

GUIDELINES FOR DESIGNING BANKABLE ADAPTATION PROJECTS

A TOOL FOR HARNESSING THE CAPACITY OF CIVIL SOCIETY IN INDIA TO DESIGN LOCALLY-RELEVANT SOLUTIONS

SETTING THE CONTEXT: DIRECT ACCESS TO CLIMATE FINANCE

Within the context of the United Nations Framework Convention on Climate Change (UNFCCC, 1992) governments have agreed on options that will facilitate the effective, equitable, and efficient delivery of climate finance. This process has reinforced the importance of strong national climate strategies as well as in-country institutional structures. A major theme within these discussions has been “direct access” to climate finance, and over the past decade the volume of finance and number of sources of such finance have grown rapidly.¹ This growth is an extremely positive development and is critical to support developing countries pursue low-emission, climate-resilient development.

In the lead up to the COP21 meeting in Paris in late 2015, governments and agencies pledged new climate finance. The Overseas Development Institute (ODI) estimated that the public finance offered by developed countries would result in at least USD 18.8 billion per year by 2020.² In addition, Japan aims to mobilize USD 10 billion per year in public and private finance by 2020. New pledges to climate funds, including the Adaptation Fund (AF), the Global Environment Facility’s Least Developed Countries Fund, and the Green Climate Fund (GCF), added up to more than USD 1.5 billion (including pledges of USD 1 million from the city of Paris, and funding from

ADAPTATION FINANCE KNOWLEDGE SERIES

Since 2011, USAID Adapt Asia-Pacific has been helping countries develop bankable climate change adaptation projects and improve their access to related funding. These experiences, published in this USAID Adapt Asia-Pacific Adaptation Finance Knowledge Series, are based on work with government officials, multilateral institutions, regional organizations, community-based organizations, consultants and other experts.

For countries to gain direct access to international climate change adaptation funds, like the Adaptation Fund, they not only need to be able to pass stringent accreditation requirements, but they also need the skills to prepare sound project proposals that meet the requirements of the financing agency.

As the sixth publication in the USAID Adapt Asia-Pacific Adaptation Finance Knowledge Series, this paper presents a summary of the Project Appraisal Guidelines developed in collaboration with India’s National Bank for Agriculture and Rural Development (NABARD). Building on NABARD’s project shortlisting criteria (described in the third publication in this series), the Guidelines help NABARD to harness the local knowledge of India’s civil society organizations to design strong adaptation projects for funding from the Adaptation Fund.

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the state government of Quebec, Canada). All multilateral development banks have also pledged to scale up climate finance in developing countries substantially by 2020, to more than USD30 billion per year.³

However, while the scale of finance is increasing it remains inadequate to address the enormous challenge of adaptation. It is also essential that due attention is paid to the mechanisms and modalities that are used to access and deliver that financing.⁴ Whereas developed countries have internal resources to respond to climate change (both in monetary terms and a wide skills base), in many developing countries the response is undermined by a scarcity of such resources and capacity. These limitations are heightened for vulnerable groups, such as the poor and women, who often face increased political, social, and economic barriers to accessing and benefiting from the limited financial resources which currently exist. It is widely recognized that removing such barriers would widen the effectiveness and equity of climate finance and drive more resilient and sustainable development.

Direct access is increasingly seen as more than a simple financial mechanism. It is part of a wider process to:

- (i) improve country capacity to identify vulnerabilities under climate change scenarios and to plan for future climate change mitigation and adaptation;
- (ii) mobilize and allocate additional domestic finance in order to promote national ownership and achieve climate and development objectives; and
- (iii) identify the best national partners to develop, prepare, and implement bankable development projects and programs that are financed both internationally and domestically.

Generally in the Asia-Pacific region most success to date has been with (i) and (ii), and countries have benefitted from international support for various "climate readiness" programs. National Action Plans have been drawn up that provide good analysis of the major vulnerabilities,

likely impacts under different assumptions of future climate change, and the priority measures needed to be taken by both the public and private sectors. In some of the larger countries, domestic climate change funds have been set up. However, under (iii) above capacity to identify and prepare bankable climate change adaptation projects and programs is lagging in many countries in the region.

India provides an example of one country where good progress has been made on (iii). How was this achieved? This paper describes the process in India in support of the **National Bank for Agriculture and Rural Development (NABARD)** in its role as the **national implementing entity (NIE)** for the **Adaptation Fund (AF)**. The paper also suggests that other countries, especially smaller countries such as the Pacific Island Countries, can make similar progress by following the NABARD example.

