Trialling Client-Focused Climate Finance in Ethiopia

INNOVATIONS IN FUND MANAGEMENT

This is one of a series of short pieces from KPMG IDAS Advisors designed to show forward thinking based on our extensive experience, that covers general development topics, fragile states, private sector development, governance, assessment and organisational development, renewable energy and adaptation to climate change. The series is edited by Julio Garrido-Mirapeix, Head, and Abijah Kanene, Manager – Market Intelligence Learning and Knowledge, IDAS Africa.

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1. The challenging climate finance landscape

Climate change poses a huge threat to developing countries, particularly to poor and vulnerable communities. The past few years have seen a proliferation of international climate finance schemes to help communities cope with this threat while also combating its root causes, but this landscape is problematic.

Many of the strict financial accountability mechanisms employed by climate finance schemes make it difficult, slow and sometimes prohibitively expensive for stakeholders in developing countries to access climate funds, despite the dynamism and potential of many of these applicants.

Rigorous financial accountability is necessary to keep donor funds safe. However, the end result is a dilemma: climate finance is often inaccessible to the stakeholders who need it most and could perhaps make the best use of it. This dilemma is widely recognised, and potential solutions are being explored that could prove fruitful in time (see Table 1).[1] In the meantime, however, difficulties faced by stakeholders from developing countries remain.

Table 1: Potential solutions to existing challenges in access to climate finance

Potential solutions	Rationale	Problems
Streamlining access modalities	Makes existing funds more accessible to applicants from developing countries	Modalities remain complex due to efforts to ensure fiduciary standards, and access remains elusive for national stakeholders
Establish national climate funds (NCFs)	Provides a vehicle for enhanced access that responds to national needs and priorities	Difficult to set up, some donors reluctant to channel funds via NCFs, may deprioritise initiatives by non-state actors
Secure direct access to funds	Provides a vehicle for enhanced access that responds to national needs and priorities	Generally involves securing access via a country-based multi-lateral donor office, so access remains difficult

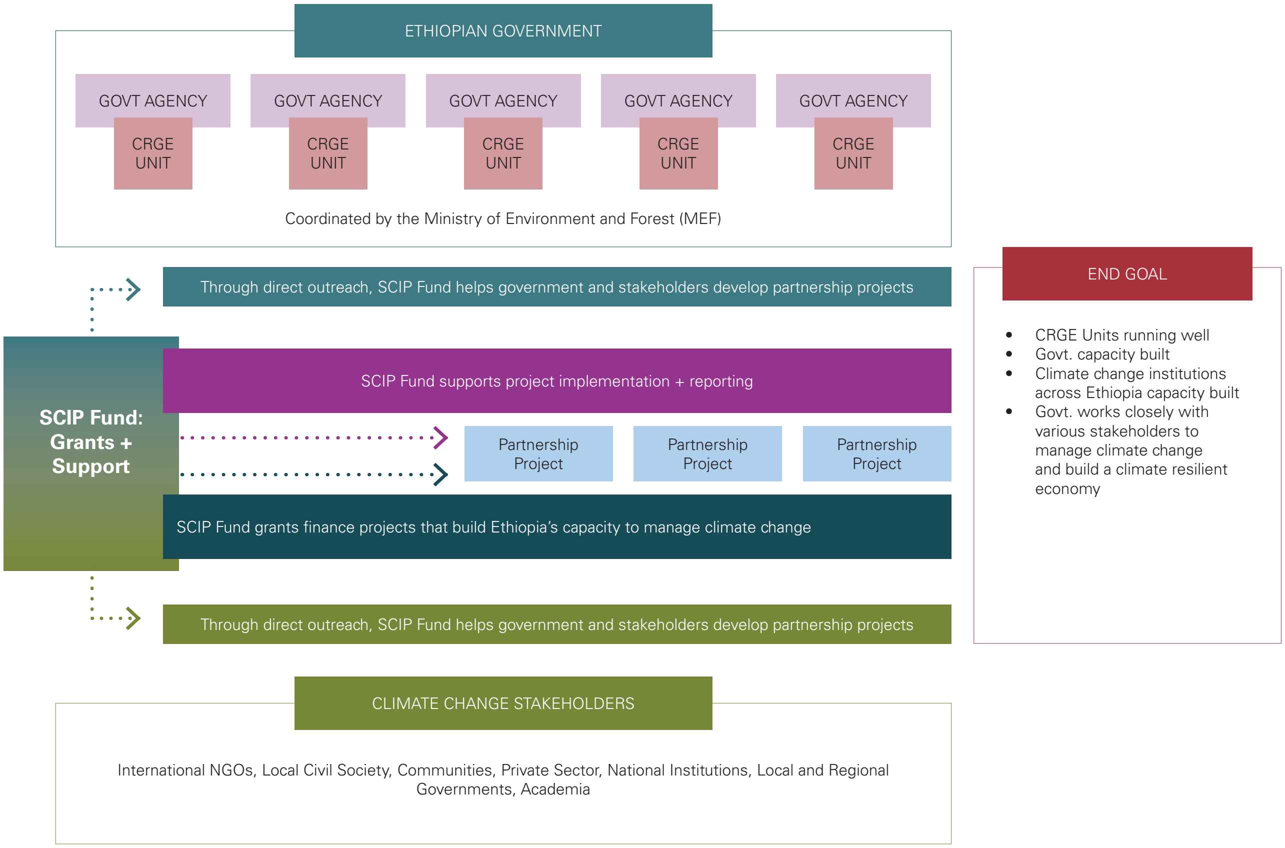
2. A pragmatic solution: Designing the SCIP Fund

