

Policy Note

A Framework for Assessing Institutions to serve as Hosting Agency for National Climate Fund

June 2011

United Nations Development Programme

ENVIRONMENT AND ENERGY



A Framework for Assessing Institutions to serve as Hosting Agency for National Climate Fund

The case of the Social Fund for Development (SFD) in Yemen

Walid Ali
Climate Change Policy Advisor
Poverty and Sustainable Development Unit
UNDP Yemen

Fuad Alkadasi
Team Leader, Poverty and Sustainable
Development Unit, UNDP Yemen

Executive summary:

Yemen is highly vulnerable to climate change-related impacts because of its fragile socio-economic development and inadequate adaptive capacity. Climate change is the defining human development issue of our generation. It has also increasingly becoming an emerging development issue in Yemen. The potential impact of climate change on the development in Yemen is expected to make the current sustainability challenges further complicated. Rural livelihoods are expected to decline due to decreasing water access and agriculture productivity, or even asset destruction. Yemen requires enormous adaptation investments to adjust for climate change impacts besides making transition towards low-emission economic development paths. However, as a Least Developed Country (LDC), Yemen has only limited resources and capacities while experiencing tremendous development challenges. It is unlikely for Yemen with the existing capacities and resources to build up adequate community resilience to project climate change impact without mobilizing funds for financing climate resilient measures and interventions. Instead, global climate finance has recently experienced dramatic increase, and Yemen can tap into such funds to support its national priorities on climate change. One of the possible instruments to access funds is a National Climate Fund (NCF). This policy-note article lies under UNDP efforts -through the Boots on the Grounds- to explore the potentiality of Social Fund for Development (SFD) as a national institutions candidate to host the NCF. It focuses on analyzing relevant aspects such as goals, capacity, and project management experience, to ensure long-term service delivery of the fund that ensures sustainability and address national climate priorities, current capacities, and needs. In addition, it analyze the development context in Yemen and spot some potential NCF's modality and structure that maximizes the development outcomes for which it has been established to deliver. This article also seeks to answer the question of why the Social Fund for Development (SFD) should host the NCF in Yemen. This article also seeks to contribute towards efforts made to establishing proper framework for characterizing NCF's host agencies.

Introduction

Yemen is highly vulnerable to climate change-related impacts because of its fragile socio-economic development and inadequate adaptive capacity. Climate change is the defining human development issues of our generation. It has also increasingly becoming an emerging development issue in Yemen. The potential impact of climate change on the development in Yemen is expected to make the current sustainability challenges further complicated. Rural livelihoods are expected to decline due to decreasing water access and agriculture productivity, or even asset destruction. Yemen requires enormous adaptation investments to adjust for climate change impacts besides making transition towards low-emission economic development paths. However, as a Least Developed Country (LDC), Yemen has only limited resources and capacities while experiencing tremendous development challenges. It is unlikely for Yemen with the existing capacities and resources to build up adequate community resilience to project climate change impact. Instead, global climate finance has recently experienced dramatic increase, that is for instance at COP 16 in Cancun, pledges reach up to \$30 billion in “fast start” funding – as climate funds pledged between 2010 and 2012 – and up to \$100 billion by 2020 on annual basis.

This increase in climate change funding opportunities is especially important as countries consider how to attract and leverage different types of climate change investment, including private sources. In addition, several global funds have been established through pledges by developed countries to assist LDS and other vulnerable communities to adapt to climate change. For instance, Adaptation Fund, LDCF, and Green Funds are among the funds created to provide climate finance to LDCs adaptation interventions. . Yemen can also tap into such funds to support its national priorities on climate change. One of the possible instruments to access funds is a National Climate Fund (NCF). NCFs are a mechanism through which climate finance are channeled to support national priorities in well-structured and coordinated manner. Nevertheless, complexity in accessing funds has dramatically increased along with the remarkable increase in opportunities to access climate finance. The processes and reporting formalities and requirements associated with the many funds can be challenging particularly for LDCs.

One of the challenges are how to identify which funds are appropriate for a particular country, and how interventions through such funds can be properly coordinated, monitored and evaluated for results. To do so, this policy-note article lies under UNDP efforts -through the Boots on the Grounds- to explore the potentiality of Social Fund for Development (SFD) as a national institutions candidate to host the NCF. It focuses on analyzing relevant aspects such as goals, capacity, and project management experience, to ensure long-term service delivery of the fund that ensures sustainability and address national climate priorities, current capacities, and needs. In addition, it analyze the development context in Yemen and spot some potential NCF’s modality and structure that maximizes the development outcomes for which it has been established to deliver.