ACCESSING THE ADAPTATION FUND IN INDIA

India is highly vulnerable to climate change, not only because of physical exposure to climate-related disasters (65 percent of India is drought prone, 12 percent flood prone, and 8 percent of the country is susceptible to cyclones), but also because of the dependency of its economy and the majority of the population on climate-sensitive sectors (e.g. agriculture, forests, tourism, animal husbandry, and fisheries) and the lack of access to technological and financial resources. Adaptation to climate change is thus considered vital to support the livelihoods of the rural poor and to improve the productivity of the agriculture sector more broadly. Adaptation is also necessary to effectively address poverty and food security issues.

Agriculture is by far the largest employer in the Indian economy with an approximate 50 percent share, despite a shrinking contribution to gross domestic product (13.7 percent of GDP in 2013, down from 43 percent in 1970). As one of the world's largest producers of food grains, coconuts, cashews, tea and milk products, India's agricultural sector features small-scale production on fragmented holdings, large areas of low productivity soils, high dependency on rain-fed conditions, and low literacy rates that constrain the capacity of farmers to take up new technology. The majority of agricultural workers come from the poorer segments of the population, including scheduled tribes and castes, with very limited livelihood options.

India's NABARD is an apex development bank, with its headquarters in Mumbai and branches all over the country. Established in 1982, its main focus is uplifting rural India by increasing the flow of credit to agriculture and the rural non-farm sector. It has been entrusted with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India". Over the years, NABARD has had significant experience working with state organizations as well as non-governmental organizations (NGOs) and foundations with the capacity to work at the grassroots level and reach poor communities.

NABARD is also the NIE for the AF. In 2014, NABARD sought assistance from USAID Adapt Asia-Pacific in strengthening its capacity to design and appraise individual projects for submission to the AF within the overall country ceiling of a USD10 million grant.⁵ In addition to specific project assistance, NABARD was keen to develop criteria for shortlisting project concepts, as well as a set of practical and comprehensive guidelines for project design and appraisal.

To ease the burden of project design, NABARD sought potential AF project proposals through local non-government organizations (NGOs), civil society organizations (CSOs), or foundations with strong track records of poverty reduction in various sectors in rural areas. India has had long experience of successful poverty reduction activities through such organizations. They have practical experience, motivated staff, good operational networks, and ongoing rural programs – all huge assets when it comes to selecting potential executing entities (EEs) for climate change adaptation projects.

Involving capable, local civil society organizations may hold the key to a problem that is becoming more apparent in climate change adaptation: that climate impacts can vary greatly even over small geographical areas and there is need for locally-relevant solutions that take on board local community knowledge and experience. Planning and decision-making should therefore be localized and not centralized.

THE NEED FOR GUIDELINES

Despite its long development experience, NABARD was relatively new to climate change issues in 2014 and had only recently begun to gain the experience needed to develop a portfolio of viable adaptation projects with external assistance. Requesting project proposals from local NGOs proved fruitful, as the early draft proposals received were comprehensive, however they were not in line with the AF's requirements. Organization of climate data and vulnerability to future climate risks, the rationale for a project, the results framework, the economic and financial analysis, and detailed implementation arrangements were typical aspects that were not sufficiently presented. As a result considerable revisions were required before they were approved for AF financing.

This is illustrated in the bar chart below, which shows the "before" and "after" changes in the size and structure of five project submissions that were prepared *before the Guidelines* were designed. Common errors and omissions in the early drafts included:

