

AFB/PPRC.26.b/18 6 October 2020

Adaptation Fund Board Project and Programme Review Committee Twenty-sixth Meeting Bonn, Germany (virtual), 13-14 October 2020

Agenda item 11

WINDOW FOR ENHANCED DIRECT ACCESS UNDER THE MEDIUM-TERM STRATEGY

Background

- 1. The Adaptation Fund (the Fund) was the first climate fund to fully operationalize direct access to climate finance through which National Implementing Entities (NIEs) are able to directly access financing and manage all aspects of climate adaptation and resilience projects, from design through implementation to monitoring and evaluation. The Fund also pioneered enhanced direct access (EDA) when the Adaptation Fund Board (the Board) approved at its twenty-fourth meeting two regular sized projects for Costa Rica¹ and South Africa² through decisions B.24/8 and B. 24/15, respectively. The projects were unique in that they were the first to put into practice an implementation model that had been presented as a theoretical solution³, in which decision-making on the programming of climate finance would be devolved further downstream at the national level, beyond the donor and grant applicant. In EDA, national mechanisms can be used to make decisions on which projects will be funded at the national and sub-national level.
- 2. At its thirtieth meeting the Board approved the Fund's medium-term strategy (MTS) through decision B.30/42. At its thirty-first meeting, the Board subsequently approved the implementation plan for the MTS and included new funding windows that could be opened under the MTS in complement of the Fund's existing funding windows. At this meeting, the Board decided:
 - (a) To approve the implementation plan for the medium-term strategy for the Fund for 2018–2022 contained in the Annex I to document AFB/B.31/5/Rev.1 (the plan);
 - (b) To request the secretariat:
 - (i) To facilitate the implementation of the plan during the period 2018–2022;

[...]

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

[...]

(Decision B.31/32)

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

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

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

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

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

- 4. The present document responds to Board decision B.31/32 and outlines the objectives, review criteria, review process, implementation modalities and several options to fund the window for EDA, based on the Fund's experience with approved EDA projects and lessons learnt by other stakeholders involved with EDA.
- 5. It should be noted that the document proposing the new window on enhanced direct access (EDA) had been prepared for presentation to the Board at its thirty-third meeting and again at its thirty-fourth meeting but could not be taken up at either of those meetings due to lack of time. Therefore, as additional information relevant to EDA has been received during this time period, the present document includes some changes compared to the versions prepared for earlier meetings of the Board.

The purpose of Enhanced Direct Access

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

Benefits and challenges of Enhanced Direct Access

- 7. There are some benefits to implementing EDA over traditional direct access. These benefits include:
 - Increased country ownership over project activities which strengthens locally led climate action
 - Greater in-country decision-making over fund allocation
 - Raised profile of the NIE organization internationally and in-country.
 - Can help strengthen and "fine-tune" an organization's policies, procedures, and standards, and align with international standards
 - Can help strengthen institutional and individual capacities at the sub-national and local level and enable the use and strengthening of domestic channels of directing resources to those levels
 - Can strengthen alignment of funded projects with domestic priorities
 - Can stimulate innovation through the establishment of national or local mechanisms

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

- Can help to increase efficiency in the management of donor funds⁵
- 8. Although EDA can offer opportunities and help build the capacity of local organizations to programme adaptation finance and design and implement their own projects (locally led action), it also poses several challenges such as:
 - Requires more substantial financial management capacities across the different levels of project execution
 - Can entail challenges in transferring requisite project design and development capacities to local stakeholders and communities which would allow them to increase their awareness of climate risks and impacts, link those with their development issues, and be able to design and implement the activities and measures that would help them address those risks
 - Can result in higher management and operational costs due to additional levels in the funding model
 - Multiple levels in channeling funding can result in complex implementation arrangements which require strong project design and management skills as well as streamlined decision-making across the levels

Lessons learnt from the Fund and other stakeholders

9. The Fund has been implementing EDA through its funded projects by NIEs, either as whole projects designed and framed as EDA or as a component that exhibits typical EDA characteristics within a project. To date, the Board has approved funding four such projects which are presented in the table below:

Table 1: Approved EDA projects between 2010 and 2020

Project Title	NIE	Country	Date approved	Grant Amount (USD)
Reducing the Vulnerability by Focusing on Critical Sectors (Agriculture, Water Resources and Coastlines) in order to Reduce the Negative Impacts of Climate Change and Improve the Resilience of these Sectors	Fundecooperacion Para el Desarollo Sostenible (Fundecooperacion)	Costa Rica	10/2014	9,970,000
Taking adaptation to the ground: A small Grants Facility for enabling local-level responses to climate change	South Africa National Biodiversity Institution (SANBI)	South Africa	10/2014	2,442,682

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

An integrated approach to physical adaptation and community resilience in Antigua and Barbuda's northwest McKinnon's watershed	Department of Environment (DoE)	Antigua and Barbuda	03/2017	9,970,000
Practical Solutions for Reducing Community Vulnerability to Climate Change in the Federated States of Micronesia	Micronesia Conservation Trust (MCT)	Micronesia, Federated State of	03/2018	970,000
Total				23,352,682

- 10. The projects which as at the time of the current document total approved funding of US\$ 23,352,682 have sparked a high level of interest from the Fund's stakeholders and there is a real demand from communities to be able to address climate risks and adverse impacts through EDA and the delivery of national or local mechanisms.
- 11. The experience of the Fund with the approved projects has provided some lessons on devolved decision-making on financing local adaptation activities at the sub-national level. These lessons include the following:

EDA is costly in the short term but worth it

- 12. EDA requires, at least initially, a higher level of technical assistance, monitoring and oversight (e.g, development of capacity building tools and higher level of monitoring through increased number of field visits), and contracting at multiple levels, which has an implication on the overall operational costs. Therefore, any specific funding window for EDA could require a higher provision for management and execution costs.
- 13. However, EDA can be considered worth the investment because it enables projects to pilot innovative measures at a small scale, which could be later replicated or scaled up. It also allows funding research and action activities that could have been otherwise difficult to finance through the usual concrete adaptation projects funded by the AF. Further, it raises awareness of small, local organizations on climate change issues and builds their capacity to address climate related risks and impacts by enabling such local organizations to identify their adaptation needs by themselves and implement the adequate measures to address those needs.

There is no one-size-fits-all

- 14. The EDA project in South Africa revealed the complexity of EDA implementation arrangements and the importance of streamlining decision-making across multiple levels. Addressing this issue early on during project design and development is important for establishing implementation arrangements according to the relevant context.
- 15. All four EDA projects in Antigua and Barbuda, Costa Rica, Micronesia and South Africa revealed that conducting extensive and thorough stakeholder engagement and analysis at the project design phase is very important to identify capacity gaps, training and learning needs. Consultations with multiple stakeholders can also motivate buy-in from national and local government and other stakeholders, clarifying the role of national and local actors in the process,

which can have implications for project sustainability. The project could in turn influence national and local policies.

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

EDA facilitates innovation

- 17. As EDA specific projects are determined at the country-level through specific requests and proposals made by local beneficiaries at the sub-national level, it offers opportunities for piloting innovation built on bottom-up approaches, local knowledge and locally led action, and the generation of additional knowledge for replication and can promote the development of public private partnerships. As such, there is need to institute long-term monitoring that addresses change in community vulnerability over time. Such monitoring should allow for data collection and gathering of knowledge across multiple levels which can help build the case for scaling-up EDA projects.
- 18. EDA as a model requires establishing a level of trust with communities and there are huge benefits to be gained from partnerships with organizations and institutions that have worked with those communities over time, e.g, local NGOs that have been working in the area for a long time which allows the possibility of building from past experiences or successes that could be replicated through national or local mechanisms.

Capacity-building support for EDA

- 19. Due to high level of interest by various stakeholders, the Adaptation Fund Board secretariat (the secretariat) has been engaging on EDA through the readiness programme. The NIEs for South Africa and Costa Rica shared their project experiences at the sixth annual NIE seminar held in August 2018 in Washington, DC, and have also discussed aspects of their projects during readiness webinars. The 2019 annual seminar for accredited NIEs of the Fund was held in Antigua and Barbuda in partnership with the Antigua and Barbuda's Department of Environment and included a site visit to the project and active discussion between seminar participants and project stakeholders. In addition, the secretariat participated at the Green Climate Fund (GCF) Empowering Direct Access Workshop held in May 2018 in Songdo, Republic of Korea at which EDA was also discussed.
- 20. There is potential to further promote EDA within the existing secretariat activities including seminars, workshops, and readiness activities identified in the 2018-2022 MTS such as country exchanges as well as the Fund's knowledge products, which could help develop the portfolio of EDA projects. The secretariat is also exploring the possibility of hosting a dedicated workshop on EDA in partnership with other funds or organizations supporting devolved decision-making for climate change projects.

