



ADAPTATION FUND

Capacity-building gaps to
access financial resources in
developing country
institutions

Bonn 20 May, 2016



Adaptation Fund and the Direct Access Modality

- **Objectives:**

- ✓ Direct Access, whereby a country can access funds directly from the AF and other funds adopting similar modality to manage adaptation/mitigation projects, requires an accredited National Implementing Entity meeting the funds' fiduciary standards, environmental and social safeguards and gender policy

- **Assessment Criteria:**

- ✓ **Approved by the Adaptation Fund Board**
- ✓ **Implementing entities must meet the requirements in four key areas:**
 - Legal status**
 - Financial Management and Integrity;**
 - Institutional Capacity; and**
 - Transparency, Self-investigative Powers and Anti-Corruption Measures and Polices and Mechanisms to monitor and address Complaints about Environmental or Social Harms Caused by Projects.**



Focus on Capacity Building





➤ Legal status

- Demonstration of legal personality
- Ability to contract with AF and authority to directly receive funds

➤ Financial Management and Integrity

- Financial Statements and External Audit requirement
- Internal Control Framework
- Internal Audit/Assurance and Oversight arrangements
- Preparation of Business plans and budget

Focus on Capacity Building

► Institutional Capacity

► Transparency, Self-investigative Powers, Anti-corruption measures and handling complaints about harmful Environmental or Social Impact of projects

- Procurement
- Project Preparation and Appraisal
- Project Implementation Planning
- Project Monitoring and Evaluation
- Project Closure and Final Evaluation

- Policies and Framework and capacity to deal with fraud, corruption and other forms of malpractice
- Commitment by the entity to apply the Fund's Environmental & Social and Gender policy
- Mechanism to deal with complaints on environmental and social harms caused by projects

Common Capacity-building gaps and AF examples of mitigating factors

► Legal

- **Gap:** Difficulties on identifying the responsible Entity (Ability to contract with AF and authority to directly receive funds) within the Ministry;
- **Mitigating factor:**
 - *AF allows Ministry to be the Designated Implementing Entity and to identify an Executive Entities that reports to the Ministry.*
 - *Review of the legal capacity of the applicant at screening stage*

► Financial Management and Integrity

- **Gap:** Difficulties on identifying appropriate internal control framework.
- **Mitigating factor:** *In addition to referring to the COSO framework, the Panel strongly encourages the issuance of an annual public statement signed by Chief Executive Officer and the Chief Accountant of the IE, which confirms that the internal control framework is operating satisfactorily. This representation should be supported by periodic review of the effectiveness of these internal control elements, i.e., internal control reviews satisfactorily carried out by management or by the internal and external auditors*

Common Capacity-building gaps and AF examples of mitigating factors

► Institutional Capacity

► At Quality at entry

Gap: Weakness of a supervisory review of the project quality during the design, appraisal, and pre-implementation stages with respect to the key areas of the project;

Mitigating factor: *support the Entity on identifying areas that are missing or need improvement and define role and responsibilities and the appropriate course and type of corrective action required; and Review the corrective actions taken.*

► Project Risk Assessment

Gap: Capacity of the entity to assess the risk as systematic process for identifying, evaluating, and managing potential events that could occur and adversely affect the achievement of an IE's project or objectives or result in unintended or undesirable negative consequences.

Mitigating factor:

Undertake assessment of project/programme risks including: (a) financial, economic, political risks, and (b) environmental and social risks, and

Integrate mitigating strategies and environmental and social risk management plans into the project document.

Common Capacity-building gaps and AF examples of mitigating factors

- ▶ Transparency, Self-investigative Powers, Anti-corruption measures and handling complaints about harmful Environmental or Social Impact of projects

Gap: Non-transparent mechanisms for handling complaints about harmful Environmental or Social Impact of projects and/or fraud and corruption complaints

