Trialling Demand-led Climate Finance in Ethiopia: Towards Effective Disbursement Modalities

Abstract

Climate change poses a huge threat to developing countries, particularly to poor and vulnerable communities. Given the magnitude of the challenge, outside support is needed. Climate finance initiatives respond to this need by providing funding for 'climate smart' projects and programmes. Potentially, such support can create transformative opportunities for poor countries and communities, while building resilience to the grave threats posed by climate change impacts. Yet this landscape remains problematic, since climate finance is often inaccessible to the stakeholders who most need it and could perhaps make the best use of it, namely institutions from target countries. The Strategic Climate Institutions Programme (SCIP) Fund offers a pragmatic solution to this dilemma as well as a replicable model that is particularly relevant to vulnerable countries and communities. This follows from its emphasis on empowering diverse national stakeholders, fostering partnerships between institutions, and bolstering government.

Key words

Climate finance disbursement, national stakeholder institutions, Least Developed Countries, vulnerable communities, voice, technical assistance, 'bankable' projects, learning by doing

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1. The climate finance landscape as problematic

Climate change impacts menace lives and livelihoods across the planet. Developing countries categorised as Least Developed Countries are particularly affected, since many are already struggling with poverty and food security and have large populations engaged in vulnerable professions such as farming. The climate change impacts faced by communities and businesses in these countries are often dramatic, including sea level rise, erratic rainfall and more frequent extreme weather events such as droughts and floods.[1] Consequences already include serious problems with crop and livestock productivity, water scarcity, and increased disease risk, yet are anticipated to continue deteriorating unless effective solutions are found.[2,3]

Given the magnitude of the challenge, outside support is needed to help vulnerable countries and communities cope with this threat. In developing countries, the key need is for adaptation finance, notably to address the threat of food insecurity linked to adverse impacts on agricultural production.[4] Unfortunately, climate finance flows currently fall well short of the scale of need, with support to the most vulnerable countries – and to vulnerable groups within these countries – especially problematic.[5,6,7,8]

Climate finance schemes respond to this need by providing funding for 'climate smart' projects, programmes and policies. This financial assistance is sometimes accompanied by technical assistance and climate finance readiness activities, reflecting growing recognition of the need to support developing countries to access and effectively utilise climate finance.[9] International negotiators have called for ensuring that climate finance fits with the needs and capabilities of recipient countries, and for prioritising support to vulnerable groups by providing them with funding, capacity building and technologies.[10] For instance, the "African Position on Climate Change" calls for funding mechanisms that fit with the prevailing conditions in African countries, as well as capacity development for the design and implementation of response activities.[11]

Potentially, climate finance can provide transformative opportunities for poor countries and communities. Specifically, it can deliver on core objectives like food security or higher incomes, while simultaneously building resilience to climatic shocks.[12] Examples include delivering 'climate smart' agriculture outcomes[13] or 'climate resilient pathways' for vulnerable communities.[14]

The past few years have seen a proliferation of climate finance schemes to meet this need for outside support, including diverse multilateral, bilateral and national funding schemes delivering both public and private finance. Providing an overview of this complex landscape is beyond the scope of the present paper, yet even a cursory look shows that this landscape is problematic. One key issue is the degree to which schemes create opportunities for stakeholders from target countries to propose, develop and deliver their own project concepts.

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[1] IPCC Fifth Assessment Report, Volume II: Adaptation (2014). Chapter 22, "Africa".

[2] World Bank (2012). *Turn Down the Heat: Why a 4 Degree Warmer World Must be Avoided*. A report for the World Bank by the Potsdam Institute for Climate Impacts Research and Climate Analytics.

[3] World Bank (2013). *Turn Down the Heat: Climate Extremes, Regional Impacts, and the Case for Resilience*. A report for the World Bank by the Potsdam Institute for Climate Impacts Research and Climate Analytics.

[4] Ibid.

[5] Caravani, A.; Barnard, S.; Nakhooda, S.; Schalatek, L. (2013). *Climate Finance Thematic Briefing: Adaptation Finance*. Climate Finance Fundamentals 3. Overseas Development Institute and Heinrick Boll Stiftung. November 2013.

[6] Barnard, S.; Nakhooda, S.; Caravani, A.; Schalatek, L. (2013). *Climate Finance Regional Briefing: Asia and Pacific.* Climate Finance Fundamentals 8. Overseas Development Institute and Heinrick Boll Stiftung. November 2013.

[7] Nakhooda, S.; Barnard, S.; Caravani, A.; Schalatek, L. (2013). *Climate Finance Regional Briefing: Sub-Saharan Africa.* Climate Finance Fundamentals 7. Overseas Development Institute and Heinrick Boll Stiftung. November 2013.