This article also seeks to answer the question of why the Social Fund for Development (SFD) should host the NCF in Yemen. This article can provide insights towards how national institutions could possibly be assessed for relevance to host NCF. By so doing, UNDP can promote options to create interests among possible national institutions as candidates to host NCF. This article has used official documentations, donor reports, and work experience, and consultations with concerned officers to support the analysis throughout this paper.

To facilitate discussion throughout this article, analysis will be organized using questions and concluding answers for a couple of questions developed for relevant criteria (i.e. mission, and delivery mechanism) through which the key question is answered. Criteria for assessment were set out based on gained understanding of national development context as well as UNDP climate change policies and articles particularly NCF publications. The assessment carried out has not intended to carry a comprehensive and comparative analysis for several national institutions and funds operating in Yemen, but rather to highlight some relevant key aspects of a well-known institution as major candidate to host the NCF.

1. Is the SFD's mission relevant?

According to the SFD's Manual of Operation, the fund was established in 1997 by Law No. 10 as an autonomous State organization under a Board of Directors chaired by the Prime Minister. The fund aim at *"contributing effectively to the implementation of the State's social and economic development plan through enabling individuals, households, micro-entrepreneurs and poor & low-income groups to get access to employment and production by providing services, facilities and lawful credits for contribution to the reduction of unemployment, alleviation of poverty and handling the impact of the Economic Reform Program and lessening the burden of its measures affecting limited-income people."*¹

As stated in the SFD's Manual of Operation, (page 1), "since its establishment, SFD, with extensive and expanding support from the government and the donor community has become a significantly active institution of State, with operations throughout the country prioritizing poorer communities with investments in several sectors. These include education, health, water and sanitation, agriculture, rural feeder roads, cultural heritage, small and micro enterprise development, social protection, training, capacity building of partner institutions and workfare programs."

As clearly stated, among the fund's goals is to contribute to implementing the States development plans, alleviation of poverty, assisting the vulnerable groups to access services. Furthermore, the SFD works on several strategic and thematic priorities which include: Water, agriculture; Poverty alleviation; Social protection, capacity building. The aforementioned thematic areas are evidently very-well positioned within the context of climate change considerations. For instance, climate change impacts include posing further burdens on water accessibility for domestic and economic uses. Agriculture productivity is affected by climate change impact either through greater water stress or longer warm seasons. Water and agricultures is among the critical thematic areas purposely to be addressed using funds channeled through the proposed NCF.

Social protection is expected to become more complicated under climate change as more people particularly the vulnerable certainly needs extra social protection in order to adapt to the projected impact of changing climate. Social protection particularly the most vulnerable is among the services the NCF is expected to deliver. As an LDC,

¹ Manual of Operations, SFD (2010)

Yemen lacks adequate institutional and financial capacity to adapt to climate change. In this sense, capacity building is certainly being one of the priority areas of interventions NCF is expected to deliver.

To spell this out from different perspective, climate change is an emerging environmental and development issue in Yemen. Climate change is expected to affect water availability and agriculture productivity in Yemen. Possible climate change impacts, such as more violent and less predictable rainfall and a hotter and possibly drier climate would place Yemen's people and economy under further stress. Climate change and variability impacts on the water balance are projected to further reduce water availability. In addition, climate change makes the development challenges in poverty reduction more complicated.

The poor are the most vulnerable to the climate change impacts. The potential impact of climate change on the development and achievements of MDGs in Yemen is expected to turn the current challenges further complicated. It will have significant impacts on the economic growth, poverty alleviation and the achievement of the MDGs. Accounting for climate change potential impacts, the livelihood security challenges are increasingly becoming more complicated and pushing poverty to higher levels. As such, climate change impacts have clear links to the environmental and poverty reduction interventions under the SFD's portfolio. Therefore, climate change underlies within the context of the SFD's aim from environmental, developmental, and poverty reduction perspectives.

Additionally, as mentioned earlier, climate change is an emerging environmental and development issue in Yemen. As clearly pointed out in the SFD's Manual of Operation, (page 6) while addressing its major features indicated as continuous development and flexibility, the following is quoted:

"SFD is adjusting its organizational setup and operational policies and practices in line with lessons learned and based on emerging issues."

It can be deduced that the SFD executive manual plausibly institutionalized to accommodate climate change as an emerging development issue in Yemen through the indicated organizationally flexible setup. Following this understanding, apparently there should be no internal rules and regulations place constraints on carrying out any initiative to host the proposed NCF by the SFD.