The Strategic Climate Institutions Programme (SCIP) Fund in Ethiopia offers a pragmatic solution to this dilemma. The £9.5M grant fund is part of a larger five-year (2010-2015) SCIP umbrella programme designed to support the Ethiopian government in delivery of a Climate Resilient Green Economy (CRGE) by 2025.[2] The fund's mandate is to build government capacity for CRGE implementation through an inclusive and responsive process that involves stakeholders from government, civil society, the private sector, academia and other climate-relevant institutions. SCIP's goal is to make it easier for these diverse stakeholders to access and participate in climate finance, while at the same time maintaining technical quality and rigorous fiscal standards in its grant management. In the following sections, we discuss the operational challenges and lessons learnt as the SCIP Fund team has worked to achieve this balance.

[1] See Bird, Neil. "Understanding climate change finance flows and effectiveness – mapping of recent initiatives" 2013 Update, for a list of recent research sources on this topic. <http://www.odi.org.uk/publications/8108-understanding-climate-change-finance-flows-effectiveness-mapping-recent-initiatives-2013-update>

[2] The SCIP programme is funded by DFID, with contributions from the Norwegian and Danish governments, and contains three components: The Climate Innovation Centre (CIC) that supports private sector investment; government capacity building support through the Sectoral Reduction Mechanism (SRM); and the SCIP Fund. The £9.5M SCIP Fund is an innovative mechanism for channeling climate finance to projects of strategic relevance to the CRGE, through close collaboration with the Ministry of Environment and Forest (MEF). It is managed by KPMG's International Development Advisory Services (IDAS) Africa, with support from ITAD and Delta Partnership.

SCIP Fund Model



The SCIP Fund model was designed based on a series of scoping missions and wide stakeholder consultations in Ethiopia. It features three core innovative approaches to climate finance:

Inclusive support and accessibility

The SCIP Fund supports strategic projects that strengthen climate change management capacity of key Ethiopian institutions or remove barriers to action such as information gaps or community acceptance. The fund develops projects through targeted outreach and solicitation of proposals from government, civil society, academia, and the private sector. To mobilise a range of promising stakeholders, many of whom face capacity constraints, the SCIP Fund team offers proposal development support and detailed feedback to applicants, followed by consultation during implementation.

Diverse grantees are thus given the opportunity to 'learn by doing'. This increases Ethiopia's range of capacity to respond to climate change and to utilise future climate finance. This also allows the SCIP Fund to trial alternative approaches to complex challenges, and brings fresh voices into national debates.

Stakeholder Views

"The capacity of key Ethiopian institutions is still low and, without this, CRGE (i.e., Ethiopia's climate change response) won't work. One critical gap that must be addressed is the ability to produce strong proposals."