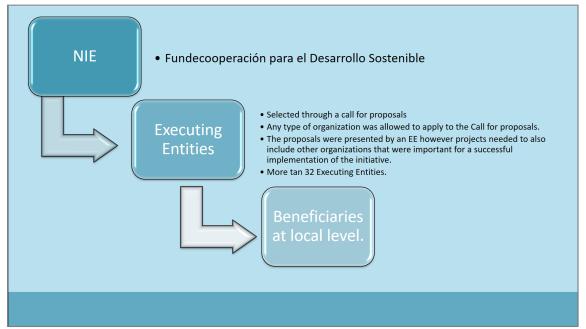
EDA models in Adaptation Fund funded projects

21. The NIEs implementing EDA have used different approaches based on local contexts, needs and preferred decision-making structure at the local level providing practical evidence of locally led adaptation to funnel funding to vulnerable communities impacted by adverse climate impacts

Fundecooperacion: Reducing the Vulnerability by Focusing on Critical Sectors (Agriculture, Water Resources and Coastlines) in order to Reduce the Negative Impacts of Climate Change and Improve the Resilience of these Sectors

22. The EDA model adopted by Fundecooperacion in Costa Rica is implemented as a component of the overall adaptation project. Under the component, producers are provided with financial support for the adoption of technical options generated in local communities. Two finance instruments are used: Creation of an agricultural insurance policies programme that includes criteria on climate resilience; and establishing a revolving funds programme to provide credit to producers for implementation of sustainable management practices for lands, implement strategies to adapt to climate change and/or invest in new rural economic activities as contingency for the impact caused by climate change. Under this model the screening and review of local funding proposals would be done by the NIE and funding decisions would be made by the Board of Directors which would include other local relevant stakeholders and experts such as nongovernmental organization, civil society, the government (national and local), the private sector and academia. The model is depicted in Figure 1 below.

Figure 1: Implementation and execution arrangements for the Fundecooperación EDA project



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

SANBI: Taking adaptation to the ground: A small Grants Facility for enabling local-level responses to climate change

23. SANBI, South Africa implemented EDA as a whole project that would establish a small grants mechanism to incorporate climate adaptation response strategies into local practices so that assets, livelihoods and ecosystem services are protected from climate induced risks associated with expected droughts, seasonal shifts and storm-related disaster events. The small grants fund would invest in climate change adaptation interventions that fall into three prioritized investment windows: Climate-Smart Agriculture, Climate-Resilient Livelihoods and Climate-Proof Settlements. Under this model, SANBI would provide oversight and overall coordination for the

small grants mechanism, and funding decisions are devolved down to the executing entity who in addition, would be responsible for receiving and disbursing funds, for contracting the project's Facilitating Agencies and other service providers who provide site-based support in each of the project target areas, and for contracting arrangements with all grant recipients. There would also be a project steering committee and project management team as part of the project governance structure. The model is depicted in Figure 2 below.

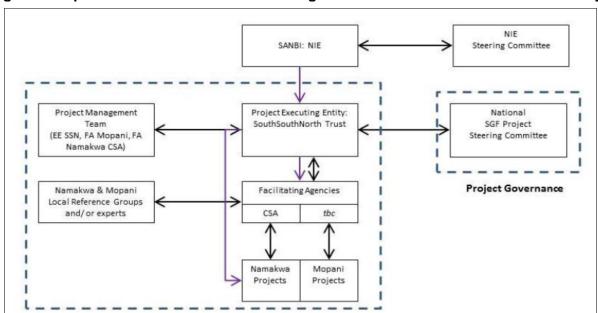


Figure 2: Implementation and execution arrangements for SANBI's Small Grants Facility

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

<u>DoE of Antigua and Barbuda: An integrated approach to physical adaptation and community resilience in Antigua and Barbuda's northwest McKinnon's watershed</u>

24. This EDA model is implemented as a component of the overall adaptation project. The approach involves establishing a revolving loan mechanism to provide unsecured low interest loans for vulnerable households and businesses to meet new adaptation guidelines and standards for built infrastructure to withstand extreme climate variability, e.g. through interventions such as water harvesting, hurricane shutters, mosquito screens, water storage, and other adaptation measures. The Review and approval of funding requests would be done in-house within the DoE and its existing Sustainable Island Resource Framework Fund (SIRF) which receives funds from several donors via projects and some grants. The model for the revolving fund is depicted in Figure 3 below.