[8] Merritt, A.; Stubbs, T. (2012). "Complementing the Local and Global: Promoting Sustainability Action Through Linked Local-level and Formal Sustainability Funding Mechanisms." *Public Administration and Development*, number 32.

[9] Nakhooda, S.; Watson, C.; Calland, R.; van Rooij, J. (2013). *Climate Finance Readiness: Understanding Readiness to Access and Use Climate Finance Effectively – Insights from Namibia, Tanzania and Zambia.* Deutsche Gesellschaft fur Internationale Zusammendarbeit (GIZ) GmbH, in cooperation with Overseas Development Institute, London and African Climate Finance Hub, Capetown. October 2013.

[10] Schalatek, L.; Bird, N. (2013). *The Principles and Criteria of Public Climate Finance.* Climate Finance Fundamentals 1. Overseas Development Institute and Heinrick Boll Stiftung. November 2013.

[11] COMESA-EAC-SADC (2013). *African Position on Climate Change*. COMESA-EAC-SADC Climate Change Programme. A joint publication by Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), and Southern Africa Development Community (SADC).

[12] World Bank (2014). *Climate-Smart Development: Adding Up the Benefits of Actions that Help Build Prosperity, End Poverty and Combat Climate Change*. A World Bank report. See http://www.worldbank.org/en/news/feature/2014/06/23/study-adds-up-benefits-climate-smart-development-lives-jobs-gdp

[13] FAO (2013). *Climate-Smart Agriculture Sourcebook*. Food and Agriculture Organization of the United Nations.

[14] IPCC Fifth Assessment Report, Volume II: Adaptation (2014). Chapter 20, "Climate-resilient Pathways – Adaptation, Mitigation and Sustainable Development".

Some schemes rely on the use of outside experts and existing relationships with key national players to develop and deliver interventions. An example is the Climate Investment Funds, which design and implement country interventions in partnership with the national office of a multi-lateral development bank (MDB). Such partnerships are effective at securing donor confidence and hence support, and can achieve rapid delivery of outputs for countries in need. Country ownership may be sought by partnering with the host government and sharing information or consulting with key non-state actors. Such schemes aspire to increased use of national institutions when preparing and implementing projects, yet the fiduciary capacity of such bodies is a major concern and obstacle.[15]

Other schemes are more open to new entrants, and accept proposals from a wide range of applicants. Examples include the Global Environment Facility, the Clean Development Mechanism and Germany's International Climate Initiative. Understandably, such schemes employ strict mechanisms to ensure rigour and accountability for the finances they manage. The trouble is, institutions in target countries sometimes possess limited technical capacity, despite their dynamism and potential. The net effect is that these stakeholders may struggle to access climate finance, even if they are eligible to bid for it.

The end result is a dilemma, namely that climate finance is often inaccessible to the stakeholder institutions who most need it and could perhaps make the best and most cost effective use of it. This dilemma is widely recognised, and potential solutions are being explored[16][17] (see Table 1). These options have real merit, and could prove fruitful in time. Yet at present the difficulties faced by project proponents from Least Developed Countries largely remain, such that existing sources of climate finance remain difficult for them access, including dynamic organisations with strong project concepts.

Table 1: Potential solutions to difficulties accessing funds

Potential solutions	**Aim**	**Problems**
Streamlining access modalities	Simplify access modalities, or offer simplified modalities for certain target beneficiaries	Access modalities remain complex and challenging for prospective applicants despite these efforts
Establishing national climate funds (NCFs)	Provide a vehicle for enhanced access that responds to national needs and priorities	Difficult to set up, donors reluctant to channel funds via NCFs, may deprioritise initiatives by non-state actors
Securing direct access to funds	Provide a vehicle for enhanced access that responds to national needs and priorities	Often involves securing access via a country-based multilateral donor office, so access may remain difficult
Conducting readiness programmes	Enhance institutional capacity to ensure target countries can access and utilise climate finance	May focus primarily on government given its pivotal importance

One advantage of the crowded and complex climate finance landscape is that it generates diverse case studies. Potentially, these can offer lessons about how best to structure climate finance to maximise its impacts as well as its environmental, social and gender equality co-benefits.[18] The present paper summarises one promising case study, namely the Strategic Climate Institutions Programme (SCIP) Fund in Ethiopia, which offers a pragmatic solution to the dilemma that recipient country stakeholders sometimes struggle to access climate finance.

2. A pragmatic solution

The SCIP Fund is an innovative mechanism for channelling climate finance to Ethiopia that was launched in 2012 with a budget of £9.5M from the UK, Norway and Denmark. This grant fund was set up by DFID to help Ethiopia realise its government's vision of achieving a Climate Resilient Green Economy (CRGE) by 2025. The Fund's mandate is to support strategic projects and build the capacity of diverse Ethiopian stakeholders – including government, civil society organisations, research institutes, and private firms – while maintaining rigorous standards of grant management.[19] Most projects are initially submitted in response to calls for proposals, but some are developed by Fund staff in partnership with key national stakeholders. The Fund is managed by a consortium of consultancies and

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[15] World Bank (2014). *Learning by Doing: The CIF's Contribution to Climate* Finance. A Five-Year Retrospctive Report on the Climate Investment Funds. A report by Vivid Economcs for the World Bank Group.