"We spend lots of time preparing proposals but few are successful, which is extremely frustrating. If those writing proposals are unsuccessful they become discouraged, but we need to 'activate' as many of these people as possible to help deliver CRGE, including at lower administrative levels. Of course, the issue is not just preparing proposals, but also implementing them. At present, access to technical support in both these areas is a critical gap."

Partnership approach

Every SCIP Fund project must be structured via partnership between two or more stakeholder institutions which must include a government agency. This is designed to increase stakeholder capacity and strengthen national coordination while ensuring collaboration between government , academia, civil society and the private sector – something that has been a challenge for other countries. Projects between national actors and overseas partners also bring benefits through direct knowledge transfer.

The partnership approach has also ensured that the SCIP Fund attains significant organisational coverage. The roughly 30 projects supported by SCIP involve at least 100 organisations. Thanks to this focus on partnerships, SCIP Fund projects capture natural synergies and overlooked opportunities, while minimising conflicting or duplicated efforts.

Stakeholder Views

"It is very difficult for a federal government office to meet its green economy objectives working alone."

"While the government leads in providing services and managing resources, CSOs can help. Suitable roles for CSOs include engaging with communities and translating insights and lessons learned into policy."

"It is fine to leave SCIP open to overseas bidders as long as their bids include an Ethiopian partner institution, in order to ensure that Ethiopian capacity is developed."

"Achieving the CRGE vision will be very difficult, since the climate change challenge is huge and complex. Diverse actors are needed to assist government, and SCIP ensures diverse actors are capacitated and mobilised."

Bolstering and working with government

DFID works closely with the SCIP Fund management team and Ethiopia's Ministry of Environment and Forest (MEF) to ensure that the government is a partner in all SCIP Fund activities. Through this engagement, the SCIP Fund complements the government's work on climate change by:

1) Supporting partnership projects with government;

2) Helping to identify and address gaps in the government's climate investment portfolio;

3)Soliciting 'no objection' assurances from government regarding independent SCIP funding decisions;

4) Employing project selection criteria that reflect key government priorities where practical;

5) Providing a rich body of experience to inform the launch of a national climate fund, including generating transferable fund management procedures and scalable project approaches.

Stakeholder Views

"SCIP complements the [CRGE] Facility in various ways, including building the capacity of non-state actors and breaking down barriers between institution types."

"The SCIP Fund is an ideal precursor to the new CRGE Facility, since it generates useful lessons on various levels. But it must complement government's initiatives and avoid becoming a parallel structure."

"If climate finance goes exclusively through government channels, then actors like CSOs, research institutes, the media may not have access to it, since there is no evidence of this having happened previously in Ethiopia."

Source: SCIP strategic review and stakeholder consultation, Sept 2012

3. Making it happen: Lessons from the SCIP Fund's three key innovations in practice

Innovation 1: Inclusive support and accessibility

Anyone who manages grant funds can attest that working with grantees who face capacity constraints can be difficult. In developing countries, especially, this challenge is exasperated by a catch 22: donors like to see finance going to local partners, but support services are not widely available and donors do not always fund capacity building for those partners; yet if low capacity is not addressed, then fund managers cannot easily safeguard or maximize the impact of donor funds. From the applicant's viewpoint, strict donor standards make accessing donor finance costly and complex. The SCIP Fund has approached this dilemma by employing grant management procedures that build capacity in four areas: proposal development; financial management systems; project implementation; and grantee reporting.

Proposals and financial management systems:

Applicants submit concept notes w/o assistance	›	For concepts that meet eligibility criteria, fund mgr offers 'open door' advice on proposal development	›	Completed proposals sent for external evaluation	›	Each proposal is approved, approved with conditions, or rejected	›	Teams behind conditionally approved projects receive tailored one-on-one technical and financial feedback to develop bankable projects

The SCIP Fund team offers one-on-one support for proposal development to any qualifying candidate who requests it and meets basic eligibility criteria. Where technical concepts and project plans are weak, the team helps applicants think them through. Where grantees lack rigorous financial management systems, the SCIP Fund suggests improvements that are linked to disbursements. The fund manager has worked closely with several grantees who initially received a low due diligence rating to improve their systems such that they could then fulfill their potential.