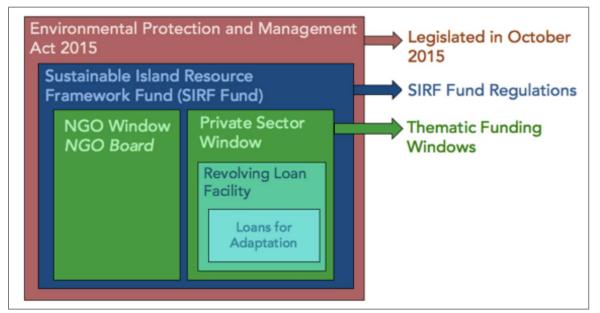


Figure 3: Legal and institutional arrangements of the DoE revolving loan facility

Source: DoE An integrated approach to physical adaptation and community resilience in Antigua and Barbuda's northwest McKinnon's watershed project document Appendix 9. Manual on the processing of grants and revolving loans under the SIRF Fund

MCT: Practical Solutions for Reducing Community Vulnerability to Climate Change in the Federated States of Micronesia

25. The MCT project is wholly focused on EDA with a strategy to ensure implementation of a robust nearshore fisheries management and nationwide protected areas network inclusive of proper enforcement and sustainable finance mechanisms through a small grants scheme that supports community-led ecosystem-based adaptation actions. In this model the screening, review and decisions on the funding of proposals submitted by protected areas management entities, community-based organizations and local conservation and climate change NGOs would be done by MCT. The model if depicted in Figure 4 below.

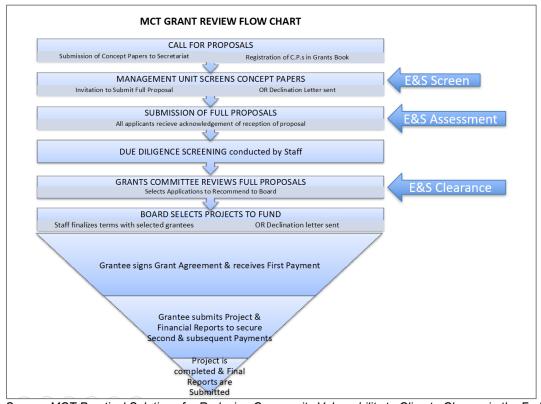


Figure 4: Flow chart of the MCT grant review process

Source: MCT Practical Solutions for Reducing Community Vulnerability to Climate Change in the Federated States of Micronesia project document

Other Funds supporting EDA

- 26. The Green Climate Fund (GCF) implemented EDA as a pilot in 2015 and characterizes it as "an enhanced devolution of decision making whereby both funding decisions and project oversight take place at the national or regional level⁶". At its 10th Board meeting, the GCF agreed to initially provide up to US\$ 200 million for at least 10 pilots, including at least four to be implemented in small island developing States, least developed countries and African States⁷. As at the time of submission of the present document, two projects had been approved by the GCF Board under the pilot, one for US\$ 10 million under implementation by the Environmental Investment Fund (EIF) of Namibia, and the second for US\$ 22 million under implementation by Department of Environment, Ministry of Health and Environment, of Antigua and Barbuda which covers three countries (Antigua and Barbuda, Dominica and Grenada)⁸.
- 27. The implementation of the GCF pilot phase follows an approach which uses the regular project review and approval process under the GCF. However, it includes an additional layer of devolved decision-making for funding specific activities at the country level and requires the establishment of a mechanism to increase oversight and multi-stakeholder engagement at the country level. The oversight body must have GCF national designated authority (NDA) involvement and multi-stakeholder engagement. Submission of a proposal for the pilot does not

⁶ GCF in Brief: Enhancing Direct Access: https://www.greenclimate.fund/document/gcf-brief-enhancing-direct-access