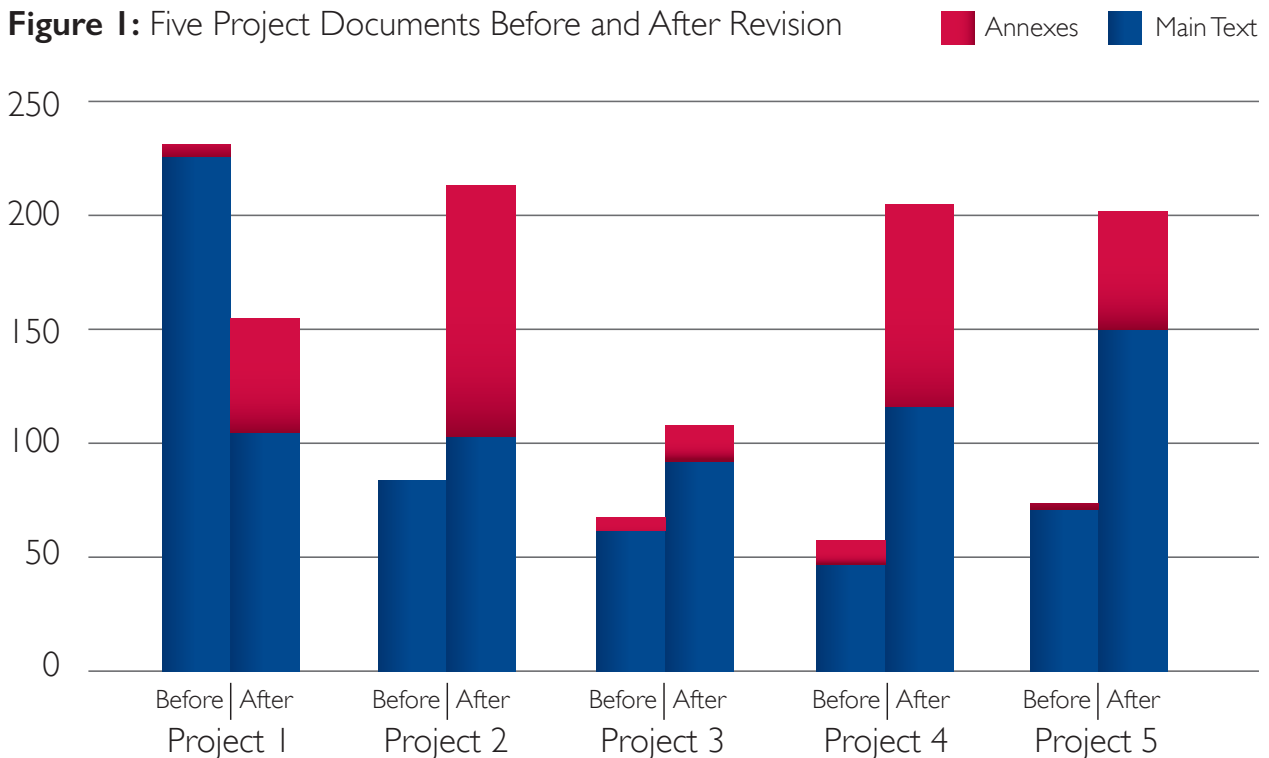
- *Errors resulting from a lack of understanding of the Fund's requirements. These could have been mitigated by visiting the AF website to check the requirements or the contents of previously approved projects.⁶ Examples include failing to link the project framework*

with the narrative description of the project's outputs, components, and activities; and not presenting costs on an outputs basis as required.

- *Lack of the annexes needed in each case to provide additional detail.*
- *Lack of necessary detail needed in the main text, including entirely missing sections.*
- *Excessive delays in preparation as a result of overall lack of attention to AF requirements leading to the need for multiple reviews. Of the 5 AF projects examined, major revisions and restructuring were needed on each one. To satisfy quality requirements, all project documents also needed to be consistent and accurate – e.g. all tables, charts, and figures needed a clear layout, and sources. This was a time consuming process.*

The objective of the Guidelines is therefore to respond to NABARD's request for simple, short, and practical guidelines for designing and appraising project submissions that comply with AF requirements. The scope covers both those aspects required by NABARD, as the NIE and project owner on behalf of the Indian Government, and those aspects required by the NGOs (referred to by the AF as executing entities – or EEs) as the project proponents.

Figure 1: Five Project Documents Before and After Revision



The vertical axis shows the total number of pages and the horizontal axis shows the 5 projects.

Source: USAID Adapt Asia-Pacific review drafts compared to final project documents.

The Guidelines seek to support both EEs, in the preparation of future project proposals, and NABARD staff, in the revision and improvement of the quality of the design proposals received. The Guidelines are also intended to enhance the capacity of NABARD staff to appraise these proposals. In view of this dual function the appraisal process cannot be clearly separated from project design.

In appraising projects, benchmarks, reference material and resources need to be set through which to assess the quality of proposals and give feedback to EEs for inclusion in the final design. The review comments that are provided by the AF Secretariat, prior to Board approval, are an essential part of the project appraisal process. It is essential that all review comments and suggestions are adequately addressed. The Guidelines emphasize the need to provide examples of the steps and content required to meet the AF's requirements, including the "building blocks" of a sound project document with accurate tables, charts, figures, maps, photos, the results framework, and a clear and consistent narrative, among other things.