In this way, the SCIP Fund is able to attain technical quality and maintain high fiduciary standards, while working flexibly with grantees over time to meet those standards. This approach is different from many other grant funds that maintain rigid application procedures, where small mistakes and shortcomings lead to disqualification. Because SCIP funding standards remain high, some applicants still see the proposal process as overly strict. However, grantees have also recognised that the process results in valuable capacity improvements that make those organisations more effective in managing their current projects, and potentially better able to access other sources of funding.

Project implementation and grantee reporting:

The SCIP Fund team also provides ongoing support during implementation as well as trainings on grantee reporting. Through KPMG's work on various grant funds, our team has found that it is counterproductive to support proposal development without also supporting implementation and reporting. Some organisations that lack the capacity to write a proposal may also lack the capacity to execute on the specifics of that proposal or to follow donor reporting guidelines; and if a grantee can't meet progress targets or report on them, it will be hard to disburse their grant. Improvement of financial management systems can be done alone to cover fiduciary risk, but these other forms of technical assistance must come as a package.

In addition to Technical Assistance (TA), implementation support has included things like helping grantees identify and negotiate solutions to address blockages involving their government or local civil society partners. The SCIP Fund manager has also offered M&E support through detailed technical feedback on proposals, one-to-one "surgeries" between a technical specialist and a grantee, and group trainings. Feedback from grantees has been positive, alongside a plea for trainings to be more frequent and in-depth.

We also found through our work on the SCIP Fund that the sequencing of training support is important: if you offer a training course to an organisation that lacks dedicated staff in relevant positions, the training benefits will be at best short-lived. Implementation support is also easiest when coordinated with quarterly reporting, as it can be linked with monitoring visits and a practical review of operations.

KNOWLEDGE TRANSFER

SCIP encourages partnerships between international and local organisations to promote capacity building via knowledge transfer. A good example of this is Ethiopian Railways Corporation (ERC) working with Climate Focus (CF) and Carbon Africa (CA). This project is working to develop climate finance proposals related to the carbon emission reduction impacts of establishing a country wide railway network. The international organisations, CF and CA, are working with ERC to investigate the climate finance market, and plan to train the ERC team in proposal development and presentation. The emphasis of the project is on the international actor advising and training the national actor – how to do it – rather than doing it for them. The project is anticipated to provide valuable learning on how this knowledge transfer can work in practice.

Investing in assistance

Maintaining a hands-on relationship with applicants and grantees allows the SCIP Fund to take on, and effectively manage, higher levels of risk associated with capacity limitations. This approach is, however, costly in terms of fund manager resources. The SCIP Fund has faced challenges in this regard because formal funding for technical assistance was not available. The management team has nonetheless provided support to grantees, as well as promoting the capacity building that happens through partnerships between international applicants and local institutions, but much more could be done with a dedicated budget.

The value for money of dedicating funds to TA is a hot topic of debate in development circles, and an important subject for future research. Some TA programmes have failed to produce or sustain major benefits, while other programmes have fallen short because of capacity limitations that have not been addressed. There are also many different understandings of what TA is or should be. Much of our discussion above focuses on project cycle management assistance, which in our experience has produced good value because it has helped improve the effectiveness and efficiency of project delivery. In the climate change arena, TA may also focus on the need to fill technical gaps related to new approaches and technologies. The effects of this TA are broader and more long term, and therefore perhaps more difficult to assess. However, in general, our experience has shown that working with capacity-constrained grantees can create significant value by introducing fresh ideas and building long-term capacity that makes development investment more sustainable. See the box below for other examples of funds that have successfully created value through capacity building. SCIP Fund application statistics also offer a useful demonstration of the effectiveness of SCIP support:

Total Submissions	Total Number of Funded Projects	CNs not asked to submit a full proposal	Full proposals rejected	Proposals funded after substantial revisions	Proposals funded with minor revisions
64 Concept Notes (CNs)[3]	28	30	6	25	3

OTHER PLAYERS

Although the SCIP Fund's inclusive model is relatively rare in the climate financing space, there are other funds with similar objectives and tactics that successfully engaged with local grantees. Two examples are provided:

The Laos Environmental Protection Fund (EPF) provides financial assistance and hands-on support for proposal and project development, along with simplified reporting mechanisms such as oral submission of progress reports. The result has been strong uptake of grants by local governments and community-based organisations. The EPF invests significant resources to work with these grantees, in some cases even conducting procurement, preparing budgets and setting up local bank accounts for them. This approach is made possible by the EPF's funding model, which includes an endowment fund to provide predictable finance for EPF operations (including capacity building), alongside a sinking fund that allows donors to finance specific projects.

