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Direct Access to the Adaptation Fund: realising the potential of National Implementing Entities

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Introduction

The Adaptation Fund (AF), established by the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), is mandated to finance concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol and to allow direct access to the Fund by Parties. It is this latter characteristic – *direct access* – that has raised considerable interest among the international climate change community. Civil society has praised this development as an innovative element of the Fund's governance structure that seeks to ensure country ownership. Also, if direct access proves successful, it will provide an evidence base that can serve as a model for future funding, including current discussions around the establishment of a 'Global Green Climate Fund'.

Now that the AF is fully operational, with two projects approved and six more proposals endorsed, what is the evidence that the direct access modality is providing the type of success onlookers are hoping for? This paper explores the current status of direct access and examines the challenges countries face in securing its potential.

What is 'Direct Access'?

Direct Access describes the fund-recipient relationship whereby the recipient country can access financial resources directly from the fund, or can assign an implementing entity of their choosing. Direct access is in contrast to indirect access, where funding is channeled through a third party implementing agency, usually a multilateral organization, selected by the fund administrators. In Paragraph 29 of decision 1/CMP.3, direct access is defined in the following terms:

> '*Eligible Parties shall be able to submit their project proposals directly to the Adaptation Fund Board and implementing or executing entities chosen by governments that are able to implement the projects funded under the Adaptation Fund may also approach the Adaptation Fund Board directly*' (UNFCCC, 2007).

The logic behind this approach is to increase the level of country ownership, oversight, and involvement in adaptation activities, and to create stronger accountability of the recipient country to the Fund. It thus removes the intermediary role by transferring the implementing agency functions from third parties to the beneficiary countries themselves. It is expected that direct access can help ensure proper reliance on and harmonization with national systems, plans and priorities; can help increase the speed of delivery of desired outcomes; cut transaction costs by 'domesticating' core

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activities; and potentially achieve better targeting of local priorities (Adaptation Fund, 2009a). Whilst this approach is seen to be an important innovation compared to other international climate finance initiatives, similar arrangements of direct access have been established in other global funds. In developing the AF Direct Access model, the experiences of two global health funding mechanisms (the Global Alliance for Vaccines and Immunisation and the Global Fund to Fight AIDS, Tuberculosis and Malaria) were reviewed by the AF Board (Box 1).

Box 1. Global Health Partnership Approaches that utilize Direct Access

The Global Alliance for Vaccines and Immunization (GAVI) was launched in 2000 and since that time has disbursed $2.2 billion to over 70 countries. It receives funding from four sources: direct funding from donor governments, together with co-financing from some recipient countries; as well as two more innovative sources: a specialised bond (the IFFIm bond) raised by borrowing against donor pledges on the capital markets, and advance market commitments, whereby donors commit money to guarantee the price of vaccines once they are developed.

The GAVI Alliance uses the principles set out in the Paris Declaration on Aid Effectiveness to guide its work. It provides funding to eligible countries based on submissions by the ministry of health and endorsed by the ministry of finance and a national coordinating body. Funding is generally performance based in terms of vaccinations given, with annual progress reports produced by the country and periodic external audits. Countries are classified into three groups according to the level of fiduciary risk, with the choice of financial mechanism and the level of audit requirements and external review varying between groups.

The Global Fund to Fight AIDS, Tuberculosis and Malaria was created in 2002 to support large-scale prevention, treatment and care programmes against the three diseases. It has disbursed grant funding of $12 billion to-date, out of a committed budget of $20 billion in 146 countries. Funding is secured principally from donor governments, together with private foundations.

The Global Fund's framework document shares many principles with the Paris Declaration on Aid Effectiveness and relies on country-level partnerships comprising representatives from all sectors to identify national needs. These partnerships identify a public or private in-country organization as the Principal Recipient (PR) of the funds. Fiduciary standards cover institutional capabilities as well as financial integrity. Funding is performance-based and subject to the achievement of key performance indicators.