The Guidelines are now in use for training NABARD staff and are available to the local NGOs and other EEs who will be preparing future projects. While the Guidelines have been prepared for use by NABARD and the EEs in the preparation of projects for financing by the AF, they are also applicable for use in preparing projects that may be submitted to other financiers, e.g. Green Climate Fund, or domestic sources of climate finance.⁷

CONTENT OF THE GUIDELINES

The Guidelines are organized based on a typical project cycle, which has four stages: (i) project identification/ problem diagnosis of the baseline situation; (ii) project design, including appraisal – also called *project preparation*; (iii) project implementation; and (iv) monitoring and evaluation. Climate analysis must be integrated into each stage. *Design and appraisal are part of the project preparation phase*, extending up to the approval stage and before implementation starts. This requires a good understanding of the basic project preparation process and the format and content required for submitting project proposals for consideration by the AF Board.

SECTION I of the Guidelines describes NABARD's three AF-approved pilot projects as of June 2015. These are:

1. *Conservation and Management of Coastal Resources as a Potential Strategy for Sea Level Rise*

(USD689,264). The EE for the project is the M. S. Swaminathan Research Foundation (MSSRF);

2. *Enhancing Adaptive Capacity and Increasing Resilience of Small and Marginal Farmers in Purulia and Bankura Districts of West Bengal* (USD2,510,854). The Development Research Communication and Services Centre (DRCS) is the EE for the project; and
3. *Building Adaptive Capacities of Small Inland Fishers for Climate Resilience and Livelihood Security, Madhya Pradesh* (USD1,790,500). *Towards Action and Learning (TAAL)* is the EE for the project.

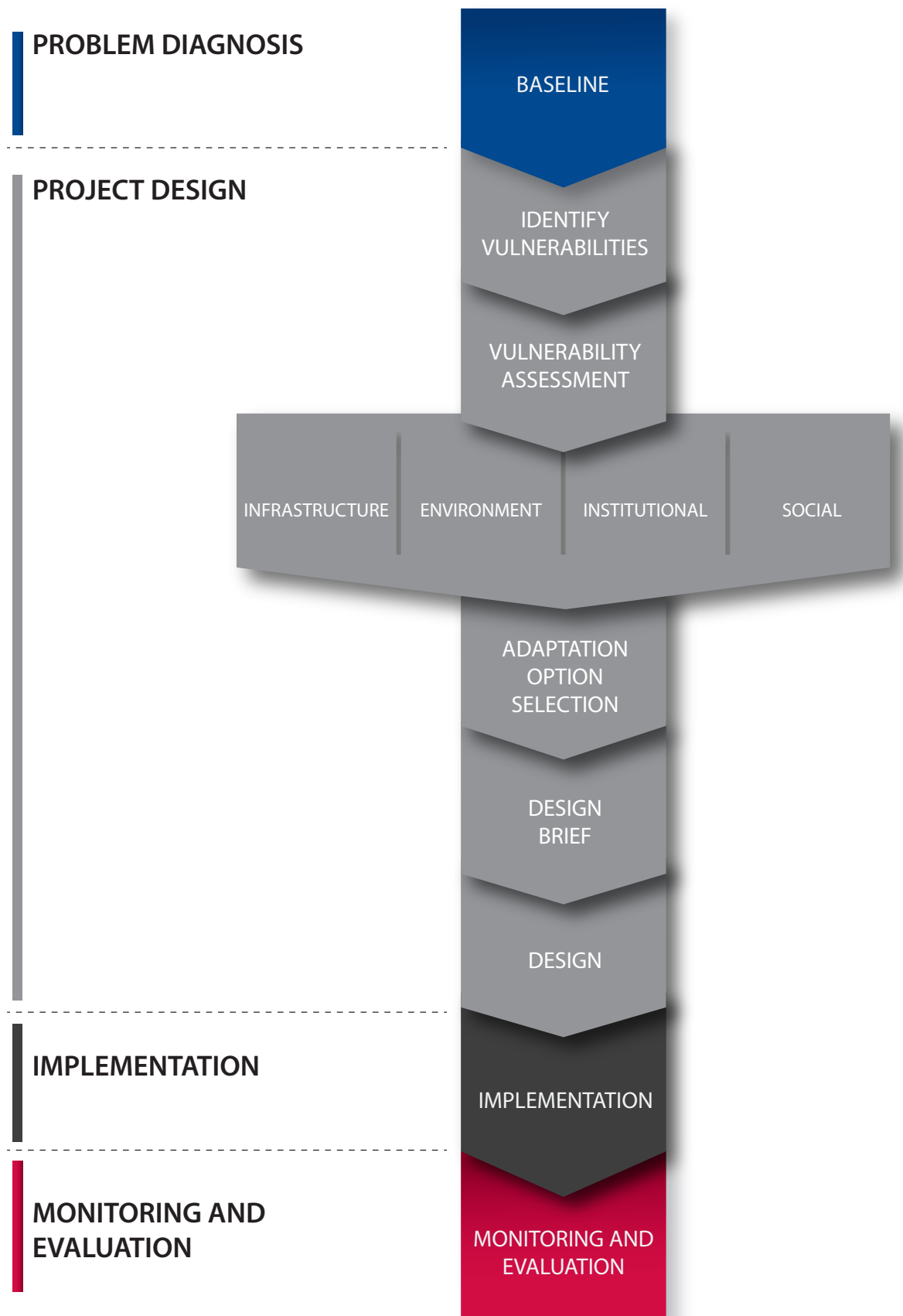
These are all small pilot projects designed to address different aspects of climate risks to poor farmers/ fishers, their rural environments, and the sustainability of their future livelihoods. The value of pilot projects such as these in developing a future long-term program is well established: it is a good way to demonstrate the effectiveness and relevance of climate change adaptation, and to raise awareness in the local community and gain political momentum. Ideally such pilot adaptation projects should have the following features: (i) *a low hurdle for implementation*: this increases the likelihood of success and provides opportunities for practitioners to gain experience; (ii) *high visibility*: this is the key for local awareness raising and future scale-up; and (iii) *low regret*: the project should increase the climate resilience of the targeted area, but should also bring development benefits irrespective of climate conditions. This will ensure that benefits of the projects become visible even when the climatic conditions remain unchanged for a few years.

