurate with the size of the project investment (54% responded No, while 31% responded Yes and 15% unsure). Some IEs highlighted that the investment in project preparation of projects between US\$ 5 and 10 million is similar. One IE mentioned that for regional projects,

<sup>3</sup> <https://www.greenclimate.fund/document/project-preparation-facility-guidelines>

<sup>4</sup> Calculated from <https://data.greenclimate.fund/public/data/projects>

the size of the PFG should be proportionate to the number of countries involved as one of the main costs relates to undertaking consultations with local stakeholders.

24. The medians of the IEs estimations of their investments in project preparation for Adaptation Fund projects are as follow: EDA projects: 145,000; Single country projects: 150,000; regional projects: 250,000 and innovation large grants: 100,000.

25. In response to the question on additional consideration that the AF should take into account for project formulation grants, IEs highlighted the following points:

- a. In the case of EDA, grants for developing concept note may also be considered in addition to PFG.
- b. To consider complementary with the Green Climate Fund Project Preparation Facility, where different resources are available to accredited entities and where entities can request for multiple TA support that cover, project design and development, technical studies, ESS and Gender etc.
- c. Enabling MIEs and RIEs to access PFG

### **Options for revising the PFG**

26. The current size of the project formulation grants provided by the Adaptation Fund is significantly below the benchmark of those of the other climate funds for project of similar size to those of the Fund. It also is below the needs expressed by the IEs and may contribute to lower quality of the proposals.

27. Through consultations with the IEs, it's clear that increasing the size of the PFG would better provide for the actual needs of undertaking key assessments and required consultations and could therefore be expected to enhance the quality of the proposals.

28. In determining the size of the PFG, the following considerations may be taken into account:

- a. The different needs and scale of funding required depending on the type of the project. In particular, Enhanced Direct Access for Locally Led Adaptation (LLA) and other LLA projects may require additional funding to enable the operationalization of the LLA principles, especially devolving decision making on the selection and design of the project and of the adaptation measures to the lowest appropriate level through genuine participatory approaches in the project design. For regional projects, the scale of the funding could be commensurate to the number of countries, to account for the costs related to undertaking consultations as mandated by the Fund's ESP.
- b. Expanding the eligibility to RIEs and MIEs would also enable more effective consultations and involvement of the local stakeholders in the design of the project. Such consultations require funding that is not always available to the RIEs and MIEs, who may otherwise continue to provide technical expertise in the development of the projects.

- c. The scope and the size of the requested PFG funding should be justified to enable the review of the PFG alongside the project concept note.

29. The following proposal aims to increase the size and scope of the PFG with a view to enabling the Fund's IEs to undertake the necessary assessments and consultations required for the project preparation and enhance the quality of the project proposals. It also brings the size of the PFG to a comparable level with other climate funds.

30. The proposed amount of PFG that can be requested is as follows:

Single Country projects under all funding windows (regular, large innovation and [EDA/LLA]<sup>5</sup>):

- a. For single country projects below US\$ 2 million the limit is set at US\$ 50,000;
- b. For single country projects US\$ 2 million and above but below US\$ 5 million the limit is set at US\$ 100,000;
- c. For single country projects US\$ 5 million and above, the limit is set at US\$ 150,000;

Additional PFG for [LLA]<sup>6</sup> projects:

- d. For single country [LLA]<sup>7</sup> projects, an additional PFG amount can be provided to support activities that enable devolving decision making to the lowest appropriate level and support local actors to make informed decisions on how adaptation actions are defined, prioritized, designed and implemented. This additional amount can be up to a maximum of US\$ 100,000 and will be evaluated on a case-by-case basis as per the provided justifications.

Regional projects under all funding windows:

- e. For all regional projects of US\$ 5 million and above with less than three countries, the limit is set at US\$ 150,000. The limit can increase by US\$ 15,000 for each additional country involved, up to a maximum of US\$ 250,000.

PFG for projects submitted using three-step approach:

- f. When a three-step approach is used, the maximum amount of PFG that can be requested at the pre-concept stage is twenty percent (20%) of the maximum total PFG applicable to the project.

31. Following the endorsement of the pre-concept, when the proponent submits a concept note, together with an accompanying PFG request, the maximum level of the PFG would be equal to the limit for that type of project, minus the amount of PFG granted at the pre-concept stage, if any. The full maximum amount of PFG (as set in a-e above) would be available for proposals that bypassed the optional pre-concept stage.

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<sup>5</sup> Pending Board approval of the single country LLA window proposed in AFB/PPRC.33/39.

<sup>6</sup> Idem.

<sup>7</sup> Idem.