[16] Bird, N. (2013). "Understanding Climate Change Finance Flows and Effectiveness – Mapping of Recent Initiatives". Overseas Development Institute. For other sources on this topic see: http://www.odi.org.uk/publications/8108-understanding-climate-change-finance-flows-effectiveness-mapping-recent-initiatives-2013-update.

[17] Nakhooda, S.; Watson, C.; Calland, R.; van Rooij, J. (2013). *Climate Finance Readiness.* Deutsche Gesellschaft fur Internationale Zusammendarbeit (GIZ) GmbH, in cooperation with Overseas Development Institute, London and African Climate Finance Hub, Capetown. October 2013.

[18] Nakhooda, S.; Watson, C.; Schalatek, L. (2013). *The Global Climate Finance Architecture.* Climate Finance Fundamentals 2. Overseas Development Institute and Heinrick Boll Stiftung. November 2013.

[19] KPMG (2014). *Trialling Client-Focused Climate Finance in Ethiopia: Innovations in Fund Management*. A paper by KPMG Kenya's Development Advisory Services. See http://www.kpmg.com/eastafrica/en/services/advisory/development-advisory-services/thought_leadership_at_das/Pages/default.aspx

has an anticipated duration of three years. For examples of projects supported, see the scheme's website.[20] For background on Ethiopia's climate finance needs and outstanding challenges, see Eshetu et al 2014.[21]

The key lesson from experience to date is that the Fund seems to address pressing needs perceived by Ethiopian stakeholder institutions. In light of this fact, the present paper focuses on two themes. First, it describes the SCIP Fund design. Second, it conveys feedback from nineteen key Ethiopian stakeholder institutions gathered in late 2012 based on their early experience with the Fund. These stakeholders included diverse institution types[22] as well as those who had had different experiences with the Fund (e.g., being awarded or rejected for funding). The paper's focus on these recipient country voices reflects the fact that these perspectives are crucial yet sometimes neglected. The paper also summarises the findings of a mid-term review of the scheme conducted in late 2013.

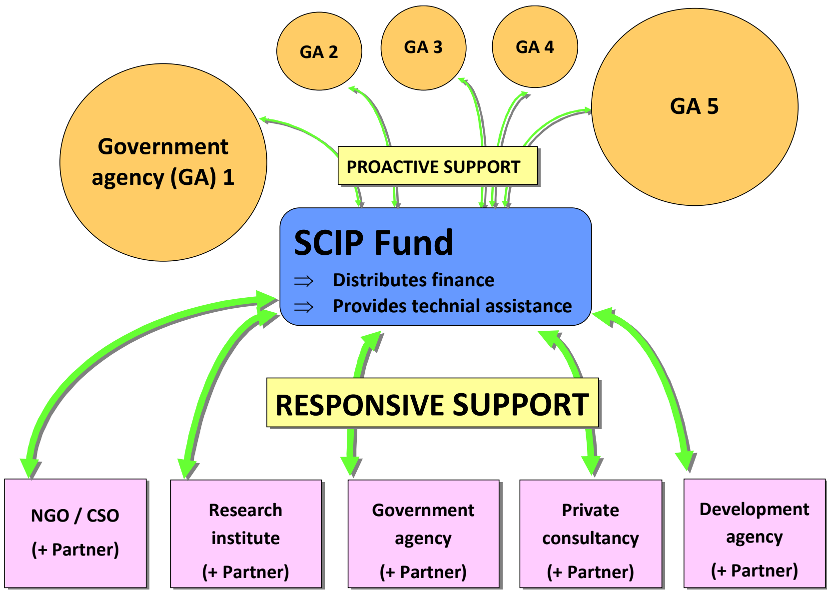
3. The SCIP Fund design

The design of the SCIP Fund was guided by wide-ranging stakeholder consultations undertaken over the course of two scoping missions in Ethiopia. The design process sought to identify and respond to the needs and concerns voiced by diverse Ethiopian stakeholders vis-a-vis the challenge of accessing climate finance. The resulting fund seeks to address barriers to access and thus enable these stakeholders to take full part in helping to deliver their country's CRGE vision. The premise of this responsive approach is that Ethiopian stakeholders are SCIP's true clients, since it is their actions first and foremost that will ultimately determine whether or not Ethiopia's climate change response is effective.