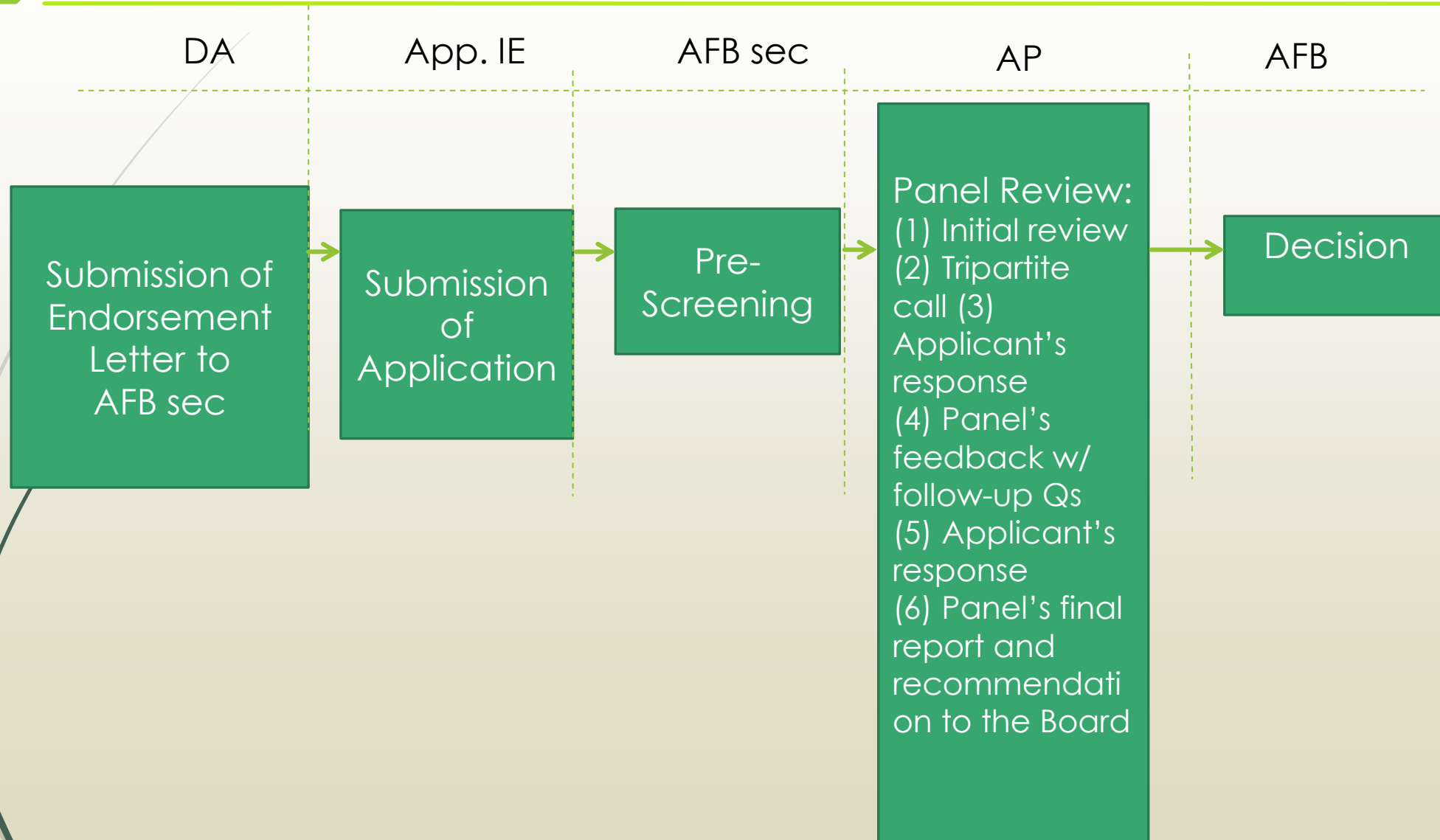
Mitigating factor:

- a) A public statement setting the tone from senior management;
- b) A code of conduct and ethics applicable to the staff of the entity, consultants, and other parties directly or indirectly associated with the projects financed through the applicant entity;
- c) An anti-fraud policy and investigative procedures;
- d) An effective and working anti-fraud policy, process, and procedures that guide the receipt, investigation and disposition of complaints/allegations of wrongdoing including non-compliance, fraud, violation, misconduct and business conduct concerns including how business related to its activities and projects is conducted or instances where there is a non-appropriate conflict of interest
- c) Capacity to perform effective investigations of complaints