2. Is the SFD's delivery mechanism conducive to host the NCF?

Before going further, it is useful to reach a common understanding regarding the basic common structures and functions of NCF using lessons learned from UNDP experience in designing and administering over 750 funds around the world. According to a publication² by the UNDP (2011) that, through stakeholder consultations, a country must identify specific and necessary functions of the NCF such as goal setting, strategic programming, capitalization, partnership management, project approval, policy assurance, financial control and performance measurement in order to ensure achieving its goals and progress toward low-emissions, climate-resilient development. The publication further added that "a national trust fund must be carefully designed to align with national objectives and capacities on climate change .To accomplish this, the design and administration of an NCF can demand extensive time, effort and resources". Appropriate and effective NCF structure is critical to ensure

² National Climate Funds: A Guidebook for Decision-makers, UNDP (2011)

maximum delivery of climate finance to support national-driven climate priorities. The general NCF's structure models include funding sources, governing bodies, a trustee, and implementers. In general, UNDP lessons learned from existing NCFs points out to the following key considerations to ensure a successful delivery of climate finance that support the national priorities:

- Clearly defined NCF's functions
- Practical and well-defined objectives and
- Realistic expectations of capitalization
- Streamlined project cycle's design
- Stakeholder's consultation
- Clear appraisal and performance criteria
- System of fiduciary standards
- Flexible and evolving NCF's design elements
- Capacity development

Departing from the development context in Yemen, and the aforementioned strict requirements, and processes, obviously it is a complicated and not easy task to ensure effective and efficient NCF setup for the delivery of climate finance because of the lack of nationwide adequate institutional capacity and credibility. Credibility is among the most critical and hard parts to ensure. According to the International Transparency report, Yemen scored 2.1 and ranked 154 in 2009. As such, Yemen is classified among the countries with lowest transparency points. Since NCFs are dedicated to raise and administer funds particularly from global funds, it is not easy to attract adequate capital flows particularly from international donors whose requirements are very strict, besides putting very tough procedures ensure funds are being utilized to deliver the results for funds are given.

Nevertheless, unlike to most of the national institutions and funds in Yemen, Public Works Project (PWP) and SFD's records in terms of efficiency, effectiveness are relatively better off. This has been recognized by several international organizations and donors (UNDP, WorldBank, FAO, UNICEF, WHO) operating in Yemen. Although PWP and SFD apparently have relatively encouraging achievements, low fund leaking, and higher credibility records, the later is more appropriate to host the NCF because of closely relevant development and community-based development experience than the earlier.

The SFD is a community driven programme improving the infrastructure for education, health, water supply, etc., while the PWP is intended employment opportunities attempting to maintain the assets created by the SFD. Comparatively, the SFD employs a participatory approach for planning and implementation of community-based development projects besides working with the private sector (SMEs) which fits very well under the climate finance methodology of building up community resilience. This has insightful bearing into proposing the SFD as hosting agency since it has proven experience in targeting the poor, who are in fact the most vulnerable to the impacts of climate change. According to the poverty assessment report (2005), about 70 percent of the SFD resources go to the poorest three deciles. As a candidate institution to host the NCF, the SFD's capacities, and delivery mechanism are highlighted.

On this regard, donors' reports have also recognized the capacity of the SFD in mobilizing and delivering developmental results. For instance, the poverty assessment report (2005) published by Ministry of Planning and International Cooperation (MoPIC) in collaboration with, the UNDP, and the World Banks clearly acknowledge the credibility of the SFD. UNDP experience with the SFD also was positive through hosting microcredit network project for a transitional period of time until the maturity phase after which the project has been independently operating. During its consecutive phases, the SFD has gained good reputation in delivering developmental services in Yemen.

The SFD has operated in three phases to date. The first phase (1997-2000) had a total investment of US\$ 90 million, and the Second Phase (2001 – 2003) amounted to US\$ 175 million. The SFD now is in its Third Phase (2004-2008). The Fourth Phase will run for 5 years from 2011 to 2015. According to the poverty assessment report (2005), the SFD's project created about 11.3 million job opportunities, with six thousand full-time jobs. During the period 2001 – 2005, the SFD completed 3,888 projects at a total cost of \$US 343.5 million. Educational projects represent the largest share of the SFD's total investment commitment (54 percent), followed by water projects (11 percent), health projects (7.5 percent) and roads (7.6 percent). Environment and roads have the highest number of beneficiaries per project. Health and water often target women and hence benefit the highest proportion of women. Direct beneficiaries account for 71 percent of the total beneficiaries. Education, health, roads and water projects generate 73 percent of all direct beneficiaries. The SFD has directly benefited an estimated 7.1 million people, around half of which are women.