Diverse climate change initiatives are already underway in Ethiopia, yet SCIP complements these efforts by supporting 'smart' projects with strategic impacts. Many SCIP projects build the capacity of Ethiopian institutions, since strong institutions can deliver or enable effective climate change actions. Others remove obstacles to climate action such as data gaps, or introduce tools to leverage outcomes. The common denominator is that supported projects must be of strategic importance vis-a-vis one or both of the two CRGE objectives, namely building resilience to climatic shocks and seizing emerging green economy opportunities. As such, these projects set the stage for rapid and low-cost scaling up of effective climate change response actions.

SCIP is demand-led in two distinct senses. First, it distributes grant funding based on soliciting proposals from across Ethiopian society. Second, it provides this support in a way that responds to the needs and priorities voiced by Ethiopian stakeholders. The SCIP Fund's design includes both a responsive component and a proactive component (Figure 1).

<u>Figure 1</u>: SCIP Fund design



[20] http://www.kpmg.com/eastafrica/en/services/advisory/development-advisory-services/services_and_expertise/renewable_energy_and_adaptation_to_climate_change/scip/pages/default.aspx
[21] Eshetu, Z.; Simane, B.; Tebeje, G.; Negatu, W.; Amsalu, A.; Berhanu, A.; Bird, N.; Welham, B.; Canales Trujillo, T. (2014). *Climate Finance in Ethiopia*. A report by Overseas Development Institute and the Climate Science Centre, Addis Ababa University.
[22] Specifically, this sample included the following: 6 key government ministries, 5 NGOs / CBOs, 2 Ethiopian private firms, 2 Ethiopian research institutes, 2 donors, and 2 international organisations. .

SCIP's focus is its responsive component, which supports proposals submitted by national applicants or overseas institutions with Ethiopian partners. The national government leads Ethiopia's climate change response, but stakeholders from civil society, research, and the private sector also play important roles, so SCIP includes all of these actors as potential grantees. Under this component, funding proposals are solicited, then evaluated against a set of transparent criteria (see Annex A) by a panel of independent experts. Typically, submitted proposals pitch 'bottom up' project concepts borne out of the experience and insights of applicants. Bids are selected for funding based on their evaluation scores, but those that fall short yet show promise are given feedback and encouraged to resubmit.

SCIP also conducts targeted outreach and engagement via its proactive component. One target is Ethiopia's Ministry of Environment and Forests, whose remit is to lead delivery of the country's CRGE vision, while other targets are the climate change units in sectoral ministries. Outreach efforts help counterparts at these institutions identify needs then develop proposals for submission to SCIP. Examples include projects that build capacity to deliver actions on the ground, and projects that enhance federal capacity to provide strategic guidance, oversight, and monitoring and evaluation (M&E). Such proposals must undergo the same rigorous and independent evaluation as other proposals in order to be awarded funding.

SCIP delivers two services to its clients. It finances selected projects by awarding and distributing grants. It also provides interactive technical assistance (TA) to help qualifying applicants transform promising proposals into 'bankable' ones and to foster successful implementation of funded projects. Yet the TA provided by SCIP is strictly limited and thus not wholly adequate, since this aspect of the scheme was not prioritised by the donors behind SCIP.

SCIP provides support to applicant organisations via a ten step process that seeks to meet the needs of both donors and applicants (see Annex A). On the one hand, it ensures that the proposal review process is rigorous and independent while minimising fiduciary risks, which are key priorities of donors. On the other hand, it endeavours to provide applicants from target countries with the types of assistance they need to succeed, insofar as possible given the resources available.

The SCIP Fund model features three innovative approaches to climate finance.

<u>Innovation 1: Empowering diverse stakeholders</u>
SCIP mobilises promising but underutilised stakeholders to contribute to Ethiopia's climate change response. It does this by not only supporting those who are *already* 'winners' able to produce readily bankable proposals and projects, but also those who show promise but need limited TA in order to succeed. SCIP's emphasis on helping promising national applicants realise their potential, including smaller institutions and diverse non-state actors, distinguishes it from many other climate funds. Benefits of this approach include:

- <u>Institutions</u>: Building the capacity of diverse national institutions to develop and implement climate-relevant projects by giving them opportunities to 'learn by doing' and to collaborate with strong partners. Having a wider range of empowered institutions increases Ethiopia's capacity to respond effectively to climate change impacts, which is urgently needed given the scale of this challenge to the country.
- <u>Solutions</u>: Delivering projects that trial alternative approaches to solving the complex and unfamiliar challenges created by climate change, which maximises the chances that viable solutions will be found.
- <u>Absorption</u>: Empowering diverse stakeholders increases the country's absorptive capacity, i.e., its ability to process and effectively utilise climate finance in future.