Sources: Adaptation Fund Board (2009) 'Report on fiduciary standards for implementing entities' AF Board 6th Meeting, Bonn, June 15-17, 2009, AFB/B.6/4.

www.gavialliance.org

www.theglobalfund.org

It is important to distinguish the role of implementing entities (IEs) from executing entities (EEs). IEs oversee the development and approval of projects and monitor their results, whereas EEs are responsible for carrying out project activities, which requires experience with development and adaptation activities on the ground. Civil society and local community organizations often have relevant knowledge and can serve as EEs for adaptation projects under AF rules (Harmeling and Kaloga, 2010). Perhaps what is less clear is the AF Board's view over what sort of organization should fulfil the role of an implementing agency, particularly a national implementing entity (NIE). With regards the latter, the AF's provisional policies and guidelines only make mention of a 'national legal entity nominated by Parties that is recognised by the Board as meeting the fiduciary standards established by the Board' (Adaptation Fund, 2009b).

How does the Adaptation Fund make Direct Access operational?

All implementing entities (both NIEs and multilateral implementing entities, MIEs) that seek AF accreditation must demonstrate they meet certain fiduciary standards to ensure that funds are used effectively and transparently for the purposes assigned by the Adaptation Fund. At its seventh meeting in September 2009, the Adaptation Fund Board adopted fiduciary standards that aim to cover competencies relating to:

1. Financial integrity
    - The ability to accurately and regularly record transactions and balances to an appropriate standard as attested by a competent entity;
    - The ability to safeguard, manage and disburse funds effectively to recipients on a timely basis;
    - The competency to produce forward-looking plans and budgets
    - Legal status to contract with the AF and third parties.

2. Requisite Institutional Capacity
    - Procurement procedures which provide for transparent competition including effective means of redress;
    - Capacity to undertake monitoring and evaluation;
    - Ability to identify, develop and appraise projects;
    - Competency to manage or oversee project execution.

3. Transparency and self-investigative powers
    - Freedom to whistle-blow on issues of fraud and gross mismanagement
    - Objective policy for self-regulation.

It can be seen that the AF fiduciary standards go well beyond purely financial considerations, to cover both institutional capacity and the need to meet standards of transparency and internal accountability.

Progress with Direct Access

An Accreditation Panel of the AF Board was instituted in early 2010 to assess whether organizations applying for direct access met the Fund's fiduciary standards. Six MIEs and three NIEs have since been accredited by the AF Board, based upon the Panel's recommendations. The MIEs are all well established multilateral agencies: the United Nations Development Programme, the International Bank for Reconstruction and Development, the United National Environmental Programme, the World Food Programme, the Asian Development Bank and the International Fund for Agricultural Development. The AF Secretariat reports that about 30 accreditation applications and expressions of interest have been received from potential NIEs, but only four have been forwarded to the Panel for review, three of which have subsequently received accreditation. As a consequence of this low approval rate, the third meeting of the Accreditation Panel in September 2010 recommended that additional support (in the form of an on-line toolkit and guide/manual to help aspiring NIE applicants) be provided (Adaptation Fund, 2010).

The three accredited NIEs are very different institutions (Table 1), reflecting the AF Board's flexibility in accepting national nominations. None are government ministries or departments. Jamaica's national planning agency has the closest (and oldest) relationship with the government administration. For CSE in Senegal, the Accreditation Panel noted that its previous experience was restricted to managing small-sized projects and therefore recommended additional due diligence measures when considering projects and proposals worth more than $1 million. (CSE's subsequently approved proposal is for a programme totalling $8.6 million). What is not clear from the publically available information is how the AF funds will be channelled through the national finance system in each country, which is one of the goals to securing national ownership consistent with the Paris Declaration on Aid Effectiveness.

Table 1. Characteristics of National Implementing Entities

National Implementing Entity	Institutional location	Institutional history	Institutional character	Financial Integrity and Management	Transparency
Planning Institute of Jamaica	An Agency of the Office of the Prime Minister	Established under the Planning Institute of Jamaica Act, 1984, but been in existence for over 50 years as the national planning agency	Operates under a Board, providing policy and planning advice to government and external cooperation management	Annual Reports available on the web include audited financial statements	Implements the national Access to Information Act 2002
Centre de Suivi Ecologique, Senegal	A non-profit association under the Ministry of Environment and Nature Protection	Created in 1986 to study desertification, CSE is an ecological monitoring institute that provides IT expertise	The Centre's technical capacity focuses on environmental monitoring	Unknown	Unknown
Agencia Nacional de Investigacion e Innovacion, Uruguay	A national research and innovation institute	Established in 2006 under law 18.084 to promote national innovation in Uruguay	Operates under a Board, the institute supports innovation in the public and private sectors through competitive funding calls	Annual Reports available on the web	Unknown