Donors such as World Bank put in their funds directly to support the SFD plans relying on the capacity of the fund to deliver results for which funds have been given. As mentioned earlier, the SFD is an autonomous State's institution designed and established in 1997 to efficiently deliver services to the poor in remote communities across several sectors which include education, health, water and sanitation, agriculture, rural feeder roads, cultural heritage, small and micro enterprise development, social protection, training, capacity building of partner institutions and workfare programme. Programmes and projects are the delivery mechanism of the SFD. According to SFD's Water and Environment team leader, the projects scales implemented by the SFD are not limited to specific size and scale, but rather ranges from small to large scale project. In addition, there is no regulations that put constraints on the size of projects to be managed by the SFD. This in turns clearly indicate the possibility of handling and operationalizing even large-scale interventions under the proposed NCF. The SFD employs a participatory approach for planning and implementation of projects.

Structurally, the SFD has three main levels: the Board of Directors, the HQ and the Branch Offices. The Board of Directors is chaired by the Prime Minister, approves the main policies and orientations of SFD, Annual Work Plan (AWP) and reviews the progress made by SFD on a regular basis. The HQ is in charge of overall operations. It carries out its duties through Procedural Policy Committee (PPC), Projects Approval Committee (PAC), supporting units and technical units in addition to the Labour Intensive Works Program (LIWP). The technical units are the Education, the Water & Environment, the Health & Social Protection, the Training & Organizational Support, the Small & Micro Enterprise Development, the Agriculture & Rural Development and Cultural Heritage. Amongst the different support units, there are the Programming, the Monitoring and Evaluation, the Finance and

Administrative, the Procurement, the Technical, the Information Technology, the Internal Audit, Research and Development and Human Resources Units.

At the regional level, SFD is represented by its nine Branch Offices (BOs), each covering one or more governorates and responsible for the preparation, implementation and monitoring of SFD activities in that governorate(s). The organizational setup of the SFD is also clearly characterized by its specialised programmatic, and support function units. Roles and responsibilities are also clearly established. SFD Board of Directors is structured in such a way that the participation of the government, the private sector and the civil society is ensured for policy setting and guidance of SFD activities. The Executive body of SFD is headed by a Managing Director (MD) who has full authority to manage the fund's operations. The Procedural Policies Committee (PPC) works towards reaching collective decision-making process based on synergy and exchange of experiences. The Project Approval Committee (PAC) reviews project proposals submitted by the Units or Branch Offices in light of the general SFD policies and relevant criteria, and makes a decision based on clear justifications, and ensures proper coordination and synergies among the different projects.

Among the key supporting units are: Monitoring and Evaluation Unit; Procurement Unit; Programming Unit; and the Internal auditing units. The programming unit roles is to ensure adequate alignment of SFD's contribution to the national development plans, and coordinate, harmonize and monitor progress of annual plans preparation and implementation. The Monitoring and Evaluation unit ensures proper project monitoring mechanism and carries out impact studies for SFD projects and programs, and disseminate information, results and lessons from SFD activities through quarterly newsletters, annual reports and through the SFD website. The Procurement unit ensures that procedures for project's procurement are applied according to the binding procedures. The Internal Auditing Unit ensures efficiency and effectiveness of making use of material, human, financial resources available for the SFD through proper auditing exercise to address and remedy any weakness or incompleteness.

The SFD is also equipped with a pool of engineers and consultants. The SFD's Engineering Unit carries technical and engineering review and studies, submit proper designs, and ensures quality control, including conducting visits to the projects to follow up on the quality of implementation and testing them and to assure commitment of all involved parties. The SFD is also equipped with a Financial Unit to manage the fund's financial assets and transactions. From a delivery mechanism perspective, and based on the aforementioned analysis, it can be concluded that the SFD has relatively adequate institutional, managerial, organizational, and technical capacity, and experience to host the NCF through which climate financed can be raised and channelled to support national priorities on climate change in a relatively efficient, effective, participatory, and transparent manner if climate fund capacity is built up.

To put the aforementioned discussion into a perspective, it can be deduced that the delivery mechanism of the SFD is conducive for hosting the proposed NCF. The major goal of NCF is funding-raising and coordinating national climate actions which require credible institutions to perform such tasks. The SFD has the indicated record of credibility that facilitates funds flow to support national climate priorities. Furthermore, the programme and project management experience further strengthen the position of the SFD to administer the NCF capitals as long

as the capacity is adequate. Besides the community approach employed, the internal auditing, and procurement, evaluation and monitoring, engineering and programming frameworks and capacities also provides further competence to the SFD to host the NCF. Such enabling conditions will allow the proposed NCF to gain sufficient capacity, grow and succeed very well until the maturity phase upon which the mature climate fund can become an independent national body in charge of coordinating and administering actions based on national climate priorities in Yemen. In this sense, NCF will be strengthening national ownership, besides using national systems and procedures, and accountability through nationally managed climate funds.