<u>Innovation 2: Fostering partnerships between institutions</u>
SCIP focuses its support on collaborative partnerships on two levels. This includes (1) collaborations between national institutions that have not traditionally worked together, and (2) collaborations between national and overseas partners that incorporate clear capacity transfer mechanisms. In SCIP's responsive component, submitted proposals must involve collaborations between two or more stakeholders, while in its outreach work promising collaborations are identified, explored and encouraged.

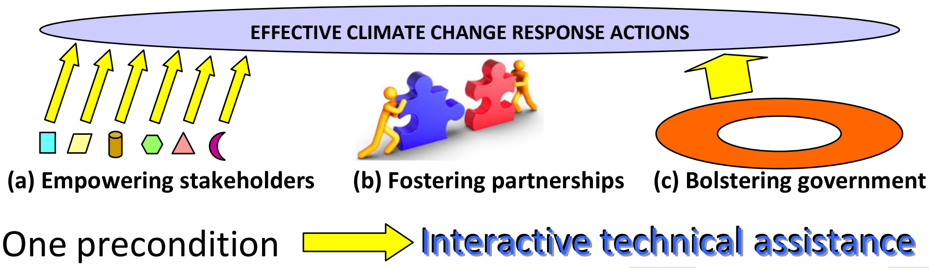
This focus on partnerships is designed to build stakeholder capacity while fostering collaboration between government, research, civil society and the private sector – something that has been a challenge in many countries. Encouraging diverse stakeholders to work together has begun to break down historical barriers between institutions in Ethiopia. It has promoted a culture of public-private partnerships, collaboration between civil society and government, and working across different levels of government. The partnership approach has also ensured that the SCIP Fund attains significant organisational coverage despite its modest budget, with the initial 30 projects supported involving over 100 organisations. Thanks to this focus on partnerships, SCIP projects capture natural synergies and overlooked opportunities, while minimising conflicting, fragmented or duplicated efforts.

Innovation 3: Bolstering government

SCIP bolsters government's capacity to deliver and enable climate change response actions by conducting proactive outreach to key agencies and supporting projects involving government proponents. It also complements the government's efforts to deliver on its climate commitments in several ways. Namely, SCIP:

- Works with government counterparts to identify and address gaps in the government's climate change investment portfolio;
- Solicits 'no objection' assurances from government regarding independent SCIP funding decisions;
- Employs project selection criteria that reflect key government priorities where practicable;
- Provides a rich body of experience to inform the government's efforts to launch a national climate fund, including generating transferable fund management procedures and scalable project actions and approaches.

Figure 2: SCIP's three innovations



4. Feedback from Ethiopian stakeholders on early experience with SCIP

Interviewees were overwhelmingly positive about the fund's basic design and importance to Ethiopia, but saw both implementation challenges and room for design improvements. Their feedback suggested SCIP had captured their imaginations, and was seen as well suited to addressing critical gaps in Ethiopia's institutional landscape. The same few themes emerged repeatedly, and stakeholders' comments showed strong overlaps despite their diversity and varying experiences with the scheme (Table 2).

Table 2: Stakeholders' comments about SCIP from the 2012 review (see Annex B for details)

Views of SCIP voiced by interviewees	Percentage of stakeholders expressing this view (%)
Addresses key capacity building needs	56%
Helps mobilise diverse national actors	33%
Fosters valuable collaborations	56%
Inherently complementary to CRGE	78%
Has good potential, but design problems remain	56%
Not needed / fundamentally problematic	0%

The comments from target stakeholders in Ethiopia fell into three broad categories corresponding to SCIP's three key innovations. For each innovation, the gist of these comments is first summarised by the author, then representative quotations from stakeholders are cited. The names of the speakers have been withheld to protect their anonymity, but are available from the author upon request, provided the stakeholder in question consents.

Innovation 1: Empowering national stakeholders

Virtually all interviewees raised concerns about the limited capacity of national stakeholders and how it constrains Ethiopia's climate change response actions. They stressed the importance of providing opportunities for these organisations to 'learn by doing' by giving them financial support coupled with TA. While SCIP was already providing limited TA, many comments called for increased TA in order to ensure that the available finance could be successfully accessed and utilised by national stakeholders. Some interviewees suggested a key benefit of providing TA would be to empower and mobilise diverse national actors, thus expanding the range of voices and engaged stakeholders on Ethiopia's institutional landscape. Representative comments include:

- "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. The issue is not just preparing proposals, but also implementing them. At present, access to TA in both areas is a critical gap."

- “We... lack the capacity to develop bankable proposals on climate change actions. One option is to hire an international consultant to do this. But it would be better if we could build our capacity so that we could do this on our own in future, for instance by having our staff work alongside these consultants.”
- “Providing TA to promising applicants would be a valuable use of SCIP funds, since many –including key ministries – cannot currently develop bankable proposals. Implementation of target actions is also a problem, so SCIP could also help build the capacity of government and non-state actors in this respect.”
- “In Ethiopia, the strongest institutions are already engaged in submitting proposals and winning money, but the question is what happens to the others.”