Issues arising from funding proposals

Twenty two countries are recorded as having submitted project funding proposals to the AF by November 2010 (Annex 1). Of these countries, seven are classified as SIDS[2], six are LDCs and four are African states (only two of which are sub-Saharan continental countries: Senegal and Uganda). Realizing the intended focus of the AF to support those countries particularly vulnerable to the adverse effects of climate change may require further clarity over country allocation criteria. Themes of food security, flood control and integrated coastal zone management dominate the project proposals.

Of the 22 proposals, 21 involve MIEs, 18 alone from UNDP, which stands to gain $8.5 million in project cycle management fees. Only Senegal has submitted a proposal involving a NIE, thus securing direct access to the fund. It is not clear why countries such as Egypt, India and Pakistan have not opted for the NIE model, other than the present absence of an accredited NIE. The prominence of UNDP working through national environmental ministries (or similar) suggests the continuation of 'business as usual' project-based external support. The creation of project coordination committees and project implementation units appears to run counter to the principles of national ownership over development as framed in the Paris Declaration on Aid Effectiveness.

[2] SIDS: Small Island Developing States; LDCs: Least Developed Countries

In terms of proposed expenditure, the total budget of the 22 proposals amounts to $138 million, which represents 88% of the total financing available to the AF Board as of 30th July 2010 and approximately 37% of the estimated finance available to the AF up to 2012. This suggests that unless a large number of the present proposals are not accepted, the MIE route (and with it indirect access) may become the dominant delivery mode for AF funding. Much more needs to be done to ensure the early accreditation of NIEs, as recently recommended to the AF Board by the Accreditation Panel. It is worth noting that the implementing entity fee for the one NIE that has submitted a programme proposal is significantly less than the fees quoted by all the MIEs (UNDP, UNEP and WFP), suggesting a 'value for money' benefit to the AF from engaging NIEs.

There would seem to be a tension between securing the national institutional capacity through which to channel AF funds, with a 'first mover advantage' that comes about by working with existing MIEs. This is matter of fund governance: what recipient countries may consider to be an expedient, interim arrangement may in fact set a path dependency that precludes a role for national implementation entities. The fact that a cap in resource allocation per eligible country is highlighted in the AF's provisional operational policies heightens the likelihood of such an outcome. If this is borne out over the next few years, the AF Board runs the danger of having missed a strategic opportunity of putting into action the innovative concept of direct access. To guard against such a possibility, there is an early need to map out nationally appropriate exit strategies for MIE activity within recipient countries.

What is being done to support the development of NIEs?

The low success rate of NIE applications is clearly a major challenge for the AF. But why has there been such a low success rate to-date? To answer that question, the AF Board at its tenth meeting in June 2010 requested that the Accreditation Panel, with support from the Secretariat, prepare a report on how best to support the creation of NIEs. The subsequent report (AFB.B.11/4 Annex) identified that a number of barriers exist at several stages in the accreditation process. For example, deficiencies preventing the AF Secretariat from forwarding applications to the Accreditation Panel have included missing supporting documentation and the absence of an endorsement from the national government's Designated Authority. Overall, the report identified the following barriers:

- Lack of clarity of the fiduciary standards
- Lack of clarity on the process for a NIE
- Lack of clarity of supporting documentation requested
- Difficulties due to language barriers
- No appointed national Designated Authority

Based on these gaps, the report developed a 'problem-solution matrix' and proposed several possible solutions to increase the number of NIEs that can be accredited. Unfortunately, the current focus appears to be limited to awareness raising of the accreditation process, mainly through PowerPoint presentations at different regional or multilateral meetings. Other identified solutions pertain primarily to increased communications tools and the establishment of a NIE help desk. Clearly to meet the task at hand, further more substantial action is required to assist developing countries develop their NIEs successfully.