The Global Environment Fund's Special Grants Programme (SGP) targets CSOs with limited capacity by providing planning grants and hands-on support for proposal development and implementation. Capacity building is complemented by community learning to fuel replication and up-scaling. A 2008 review of the SGP found that the programme has a slightly higher success rate in delivering environmental benefits and a significantly higher rate in sustaining them than GEF medium- and full-size projects.

[3] The SCIP Fund also received 34 Full Proposals.

PARTNERSHIP IN PRACTICE

Improving resource management through community engagement

In Ethiopia, national parks are typified as areas of resource conflicts and degradation. In order to address this issue, the SCIP Fund-supported project of Population Health and Environment Ethiopia Consortium (PHE-EC) is promoting collaboration between government and communities to improve management of two national parks. This project is a partnership between PHE-EC, the Ethiopian Wildlife Conservation Authority, and one international NGO and one local NGO: Frankfurt Zoological Society, and Wildlife Sustainable Development.

Park management taskforces have now been established at different governance levels, and include representatives from government sectors and administration offices, community elders and groups, local NGOs, academic institutions and private sector actors. Trainers drawn from government ministries have worked with these taskforces to build capacity and awareness of the government's climate change plans.

Local feedback has shown the success of this approach, highlighting the value of involving communities in park resource management for the first time. Dr. Yirmed Demeke, head of WSD, said he was **'especially impressed by the commitment shown from the local communities, whom, based on taskforce discussion and decision making, had significantly reduced the cattle pressure on the park'.** Livestock encroachment has been a long standing conflict between the Park authorities and local communities.

Innovation 2: Partnership approach

Required partnership between multiple climate stakeholders (government agencies, academia, civil society and private sector) is at the core of the SCIP Fund model and perhaps the most unique and successful aspect of the fund's approach.

Asking diverse stakeholders to work together has begun to break down historical barriers between some institutions in Ethiopia and to promote a culture of public-private partnerships, of working across local and federal government agencies, and of collaboration between civil society and government. The Mid Term Review noted that "SCIP has played a crucial role in delivering these partnerships"and "there are few other avenues for this sort of collaborative agreement."[4] Working in partnership fosters more effective development and value for money by promoting the pooling of skills and knowledge, relationships that build capacity, and better coordination and communication.

SCIP Fund projects have faced challenges, with some grantees blaming each other for project delays and in one case the grantee having to change their partners because of intractable disagreements over budgets and terms. A few other projects have struggled to make progress with their government agency partners where CRGE units were not properly prepared or appropriately resourced. These challenges have signaled the need to jointly plan and sequence development activities well. The SCIP Fund has engaged closely with all of its grantees to overcome these challenges, encouraging them to seek and sustain partnerships actively from their respective sides. This has however inevitably led to delays in project implementation.

This has been a significant accomplishment in Ethiopia, where (literally) hundreds of development organisations all tend to work in separate locations and technical fields, with limited regard from the activities of others. The result is often deep inefficiency and missed opportunities. By making partnership a condition of funding, SCIP is working through many tensions by building understanding, trust and confidence amongst diverse actors. This is a good example of the opportunity to challenge and improve old ways of working in development by building more positive relationships and employing innovative working methods in the relatively new field of climate change.

[4] LTS International, B&M Development Consultants and Seneca, "SCIP Programme Mid-term Review findings" 2013

Transition to a National Climate Fund (NCF)

GIZ estimates that at least 30 countries around the world have developed some form of NCF in order to strengthen climate change strategy and coordinate disparate sources of international climate finance. NCFs develop human resources, strengthen national institutions and improve financial management, which can help countries leverage more international climate financing and gain direct access to funds.