Other interviewees suggested ways in which the details of the programme’s design and implementation may have fallen short. Representative comments include:

- “SCIP is not very visible among my colleagues. Most are not aware of it, and those who have heard of it aren’t clear about what it is.”
- “Communications with applicants have not always been good. It is important that SCIP communicates clearly with applicants so that everyone knows where they stand.”
- “£7M[23] is a good start, but it’s not enough even to support a significant proportion of the bids already received. The gaps that SCIP is seeking to address are large.”

<u>Innovation 2: Fostering partnerships between institutions</u>
Most interviewees were strongly supportive of SCIP’s emphasis on fostering collaborative partnerships between institutions. Two types of partnerships were highlighted, namely between different national institutions and between national and overseas institutions. Fostering collaborations between national institutions was widely seen as a means to break down historic barriers between institutions and to harness potential synergies. Partnerships between national and overseas institutions were seen as desirable, provided they build the capacity of their national partners. Representative comments include:

- “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 helping translate insights and lessons learned into policy.”
- “Partnerships between government and CSOs can speed implementation, since CSOs don’t face the same constraints as government.”
- “CSOs are willing to collaborate with government, but government is often not interested. SCIP could help break down such barriers via its emphasis on supporting collaborative bids.”
- “Many institutions in Ethiopia are not used to collaborating, so developing collaborative proposals might pose a big challenge for them.”
- “There is clearly a skills and knowledge gap in government institutions, and having partnerships with strong overseas institutions can help address this. The responsibility of each partner should however be specified to ensure that national partners have significant roles, and mechanisms for skills transfer should also be specified.”
- “It would be good to specify that overseas institutions can only bid for funding in partnership with an Ethiopian institution, since if they could bid freely they might capture a large proportion of the available funds without transferring capacity to Ethiopian institutions.”
- “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.”
- “Overseas organisations must work closely with local partners so that they are joint owners of the project, even if this takes more time.”

<u>Innovation 3: Bolstering government</u>
Many interviewees saw the SCIP Fund as an unambiguous boon for Ethiopia and its government, since it helps lay the groundwork for Ethiopia to successfully achieve the government’s CRGE vision. Specifically, they saw it as naturally complementary with the government’s planned national climate fund, the CRGE Facility. Representative comments include:

- “SCIP complements the Facility in various ways, including building the capacity of non-state actors and breaking down barriers between institution types.”
- “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.”
- “Even if the government’s climate change strategy is good, Ethiopia needs to explore alternative options as well so that we can compare and ensure we find the best solutions. CSOs are well placed to explore such alternatives.”

[23] It was the interviewee's understanding that this was the total SCIP Fund budget, but in reality it is somewhat more.

- "SCIP creates opportunities to develop alternative approaches and solutions to those being championed by government. Such options are needed, given the complex, rapidly evolving challenges created by climate change."

Other interviewees perceived the relationship between SCIP and the CRGE Facility as more complex. Some government representatives stressed that SCIP must be a temporary institution to avoid duplication with government, while some non-state actors highlighted the merits of retaining a non-state fund like SCIP over the longer-term. Representative comments include:

- "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 and the media may not have access to it, since there is no evidence of this having happened previously in Ethiopia."
- "Maintaining the SCIP Fund could help ensure that Ethiopia captures as much climate finance as possible, including from donors who do not channel funds directly via government channels."

5. Mid-term review findings

A mid-term review (MTR) of the SCIP Fund was conducted in September 2013. It conducted a wide range of key informant interviews and reviewed documentation produced to date. Its findings were mostly positive, but noted both strengths and areas of concern. Some concerns related to the challenges of working in Ethiopia rather than SCIP's performance, but others highlighted ways SCIP could be improved. The MTR's findings broadly correspond with SCIP's three key innovations discussed above, so these findings are presented below under these three headings.

<u>Innovation 1: Empowering diverse stakeholders</u>
Early evidence from projects already underway suggests good progress towards supporting diverse local actions and building stakeholders' capacity, but it is too early to draw firm conclusions about outputs and outcomes. Some of the most innovative and influential SCIP projects are those at lower administrative levels, which create opportunities to scale-up proven local successes with delivering 'climate smart' outcomes.

One concern is that preparing 'bankable' proposals may be beyond the current technical capacity of many national stakeholders. SCIP has sought to address this problem by providing limited TA and offering simplified procedures for grants under £100,000, but it is far from clear that these measures go far enough. A related concern involved the fund management procedures used by SCIP. These rigorous procedures were designed to minimise financial risk, yet this rigour imposes significant costs on grantees that could act as a deterrent to national applicants.