⁷ See Green Climate Fund See Green Climate Fund board decision B.10/04

⁸ See Green Climate Fund project portfolio available at: https://www.greenclimate.fund/projects

require the inclusion of individual projects or programmes because decision-making for the funding of specific pilot activities will be devolved at the country level. However, the proposal is expected to describe⁹:

- (i) The scope of activities that will be considered for financing in conformity with the Fund's eight result areas;
- (ii) The country/entity level approval process of specific pilot activities set up in conformity with the Fund's investment framework and results management framework; and
- (iii) The institutional arrangements set up to ensure oversight and multi-stakeholder engagement.
- 28. The GCF Board has also made readiness and preparatory support available to assist in the above aspects. Figure 5 below, extracted from GCF board document GCF/B.10/05, provides an overview of the pilot implementation following approval of the proposal by the GCF board using its regular review and approval processes.

Pilot Implementation **Country Level** Pilot Proposal Approval NDA/FP Oversight **Funding decisions** Body Multi-Activities stakeholder Engagement Monitoring and reporting Secretariat Report to Board **Board**

Figure 5: Overview of GCF EDA pilot implementation process following board approval

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

Establishing a funding window dedicated to EDA projects/programmes

^a Abbreviations: AE = accredited entity, EE = executing entity, FP = focal point, NDA = national designated authority

29. All the EDA models currently funded by the Fund make clear reference to involvement of multiple local stakeholders in funding approvals and other decision making processes, greatly enhancing locally led adaptation action. The Fund's MTS already identifies EDA as one of the delivery models for its action pillar and provides for funding of US\$100 million towards EDA between 2018 and 2022 in the strategy's implementation plan.

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⁹ See Green Climate Fund board document GCF/B.10/05

- 30. It is proposed that the funding outlined in the MTS implementation plan be rolled out initially as a pilot window for EDA. The highest amounts requested for the EDA models in current approved Fund projects has been approximately US\$3,125,300 for the EDA component of the project approved for the DoE of Antigua and Barbuda and US\$3 million for the EDA component of the project approved for Fundecooperacion of Costa Rica.
- 31. To provide an incentive to NIEs to make use of the dedicated funding window for EDA, it is proposed that the pilot cap the maximum grant available under the EDA window to US\$5 million per country with a funding envelope not exceeding US\$100 million between 2018 and 2022 as outlined in the MTS implementation plan. The proposed pilot window would be available to NIEs only and would use existing mechanisms within the Fund for single country project/programme review and approval and existing monitoring and reporting mechanisms.
- 32. Drawing on the lessons learnt from approved EDA projects under the Fund, it should be noted that due to the additional institutional levels involved in EDA projects/programmes, it is expected that there would be additional costs related to such projects, e.g. training and capacity building, monitoring, reporting and knowledge management. It would therefore be necessary to increase the limit for execution costs and management costs for EDA projects/programmes as these have been shown to be higher 10. In addition, EDA projects/programmes are expected to involve a number of unidentified sub-projects as the specific activities at the local level would only be clearly identified at a later stage when the mechanism for approval of funding and disbursement arrangements have been established following project/programme approval by the Board. This would also contribute to higher project management costs than for regular direct access projects/programmes.

Operationalizing the proposed pilot window on EDA

- 33. It is proposed that provision of a funding envelope and a separate funding window of up to US\$ 5 million per country be made available as a pilot to NIEs submitting proposals through the EDA modality. The funding window would not count against the cap of funding for each country that was established by the Board at its thirteenth meeting in 2011¹¹ and is currently set at US \$10 million per country.
- 34. The funding envelope could be based on the projected annual funding for the window on EDA of US\$20 million per year for five years as outlined in the implementation plan of the MTS approved by the Board at its thirty-first meeting 12. The Board could review the funding envelope on an annual basis, following reporting of EDA project/programme submission flows by the secretariat. Once a majority of approved projects/programmes have submitted at least one project performance report (PPR) from the pool of approved projects/programmes since the decision by the Board to approve the window on EDA, the Board could review the pilot window following an assessment of the PPRs and survey of NIEs that would have accessed the window. The assessment could be prepared by the secretariat for consideration and decision by the Board at its regular meeting that would be imminent at the time of completion of the assessment report.