In this context, SCIP can be seen as the precursor to a functioning national climate fund for Ethiopia. SCIP's innovative approach to building capacity amongst government agencies, national climate institutions, civil society and research organisations will lead to a more effective system of national climate finance in the future. KPMG has also put in place efficient grant making procedures that will ensure the continued effectiveness of the SCIP funding mechanism.

Innovation 3: Bolstering and working with government

National governments have a central role to play in facilitating climate finance, and as such it is especially important to build capacity within them. The SCIP Fund was designed to be an independent vehicle, yet also to support the Government of Ethiopia in delivery of its climate change vision. SCIP is expected to be phased out after three to four years, hopefully leaving the government in a strong position to manage the country's response to climate change.

The SCIP Oversight Committee (SOC)

The SOC was set up in order to oversee the actions of the SCIP Fund. The committee is chaired by MEF and co-chaired by DFID and involves key government Ministries (such as MoFED, MoA, MoWIE, MoT), development partners (such as Norway, World Bank, EU and UNDP) and non-government actors (International and National NGOs are represented). The SOC meets a minimum of twice a year but has been meeting when called to endorse the SCIP Fund proposal evaluation process results. During these SOC meetings the proposed project and the evaluation recommendations are presented and discussed on a case by case basis. Any member of the SOC may ask for clarification of a project or raise a concern of possible duplication. The Fund Manager will respond to questions and provide explanations as requested. At the end of the SOC the Fund Manager will requested endorsement of the evaluation funding recommendations. The SOC may give full or conditional endorsement depending on issues arising.

Working so closely with government partners can be challenging. SCIP has been successful thanks to a strong commitment to climate change management by the Ethiopian government. Senior DFID advisors have been instrumental in maintaining a proactive relationship with government.

The team has met plenty of challenges: the SCIP Fund has filled the space between CRGE design and practical set up. As such, a number of CRGE units in key ministries are still not fully operational, complicating the handover of SCIP Fund activities. Having these units in each ministry will be key to long-term success. However, this poses an important question about timing for funds like SCIP: is three years long enough to ensure proper staffing and structures are in place within government, and then build associated capacity to manage grants for multiple sectors and actors? More could be done more quickly with better planning and sequencing; but this requires coordination by many different actors and is not easy to do in a dynamic political setting. The SCIP Fund's main success has been in changing attitudes through partnerships and laying the groundwork for future success of the CRGE strategy.

4. Conclusions

Replicating the SCIP funding model

Responding to climate change is a highly complex, and relatively new task. Because of this, capacity challenges exist in just about every stakeholder group and at every level in the international response to climate change. This challenge is recognized by the practitioners operating climate finance funds on the ground. But the structure of these funds is only now beginning to contend with this reality. Until it does, it will be difficult to find holistic, sustainable solutions to climate challenges. The SCIP Fund's inclusive model has shown that support is needed across the board, requiring extensive scale of reach for the fund itself to effectively engage with multiple actors, in various sectors, and at federal, regional and local levels.

We have found SCIP's unique funding model to be instrumental in the inclusive development of Ethiopia's climate change response. Key to the success of this model has been the fund's commitment to working with a variety of stakeholders, regardless of their capacity constraints. This approach has been facilitated well by the fund's focus on partnership-drive projects, while ensuring sustainability by supporting the Ethiopian government as central to the country's climate change response.

Despite its challenges, we do believe that the SCIP Fund model could be applied in other developing countries. Key lessons for donors interested in replication can keep in mind several key lessons from our SCIP experience:

» Financing assistance: this can be difficult through traditional project finance funds, and the SCIP fund has fallen short in some areas where capacity building efforts were underfunded for this reason. Donors interested in financing TA might consider split funding models that dedicate certain funds to institution building and TA.

» Preparing for partnerships: the SCIP Fund's partnership approach certainly has the potential to be as successful in other countries as it has been in Ethiopia – and even more so where project sequencing can be executed well, with staffing and institutional resources in place up front.

» Working closely with governments and stakeholders: the SCIP Fund model relies on maintaining a close relationship with the government and hands-on interaction with grantees to mitigate the risks, maximise impact, and ensure sustainability. Based on KPMG's fund management experience, this is best achieved through a small, single-country fund.

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