<u>Innovation 2: Fostering partnerships between institutions</u>
This innovation is an unambiguous strength of the scheme. It seems clear that the SCIP Fund is influencing Ethiopia's approach to delivering its CRGE vision. SCIP has been successful at fostering partnerships between different institution types that have not traditionally worked together in Ethiopia, and these partnerships are having a wider impact. Mindsets are changing, with the benefits of partnership increasingly recognised. SCIP is creating a culture of public-private partnerships, and the collaborations it supports are helping build capacity across institution types. These changes have the potential to be transformational.

<u>Innovation 3: Bolstering government</u>
SCIP's early experience suggests good progress towards bolstering government's capacity to foster effective climate change actions. One concern, however, was that capacity development at some government institutions responsible for CRGE has not yet gone far enough to ensure they can enable successful delivery of SCIP projects. Another concern was that some SCIP projects will require follow up support after their completion date in order to realise their full potential. Both concerns raise questions about how this support will be secured given current plans to phase out SCIP in 2015. One option would be for the Ethiopian government to consider retaining SCIP after 2015, possibly by housing it within the new national climate fund.

6. Conclusions

The present paper provides an assessment of the SCIP Fund's performance to date based on feedback from diverse Ethiopian stakeholders and a mid-term review. The findings are clear.

SCIP has obvious strengths, notably its three key innovations: Empowering diverse national stakeholders, fostering partnerships between institutions, and bolstering government. One benefit of this approach is that it allows national stakeholders in vulnerable countries – who can arguably make the best use of climate finance – to help deliver their country's climate change response. Another is that it helps address the problem of 'absorptive capacity' by building the capacity of these institutions to access and effectively utilise climate finance. A third benefit is that this model fosters a national marketplace of ideas, which could help countries identify promising options for responding to the climate threat.

SCIP's key weakness is that it only partially addresses the stakeholders' demand for interactive TA. Many interviewees framed this as the missing ingredient needed to empower dynamic but underutilised national stakeholders and to deliver successful projects that build climate resilience and harness emerging green economy opportunities.

Provided that this weakness is addressed, the SCIP Fund may be seen as offering a pragmatic and replicable model for channelling climate finance to developing countries.[24] Its pragmatism rests in seeking to recognise and address the principal constraints faced by diverse national stakeholders when they try to access climate finance. The resulting model seeks to maximise the opportunities available to the full range of national stakeholders while progressively building their capacity, all in partnership with government. This approach is particularly suited to ensuring that climate finance meets the needs of vulnerable countries and vulnerable communities within them, thus overcoming the tendency for such countries and groups to lose out.

Three overarching questions vis-a-vis climate finance are how it is mobilised, administered, and disbursed. Discussions to date have focused largely on the slow pace of mobilisation, while fund disbursement has received relatively little attention. Yet disbursement is key, since it will determine the effectiveness and efficiency of climate finance investments.[25] Several disbursement principles have nonetheless been agreed by international negotiators and must now be operationalised, such as 'subsidiarity and national/local ownership' and 'directly accessible for the most vulnerable'. Questions nonetheless remain about how best to operationalise such concepts. The present paper shares experience that could help guide this work.

Looking ahead, the Green Climate Fund is anticipated to become the main channel for disbursing public climate finance. It is expected to respond to the most urgent needs – including those facing Least Developed Countries, Small Island Developing States, and African countries. It is likewise expected to employ a country-driven approach to guide its investment decisions,[26] notably by supporting national stakeholders and their priorities.[27] Again, the SCIP Fund provides useful lessons to achieve these goals.

[24] KPMG (2014). *Trialling Client-Focused Climate Finance in Ethiopia: Innovations in Fund Management*. A paper by KPMG Kenya's Development Advisory Services. See http://www.kpmg.com/eastafrica/en/services/advisory/development-advisory-services/thought_leadership_at_das/Pages/default.aspx

[25] Schalatek, L.; Bird, N. (2014). *The Principles and Criteria of Public Climate Finance: A Normative Framework.* Climate Finance Fundamentals 1. Overseas Development Institute and Heinrick Boll Stiftung. December 2014.

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Annex A – Implementation modalities