SECTION 2 describes the key steps and principles in the process of preparing adaptation projects, with a specific focus on *design and appraisal*, as these are the most critical steps in developing quality proposals for financing.

Design aspects

- **Define the problem:** Describe the climate change-induced problem that underlies a proposed adaptation project.
- **Identify the root causes of the problem:** Identify the reasons (the vulnerabilities) for the climate change-induced problem. What are the broad causes and the core or root causes? Why are they not already addressed? A range of non-climate related factors are also at the heart of the matter. Understanding the causes of the problem is critical for formulating an appropriate adaptation response. The EE team is responsible for outlining the root causes of the problem and including this analysis in the project proposal.

Figure 2: The typical project cycle.



- **Describe the desired situation:** Identify the long-term desired solution – commonly referred to as the normative situation. Inputs include: (i) results of climate change risk assessments; (ii) findings from technical assessments including adaptive research; (iii) technical expertise; and (iv) political considerations – all are likely to be needed to formulate the desired mix of interventions.
- **Identify the main barriers to be overcome to reach the desired solution.** Why is the preferred solution not already in place – there are barriers preventing it -- what are the key ones? Comprehensive “mapping” is needed of all the critical barriers that need to be removed for the desired situation to be reached – this is part of the process needed for the project results framework (PRF). What are the alternative options – including livelihoods? The EE team is responsible for identifying the main barriers that need to be overcome and the ways to achieve this through their proposal.
- **Identify the adaptation options and design the best option.** Costs, benefits and feasibility are the focus of this stage and cost-effectiveness analysis is the preferred form of quantitative economic analysis of most AF projects. Examples of how to do this have been provided. The technical viability of the preferred design option is critical in all projects. The project results framework summarizes the full design, including the impact, outcome, outputs, indicators, monitoring and reporting, and risk management.