The Adaptation Fund Board has emphasised that it does not want to become a capacity building institution for NIEs and will not provide direct finance for such assistance. The Board's concern is that this would divert the Fund's focus away from concrete climate adaptation, and that such activities would overlap with other multilateral donors such as development banks and UN agencies who are better equipped to handle such tasks. Rather, the Board has requested that multilateral organizations offer financial and technical support for the establishment of NIEs. Three multilateral organizations – UNEP, UNDP and the World Bank – have already expressed their interest in supporting the Board in this regard. However, reliance on multilateral agencies to support NIE capacity building may lead to a conflict of interest. All three multilateral agencies currently volunteering their support for NIE capacity building are also accredited MIEs of the Adaptation Fund. Assisting developing countries in the accreditation of NIEs could lead to the redundancy of their existing role as MIEs. This conflict of interest could be avoided by looking towards other bilateral or international organizations that are unlikely to become accredited MIEs.

Conclusions

The current stage in the evolution of direct access highlights several important implications that warrant attention:

Operational systems need to be in place before concrete adaptation actions can be delivered effectively. Attention needs first to be placed on overcoming national capacity constraints. There is a risk that, with the desire to scale up adaptation activities quickly, the AF Board will fall back on relying on multilateral implementing agencies and side step the direct access route, unless significant resources are put in place to support NIE capacity building efforts. The AF Board could consider encouraging 'learning by peers', with advice being made available from accredited NIEs to other countries interested in establishing an NIE.

The Adaptation Fund and its partners need to look towards other funders to support NIE capacity building. Positively, the Adaptation Fund Accreditation Panel has recommended the Board to redouble its efforts to engage bilateral and multilateral agencies to provide assistance to the applicants, thereby increasing the resource flows for capacity building. The Board has requested bilateral donors to consider initiating programmes for financial and technical support for developing countries in establishing their NIEs. If external donors respond, such support may have the added benefit of increasing donor coordination and harmonization for adaptation finance delivery.

It may take a while for Least Developed Countries (LDCs) with particularly low management capacity to accredit NIEs. The slow start of NIE accreditation means that many LDCs that are characterized by limited management capacity are unlikely to have accredited NIEs in the near future. This may put them at a comparative disadvantage in building experience in implementing national adaptation actions.

In order for the Adaptation Fund to be upheld as a model mechanism for international adaptation finance flows, these early challenges need to be met. Complementary resources are urgently needed for building in-country capacity to administer and implement these concrete adaptation programmes and ensure they are of high quality.

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Websites

Climate Funds Update: www.climatefundsupdate.org

The Adaptation Fund: www.adaptation-fund.org

The Global Alliance for Vaccines and Immunization (GAVI): www.gavialliance.org

The Global Fund to Fight AIDS, Tuberculosis and Malaria: www.theglobalfund.org

Annex 1. Country proposals submitted to the Adaptation Fund (as of November 2010)