Box A: Ten step implementation process

#	Step	Description
1	Solicit project concept notes	Issue a call for proposals while also conducting targeted outreach and engagement.
2	Screen concept notes	Review submissions to verify their adherence to SCIP eligibility criteria (see Box A).
3	Respond to applicants	Invite qualifying applicants to submit full proposals and reject the others. Provide limited feedback to all applicants on how well their concept notes addressed the eligibility criteria. Send qualifying applicants a proposal template and guidance documents for completing it.
4	Support proposal preparation	Specify the submission deadline, then provide limited one-on-one support to applicants to assist them with addressing concept note feedback and answer questions about completing proposals. Proposals must include project description, work plan, budget and logical framework.
5	Evaluate proposals	Each proposal exceeding GBP 100,000 is evaluated by a panel of three independent experts from Ethiopia and abroad, who are contracted to make a recommendation (i.e., fund, fund pending additional work, or reject) and to provide detailed technical feedback to applicants. Proposals for less than GBP 100,000 are evaluated internally by the SCIP management team in consultation with Ethiopia's Ministry of Environment and Forests and DFID, who likewise make a recommendation and provide detailed feedback to applicants. All proposals are also reviewed by a monitoring and evaluation (M&E) expert.
6	Make funding decisions	All recommended proposals are presented to the SCIP Oversight Committee (SOC), which includes ministries, donors, and non-state actors. Each proposal is discussed in turn, notably possible concerns such as duplication of efforts, then the SOC endorses recommended proposals unless major problems are identified.
7	Provide feedback to applicants	Applicants are given comprehensive technical and financial feedback on their proposal based on the expert evaluations conducted, and successful applicants are requested to address identified gaps and prepare revised proposals. SCIP also provides grantees with individualised support on M&E in order to ensure that their project logframes are effective monitoring tools.
8	Conduct due diligence	A due diligence assessment is carried out for each applicant whose proposal is endorsed by the SOC, in order to assess the fiduciary risk of funding the organisation in question. Results are used to set contractual conditions and as a basis for recommendations for organisational strengthening.
9	Issue contract, disburse funds	Once all proposal revisions are complete and any conditions for fund disbursement are met, a grant memo is signed off by the donor and a contract is signed with the grantee. Funding is then disbursed following the schedule specified in the contract.
10	Provide implementation support	Given the capacity constraints facing many national applicants, SCIP provides limited TA to grantees during project implementation to help ensure successful delivery. This includes periodic feedback to grantees based on their quarterly reports, conducting monitoring visits at least twice per year, and offering direct TA if major issues arise. A second benefit of implementation support is to capture and compile lessons from project experience in consultation with the project proponents.

Box B: SCIP Fund Eligibility Criteria

- ✓ Focus on institution building and/or strategic gains
- ✓ Contribute to Ethiopia's 'Climate Resilient Green Economy' vision
- ✓ Deliver benefits to the poor
- ✓ Deliver gendered benefits to women and girls
- ✓ Foster collaborative partnerships between organisations
- ✓ Avoid duplication of efforts
- ✓ Promote accountability of the powerful and voices from below
- ✓ Support results-based activities
- ✓ Ensure value for money
- ✓ Foster longer-term sustainability of outcomes achieved

Box C: SCIP's Emphasis on M&E

SCIP emphasises the development and use of logframes in project planning, budgeting, implementation, monitoring and reporting. The rationale for this is twofold: to focus on intended results from the outset and to ensure alignment between a project's plans and its budget.

Annex B: Statistics on stakeholder feedback from the strategic review of 2012

Key issues raised	Alternative perspectives	Expressed view, by institution type (%)					Aggregated views	
		NGOs	Government	Research	Private sector	Donors	Number	% of total
Low capacity of applicants	Capacity to develop proposals is a problem	3	4	1		1	9	50
	Implementation capacity is a problem	2	2			1	5	28
	'Climate washing' of proposals is cited as a key danger	2		1			3	17
Technical assistance (TA)	TA is needed to address capacity gaps	2	5	2		1	10	56
	TA must ensure that it transfers capacity, vs just completing tasks	1	3	1			5	28
	TA could help mobilise diverse national actors	2	2			2	6	33
SCIP's compatibility with government initiatives	Inherently complementary or synergistic	6	3	1		4	14	78
	Seen as complementary in the long-term	5				3	8	44
	SCIP ensures diverse viewpoints & approaches	4				3	7	39
	It is important to ensure SCIP remains complementary		1			3	4	22
Collaboration between different institution types	Such collaborations are desirable	3	5	2			10	56
	Such collaborations should be required	1		1			2	11
	There are major obstacles to collaboration	1	1	2			4	22
Collaboration w/ overseas partners	Overseas institutions should only be allowed to bid in partnership with Ethiopian partner institutions	1	1	1	1	1	5	28
	Collaborations must include real partnership and measures to transfer capacity	1	1	1	1	1	5	28
Communications with stakeholders	Visibility of SCIP is a problem	2	1	1			4	22
	Clarity re SCIP's remit is a problem	3	2	2			7	39
	Communications w/ stakeholders have been problematic	3	4	1			8	44
	Feedback to stakeholders has been good	1		1		2	4	22
Other design factors	Delays to SCIP implementation have been a problem	3	3	1			7	39
	Need measures to avoid bias towards certain types of institutions	2	1	1		1	5	28
	Called for larger fund to meet demand	1				1	2	11
	Not needed / fundamentally problematic	-	-	-	-	-	0	0