¹⁰ See document AFB B.32.8. Report of portfolio monitoring mission to South Africa

¹¹ Adaptation Fund Board Decision B.13/23

¹² Adaptation Fund Board Decision B.31/32

- 35. If the total amount of requested funding by NIEs through the EDA modality goes beyond the provisioned funding envelope during a fiscal year, the proposals submitted by those entities and recommended for approval would be placed in a pipeline.
- 36. For the funding envelope to be applied effectively, EDA proposals submitted by NIEs through the funding window for consideration by the Board would be reviewed as per the standard project/programme review and approval procedures under the Fund. However, based on the experience of the Fund's EDA projects, which have experienced higher costs from multi-leveled funding structures and necessitated greater oversight responsibility by the NIEs compared to regular concrete projects/programmes funded by the Fund, it is proposed to increase the limit for execution costs and management fees to 12% and 10% respectively. In cases where the Implementing Entity has also taken on the role of Execution Entity for the proposed activities, the execution costs should be at or below 1.5% as per the Operational Policies and Guidelines (OPG) of the Fund.
- 37. Lessons from existing EDA projects under the Fund have highlighted that capacity-building support across the project cycle, from design through implementation and reporting is critical to the success of EDA models, therefore it is proposed that a readiness grant be made available to NIEs to boost capacity during project development. As NIEs already have access to the project formulation grants under regular concrete projects/programmes up to a maximum of US\$30,000 and project formulation assistance grants under the readiness programme up to a maximum of US\$20,000, it is proposed that these grants be also made available to NIEs submitting EDA proposals through the two-step project approval process to strengthen NIE capacity for development of effective EDA models.

Pros:

- 38. The above proposed approach would encourage NIEs that have multiple competing priorities to submit EDA projects/programmes for funding, thereby effectively increasing the take-up of the EDA model under direct access.
- 39. The pilot window would ensure that sufficient funds are available for funding EDA proposals submitted by NIEs, based on the approved annual funding envelope and assessment of available resources by the Board.

Cons:

- 40. The above proposed approach could accelerate the depletion of the Fund's resources and limit access of current and future funding available to Regional Implementing Entities (RIEs) and Multilateral Implementing Entities (MIEs) thus posing a high risk to countries that rely on these modalities. However, at the relatively modest level allocated to this pilot annually, that risk would not be very high due to this window.
- 41. As the funding window and its annual provision of resources could be limited, this could trigger a high level of EDA proposal submissions and raise expectations from countries from which those proposals were developed, while funding may not be immediately available to fund all of them. This risk could be mitigated by active communication with NIEs on the modality and the availability of funding.
- 42. Based on the above, the Project and Programme Review Committee (PPRC) may wish to consider the following:

Proposed Recommendation

Having considered the proposed window for EDA presented in document AFB/PPRC.26.b/18, the Project and Programme Review Committee (PPRC) may wish to recommend to the Board to:

- a) Approve the pilot for projects submitted through the window for enhanced direct access (EDA) to promote EDA and further promote locally led adaptation under the Fund.
- b) Decide that the pilot window to promote EDA projects/programmes shall be available to national implementing entities (NIEs) only, in the form of a grant up to a maximum of US\$5 million per country.
- c) Decide that the window for EDA will not count against what the country could access under the country cap established by the Board for regular concrete projects/programmes.
- d) Decide that the execution costs for proposals submitted under the EDA window should be up to a maximum of 12% of the total project/programme budget requested before the implementing entity fees, and should not exceed 1.5% in cases where the Implementing Entity has also taken on the role of Execution Entity for the proposed project/programme activities, and that the implementing entity fee should be up to a maximum of 10% of the total project costs.
- e) Decide that NIEs submitting proposals through the EDA window should do so using the existing approved proposal template and guideline materials for regular concrete projects/programmes nonetheless taking note of the project fees in (d) and 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.
- f) Decide that the review cycle and approval of projects/programmes submitted through the EDA window shall follow the review and approval process as well as reporting requirements for regular projects/programmes under the Fund notwithstanding adherence to (d) where it concerns the review and approval of project fees.
- g) Request the secretariat to present to the PPRC at its twenty-eighth meeting, an analysis of the project review cycle for EDA projects including an update on implementation status of the EDA window.