32. Only activities that can support project preparation and formulation, would be eligible for PFG funding. These include:

- a. Local consultations, and/or workshops to discuss the specific project and program ideas (including translation into local languages, preparation of background papers, etc).
- b. Travel costs for experts, when required, for consultations and discussions with interested parties and stakeholders, and local participation as needed in project design.
- c. Country-, region-, or site-specific risk assessments, including identifying hazards, vulnerabilities, development of scenarios and determining hazard mitigation options.
- d. Consultancies and contracts to develop program and/or project options.
- e. Gender and Environmental and Social risk analyses and formulation of Environmental and Social Management Plan and Gender Action Plan.
- f. Free prior and informed consent and related consultations where appropriate to ensure compliance with the Environmental and Social Policy.
- g. Specific analyses in support of the proposed projects (policy analysis, data inventories and analyses, cost effectiveness, etc).
- h. Identification of project or programme indicators and development of monitoring and evaluation plan.
- i. Costs of translating documents into and out of English.
- j. Assessing capacity of executing partners.
- k. Enabling activities that support devolving the decision making regarding the project design to the lowest appropriate level.
- l. Identification of project/programme level indicators

33. Expenditures that are not eligible for PFG support include:

- a. Costs associated with normal responsibilities of an IE and/or government staff beyond specific project preparation and formulation activities.
- b. Project start-up costs; demonstration and pilot projects and large-scale enabling activities.
- c. Capital goods other than those directly required for project preparation (e.g. computers, hardware and mechanical equipment).
- d. Purchase of motorized vehicles.

### Proposed recommendation

34. Having considered document AFB/PPRC.33/40, the PPRC may wish to consider and recommend to the Board to decide:

- (a) That PFGs are made available for projects submitted through NIEs, RIEs and MIEs;
- (b) That the maximum size of the PFG for single country projects for all windows, inclusive of the management fee, is set for as follows:
  - i. For projects below US\$ 2,000,000 the limit is set at US\$ 50,000;
  - ii. For projects at or above US\$ 2,000,000 and below US\$ 5,000,000, the limit is set at US\$ 100,000;
  - iii. For projects at or above US\$ 5,000,000, the limit is set at US\$ 150,000;
- (c) That an additional PFG amount (inclusive of the management fee) can be provided on a case-by-case basis for [LLA]<sup>8</sup> projects up to a maximum of US\$ 100,000, and that such amount should be dedicated to support activities that enable decision making by local actors over how adaptation actions are defined, prioritized, designed and implemented;
- (d) That the maximum size of the PFG for all regional projects, inclusive of the management fee, is set for as follows:
  - i. For regional projects of US\$ 5,000,000 with less than three countries, the limit is set at US\$ 150,000;
  - ii. That this limit increase by US\$ 15,000 for each additional country involved, up to a maximum of US\$ 250,000;
- (e) That requests for a PFG should be made at the same time as the submission of a project concept or pre-concept to the secretariat using the revised PFG form in Annex I of document AFB/PPRC.33/40;
- (f) That, for a PFG at the pre-concept stage, up to twenty percent of the maximum amount of the PFG set in b), c) and d) above could be granted;
- (g) That only activities that support project preparation and formulation would be eligible for PFG funding (as per para 32 in document AFB/PPRC.33/40).

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<sup>8</sup> Pending Board approval of the single country LLA window proposed in AFB/PPRC.33/39.

**ANNEX I – Revised PFG submission form (additions in red)****Project Formulation Grant (PFG)**

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Submission Date:

Adaptation Fund Project ID:

Country/ies:

Title of Project/Programme:

Type of IE (NIE/RIE/MIE):

Implementing Entity:

Executing Entity/ies:

**A. Project Preparation Timeframe**

Start date of PFG	
Completion date of PFG	

**B. Proposed Project Preparation Activities (\$)**

List of Proposed Project Preparation Activities	Output of the PFG Activities	US\$ Amount	Budget note
Total Project Formulation Grant			

Please describe below each of the PFG activities and provide justifications for their need and for the amount of funding required:

**For LLA Projects only:**

If requesting additional funding for LLA projects to enable devolving decision making to the local level, please specify the activities that would directly serve to enable devolving decision making to the lowest appropriate level and enable local actors to make informed decisions on how adaptation actions are defined, prioritized, designed and implemented:

Please provide justifications for their need and for the amount of additional funding required:

**C. Implementing Entity**

This request has been prepared in accordance with the Adaptation Fund Board's procedures and meets the Adaptation Fund's criteria for project identification and formulation

Implementing Entity Coordinator, IE Name	Signature	Date (Month, day, year)	Project Contact Person	Telephone	Email Address