Who designs projects? Once selected, the EE can firm up its project team with responsibility for preparing the project all the way from initial problem diagnosis to detailed design and funding approval. A typical team may include specialists in infrastructure, production/livelihoods, environment, finance/economics, social aspects and institutions. An experienced team leader should be nominated as the focal point for communication. The quality of proposals reflects the capacity of the proposer and the allocation of staff time to do the work required. Specialist consultants may also be involved. NABARD, as the NIE, has a primary role for the initial selection of the topic/sector and selection of the EE. NABARD is also responsible for: (i) visiting each EE and the project site for fact-finding; (ii) reviewing progress; and (iii) being a reliable and timely communicator, thereby ensuring free flow of information. Reviewers can guide, encourage, and suggest changes to improve project documents. But they cannot be held responsible for the overall quality. Strong ownership is necessary if projects are to be successful. EEs are ultimately responsible for the quality of their own documents.

Appraisal aspects

- **Project appraisal** is an integral part of the design phase for all projects. It is a consistent process of reviewing a given project and providing feedback to the EE so that improvement can be made in the initial design. Appraisal inputs can be made at one time in a formal review or over various inputs depending on the need and the circumstances surrounding project preparation. Detailed design follows appraisal and takes place when findings from the appraisal are reflected in the project design, and the bulk of the project parameters are finalized before implementation.
- **Role of appraisal:** Sound project appraisal should take a broad perspective and be thorough so as to help develop the best and most efficient climate change adaptation projects. It should also exercise authority: (i) to stop poor projects being developed; (ii) to correct or redirect good projects that may be off-track in preliminary design; (iii) to determine if project components are consistent; (iv) to assess the sources and magnitudes of risk; and (v) to determine how to reduce and efficiently share risks.
- **Impact:** Quality of analysis (also called “quality at approval or at entry”) has been found to be a key determinant of the success of a project’s performance. A thorough appraisal may cause the project to be redesigned so that it is less likely to fail. Evaluation studies after completion have shown that poorly prepared projects (e.g. those with inadequate appraisal) fail far more often than well-prepared projects.
- **Scope:** The scope of project appraisal consists of a review of all the materials provided by the EE in the initial project design paper; and identification of any incomplete or overlooked tasks that should be completed to meet the AF requirements. The basic requirement of each AF project is set out in their template and guidance for its completion. The template requirements provide a useful checklist for appraisal.

Who appraises projects? As the NIE, NABARD has a key role to play in appraising project proposals through a review of the in-depth climate risk assessment and the adaptation options identified and selected, to pinpoint the most appropriate adaptation measures. Beyond this, NABARD staff can provide specific assistance in governance requirements and implementation arrangements, reporting, monitoring and evaluation as required by NABARD’s own procedures. Review of AF comments and feedback on initial design and advice

during preparation are also given by NABARD to improve design quality. For NABARD's provincial staff, their role can be more "hands on" with the EEs – e.g. in cost and technical norms, livelihood activity viability, cost effectiveness and cost-benefit analysis, and visits to project sites.

The AF Secretariat's reviews of project concepts or full project proposals and feedback of summary comments are a vital part of the appraisal process. If the initial full submission is well-prepared, the Secretariat's review may identify only minor points that will need correction or amplification. In such cases progress towards approval will normally be quite fast. On the other hand, if a large number of points are raised then multiple reviews are normally required and progress will be slower.

SECTION 3 of the Guidelines addresses the background and context of the project, to be set out in Part I of the template.

It is particularly important to establish the credibility and priority of the project in the mind of the reader – if this section is poorly presented then it undermines the prospects for the details of the proposal that follow. About 25 pages or less should be adequate to clearly set out the background, context, and rationale for an intervention to address the identified climate change challenge at the national and local levels. This part of the project document should establish the importance of the adaptation challenge being addressed, the magnitude of climate change elements experienced so far and anticipated in the project location(s), the agriculture/natural resources involved, and the target communities, their socio-economic circumstances, and their key vulnerabilities to anticipated climate change impacts on their livelihoods activities and well-being. Project proponents know the literature, other projects, and the agencies involved in their sector(s) of expertise and should make good use of all these sources in Part I. Briefly the proposed project response should be presented in terms of its objectives, outcomes, and outputs. The budget and calendar for implementation should also be summarized as per the required tables.

In **SECTION 4** of the Guidelines, there are 11 sub-sections and each one needs to be covered to complete Part II of the template successfully. They are as follows:

1. Project components and activities
2. Economic, social, and environmental benefits
3. Cost effectiveness
4. Consistency with development strategies
5. Consistency with national technical standards
6. Duplication and complementarity

7. Knowledge management
8. Stakeholder consultation
9. Justification
10. Sustainability
11. Environmental and social impacts and risks.