Country	Country Classification	Title of Proposal	IE	EE	Proposed budget (US$ millions)	IE fee[1] (%)	Project life (years)	AFB decision as of 17 Sept 2010
Senegal	LDC, Africa	Adaptation to coastal erosion in vulnerable areas	CSE	Directorate of Environment and civil society	8.62	5	2	Approved to implement
Honduras		Addressing Climate Change Risks on Water Resources in Honduras: Increased Systemic Resilience and Reduced Vulnerability of the Urban Poor.	UNDP	Secretariat for Natural Resources and Environment	5.70	9	5	Approved to implement
Egypt	Africa	Promoting Mariculture as an Adaptation Strategy to Sea Level Rise in the Nile Delta	UNDP	Ministry of Water Resources and Irrigation	5.72	9	5	Not approved
Guatemala		Climate change resilient productive landscapes and socio-economic networks advanced in Guatemala	UNDP	Ministry of Environment and Natural Resources	5.50	9	4	Concept note endorsed
Madagascar	LDC, Africa	Promoting Climate Resilience in the Rice Sector	UNEP	Ministry of Environment and Forests	4.50	8	4	Concept note endorsed
Mongolia		Ecosystem Based Adaptation Approach to Maintaining Water Security in Critical Water Catchments in Mongolia.	UNDP	Ministry of Nature, Environment and Tourism	5.50	9	5	Concept note endorsed
Niue	SIDS	Reducing climate risks to food security in Niue through integrated community-based adaptation measures and related institutional strengthening	UNDP	Department of Agriculture, Forestry and Fisheries	3.46	9	4	Not endorsed
Uganda	LDC, Africa	An Integrated Approach to Building Climate Resilience in Uganda's Fragile Ecosystems	WFP	Ministry of Water and the Environment	13.06	8	4	Not endorsed
Cook Islands	SIDS	Enhancing Resilience of Communities of Cook Islands through Integrated Climate Change Adaptation and Disaster Risk Management Measures	UNDP	National Environment Service	4.99	8	4	No decision known
El Salvador		Promoting climate change resilient infrastructure development in San Salvador Metropolitan Area	UNDP	Ministry of Public Works	5.42	8	4	No decision known
Eritrea	LDC, Africa	Climate Change Adaptation Programme In Water And Agriculture In Anseba Region, Eritrea	UNDP	Ministry of Agriculture	6.52	8	4	No decision known
Ecuador		Enhancing Resilience of Communities to the adverse effects of climate change on food security, in Pinchincha Province and the Jubones River Basin	WFP	Ministry of Environment	7.45	7	5	No decision known
Fiji	SIDS	Enhancing Resilience of Rural Communities to Flood and Drought-Related Climate Change and Disaster Risks in the Ba Catchment Area of Fiji	UNDP	Department of Environment	5.73	8	4	No decision known
Georgia		Developing Climate Resilient Flood And Flash Flood Management Practices To Protect Vulnerable Communities Of Georgia	UNDP	Ministry of Environment	5.32	8	4	No decision known

India		Integrating Climate Risks And Opportunities Into The Mahatma Ghandi National Rural Employment Guarantee Programme (MGNREGP)	UNDP	Ministry of Rural Development	5.42	8	4	No decision known
Maldives	LDC, SIDS	Increasing climate resilience through an Integrated Water Resource Management Programme in HA. Ihavandhoo, ADh. Mahibadhoo and GDh. Gadhdhoo Island	UNDP	Ministry of Housing and Environment	8.99	8	4	No decision known
								AFB decision as of 16 June 2010
Mauritius	SIDS	Climate Change Adaptation Programme In the Coastal Zone of Mauritius	UNDP	Ministry of Environment	9.12	8	4	Concept note to be resubmitted
Nicaragua		Reduction of Risks and Vulnerability Based on Flooding and Droughts in the Estero Real River Watershed	UNDP	Ministry of Environment and Natural Resources	5.50	8	4	Concept note endorsed
Pakistan		Reducing Risks and Vulnerabilities from Glacier Lake Outburst Floods in Northern Pakistan	UNDP	Ministry of Environment	3.91	8	4	Concept note endorsed
Papua New Guinea	SIDS	Enhancing Resilience of Communities in Papua New Guinea to climate change and disaster risks in the Coastal and Highland regions	UNDP	Office of Climate Change and Development	8.83	8	4	No decision known
Solomon Islands	LDC, SIDS	Enhancing resilience of communities in Solomon Islands to the adverse effects of climate change in agriculture and food security	UNDP	Ministry of Environment	5.53	8	4	Concept note endorsed
Turkmenistan		Addressing climate change risks to farming systems in Turkmenistan at national and community level	UNDP	Ministry of Nature Protection	2.93	8	4	Concept note to be resubmitted
Total					**137.72**			
		Total financing available to the AF Board as of 30th July 2010			**156.28**			
		Estimated financing available to the AF Board up to 2012			**372.00**			

Notes:

[1] IE Fee is expressed as a percentage of the total requested finance

IE: Implementing Entity

EE: Executing Entity

SIDS: Small Island Developing States

LDC: Least Developed Countries

Data accessed from Adaptation Fund website on 10th November 2010

Climate Finance Policy Briefs

This series of policy briefs provides an independent commentary on current themes associated with the international debate on climates finance. The papers are prepared by the Heinrich Boell Foundation and ODI and posted on the climate funds update website (www.climatefundsupdate.org).

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1. Where's the money? The status of climate finance post-Copenhagen
2. Climate finance additionality: emerging definitions and their implications
3. Direct Access to the Adaptation Fund: realizing the potential of National Implementing Entities