Common Capacity-building gaps and AF examples of mitigating factors

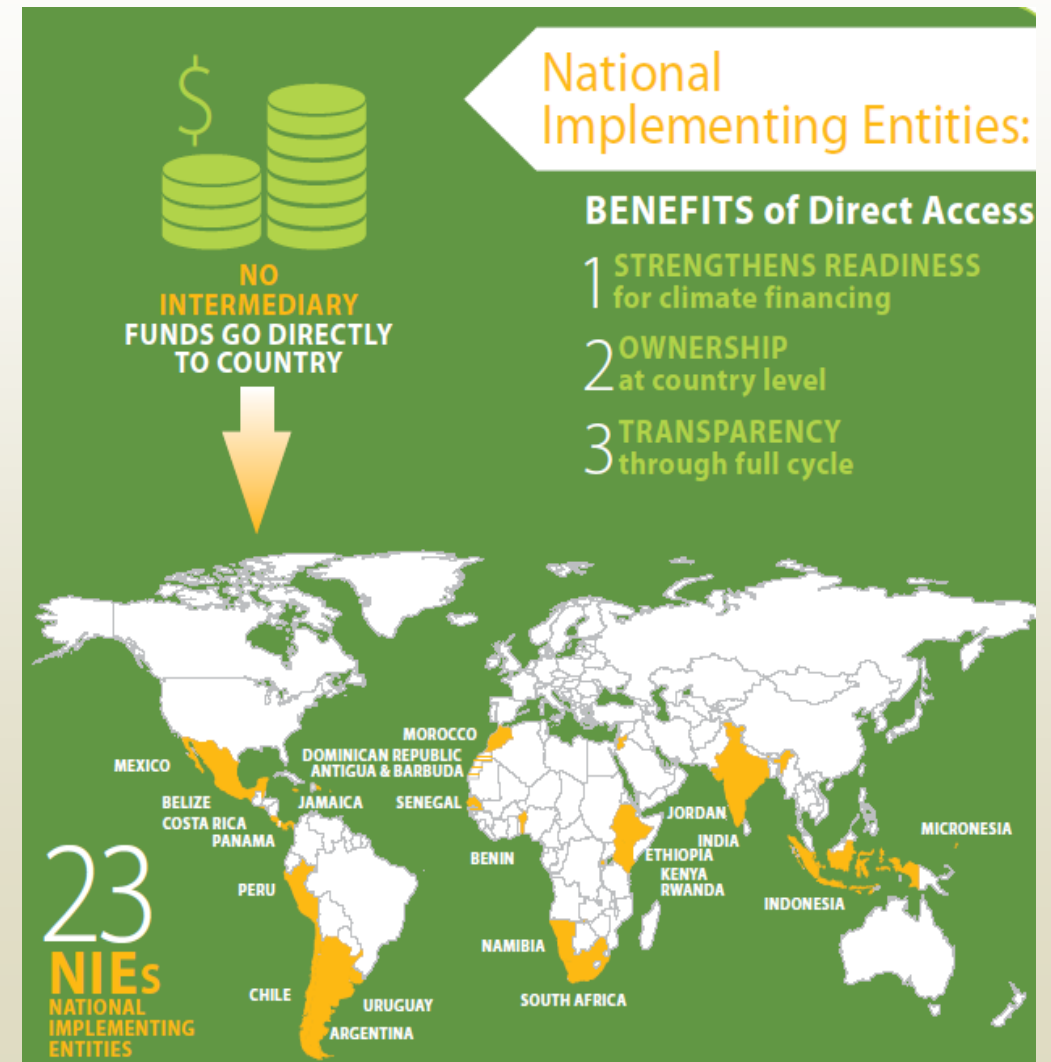
- ▶ In April 2015, the AF Board approved the use of a **Streamlined Approach** for accreditation of Small Entities that may not be able to meet the Fund's normal Fiduciary Standards because of their small size. In this case, the Fund accepts mitigating measures for each standard but still requires that all standards are met.
- ▶ Appropriate for smaller entities

A Country Driven Process: Accreditation Parties



AF ROLE AS A FACILITATOR

- ✓ Operationalization of direct access to climate finance.
- ✓ Implementation of a readiness programme.
- ✓ Proven ability to ensure an accelerated, simplified, efficient and effective project cycle.
- ✓ Tripling of the number of NIE projects approved in 2015.
- ✓ Active civil society involvement at various levels.



An Important Framework

Paris Declaration in 2005 and Accra Agenda for Action (AAA) in 2008

- ✓ *Ownership*: Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption: encouraging local ownership
- ✓ *Alignment*: Donor countries align behind these objectives and use local systems: alignment of development programmes around recipient country's development strategy
- ✓ *Harmonisation*: Donor countries coordinate, simplify procedures and share information to avoid duplication: harmonization of practices to reduce transaction costs
- ✓ *Results*: Developing countries and donors shift focus to development results and results get measured: creation of results frameworks for development objectives
- ✓ *Mutual accountability*: Donors and partners are accountable for development results: ensuring mutual accountability.

The High Level Fora on Aid Effectiveness in 2011 further strengthened the five principles and embraced South-South and triangular development co-operation that include CSOs and private sector in addition to the traditional donors.





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