For each of these sub-sections the AF template provides guidance. For example, on point (i) AF guidance: *Describe the project/program components, particularly focusing on the concrete adaptation activities of the project, and how these activities contribute to climate resilience. For the case of a program, show how the combination of individual projects will contribute to the overall increase in resilience. The activities shall aim at producing visible and tangible results on the ground by reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change, including climate variability. Adaptation projects/programs can be implemented at the community, national, regional, and transboundary level. Projects/programs concern activities with a specific objective(s), concrete outcome(s), and output(s) that are measurable, monitorable, and verifiable.*

The Guidelines document presents all of the AF guidance on each sub-section, and suggests that about 50 pages are needed. It also provides examples of text, tables, graphs, photos, and diagrams as illustrations of how to present the material required. The AF website <https://adaptation-fund.org> contains guidelines, policies, the template to use for program/project proposals, as well as all projects that have been approved – all of this information is a powerful resource for project proponents to use.

In **SECTION 5** of the Guidelines, there are 8 sub-sections and each one needs to be covered to complete Part III of the template successfully. The sub-sections are as follows:

1. Implementation arrangements
2. Risk management
3. Environmental and social risk management
4. Monitoring and evaluation
5. Project results framework
6. Alignment with the AF results framework
7. Budget
8. Disbursement.

The Guidelines document presents all of the AF guidance on each sub-section, and suggests that about 25 pages are needed. Project examples are also provided for each sub-section to illustrate the detailed implementation, governance, and oversight arrangements that are required in all proposals.

FINAL COMMENTS

The Guidelines have been developed to assist project proponents to design sound proposals and to assist NABARD, as India's NIE, in its role of project appraisal. The interaction between NABARD and the EEs will be enhanced with a good common understanding of the requirements of the AF. Sharing examples of approved projects can help in fomenting this understanding.

The full Guidelines lay out a number of suggestions on how to complete the AF's template, section by section. Examples from approved Indian projects are given to illustrate the role of tables, charts, maps, photos, schematic diagrams as well as text. If the Guidelines are carefully followed, project proponents will be able to successfully complete their proposals. The Guidelines also provide a list of useful references for those preparing adaptation projects.

Essential AF references are available at <https://adaptation-fund.org>, and include:

1. *AF Results Framework and Baseline Guidance – Project level*
2. *Environmental and Social Policy of the Adaptation Fund*
3. *AF Operational Policies and Guidelines*
4. *AF guidance on the content of the template, section by section.*

KEYS TO SUCCESS:

- NIEs do not need to design adaptation projects themselves; they can draw from and build on the knowledge of local civil society organizations to design projects for them. Incidentally, these organizations are the best suited to design adaptation interventions relevant to the local conditions.
- The key to designing fundable adaptation projects is for NIEs to have a thorough understanding of the financier's requirements, so that they can assist project proponents during the design and appraisal process

REFERENCES

- 1 Direct access is widely understood as a short-hand term for developing countries directly accessing international public financing in order to implement national and local actions to address climate change. With direct access, the facilitation function normally played by multilateral, international, and bilateral entities in accessing international public finance is taken on by a national entity.
- 2 Overseas Development Institute, December 2015. *Climate Finance: What was Actually Agreed in Paris*. Articles and Blogs.
- 3 Overseas Development Institute, *Climate Finance: What was Actually Agreed in Paris*.
- 4 Overseas Development Institute, November 2011. *Direct Access to Climate Finance: Experiences and Lessons Learned*. Discussion Paper.
- 5 USAID Adapt Asia-Pacific is an integrated knowledge-transfer, capacity-building and technical-assistance program that links climate funding organizations with eligible Asia-Pacific countries and helps them to prepare climate change adaptation projects.
- 6 The AF website contained project preparation guidelines and support material, as well as project examples, but was not sufficiently utilized by the EEs.
- 7 Summary information on the initial pilot projects is given as background for the users of these guidelines. The three approved projects provide the examples cited in Sections 3, 4 and 5.

USAID ADAPT ASIA-PACIFIC

CLIMATE CHANGE ADAPTATION PROJECT
PREPARATION FACILITY FOR ASIA AND THE PACIFIC

The USAID Adapt Asia-Pacific project (2011-2016) helps countries in Asia and the Pacific obtain financing to address climate change impacts, through a combination of technical support in project preparation, and capacity building at the regional, national, and local levels for accessing climate change adaptation finance. For more information, visit: www.adaptasiapacific.org.

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