3. What are the implications of having SFD as a host agency for the NCF in Yemen?

The SFD is a social fund. But, the proposed NCF is a climate fund. As indicated, the SFD is a national agency equipped with relatively adequate capacities and conducive delivery mechanism to host the NCF until the maturity phase. This implies that the SFD as a social fund can serve as a host agency for the NCF; that is another fund. Nevertheless, the possibility that NCF can be hosted by another national **FUND** should be looked at. This need to be scrutinized through proper characterization of the host agencies, and if so, appropriate structures for the proposed NCF should be explored and put forward to have the climate fund hosted under another social fund.

4. Does the SFD have relevant experience in implementing climate change interventions?

The SFD has been actively engaged in supporting local communities, and contributed towards implementing environmental project in Yemen such as provision of adequate infrastructure, to enable sustainable access and use of water and sanitations particularly in rural areas. Additionally, the SFD is currently involved in contributing towards promoting rainwater harvesting as a proper interventions to secure extra water sources for domestic and agricultural uses particularly in rain-fed areas. In partnership with the World Bank, the SFD was approached to be involved in taking over the management of some components of Pilot Project for Climate Resilience (PPCR) in Yemen. The SFD also was engaged in promoting local clean renewable energy pilot initiatives across pilot areas in some parts of the rural Yemen. Although the aforementioned relevant experience in climate change interventions is relatively slight, such endeavours carries insightful bearings towards the basis upon which the SFD's interest to host the NCF can be further built up.

5. What Challenges are expected to be encountered while making efforts to facilitate development and hosting of the NCF by the SFD

The following challenges are identified as posing potential risks for the development of the NCF, or create barriers for hosting the NCF by the SFD:

1. **Lack of interest by the SFD:** Although it is becoming increasingly clearer -through discussions and consultations- that the SFD is interested to host the NCF, some obstacles may arise in the way forward. However, such risks can be possibly mitigated through consultations, discussions, and build up mutual understanding, sharing of knowledge. The SFD has expressed its genuine interest to host the NCF because of their deep concerns over the development in Yemen under the projected climate change impacts and

therefore taking action to support climate agenda in Yemen.

2. **Lack of SFD's commitment:** This may raise the risk of changing attitudes towards the national climate agenda or slightly diversion to the original agenda of the SFD and hence leaving the newly established NCF without adequate support due to huge portfolio under administration. However, such risks can be reduced through building adequate capacities to handle the growing demand for staff, administrative, financial implications, and technical capacities under the NCF. Furthermore, partnership with UNDP will be further enhanced, and advisory services will be provided. Knowledge sharing regarding climate change policies will be ensured, and facilitations will be provided

6. What are the expected roles assumed by major partners (SFD, EPA, and UNDP) of the NCF

It is useful to clearly identify the roles of partners in relation to the NCF's development and administration. There are many partners will be involved in the development of NCF in Yemen. However, the roles of major partners such as SFD, Environmental Protection Authority (EPA), and UNDP will be highlighted.

SFD:

The SFD is proposed to represent the Government capacity to access and coordinate climate action in Yemen. The direct access modality can be enforced in the presence of such a fund. The roles will not be limited to but include:

- Propose proper arrangements to host the NCF
- Facilitate consultations with relevant stakeholder to develop the NCF
- Provide backstopping for administering the NCF
- Catalyze the establishment of the NCF
- Oversee the implementation of the fund
- Provide nursery service for the NCF until maturity phase

EPA:

Although the EPA is the climate focal point in Yemen, and has engaged in promoting climate agenda in Yemen, and participated in climate negotiations, and defend Yemen's interests and positions, the SFD to host the NCF was advocated by the EPA. On the other hand, The EPA will be one of the beneficiaries of the funds. As such, to avoid a conflict of interest, the EPA has not been advisable to host the NCF. On this regard, the EPA chairman recommended a collective approach to lobbying for promoting the SFD to host the NCF. Nevertheless, the EPA's role will not be limited but includes the following:

- Provide technical advice on climate finance opportunities and facilitates channeling funds to the NCF
- Propose appropriate policies to attract flow of private capital to the NCF
- Ensure proper measures are mainstreamed into the projects funded under the NCF in a way that maintain synergies with other environmental commitments and environmental policies

UNDP's roles include:

According to UNDP's publication (2011), the UNDP provides the advisory services for the NCF which includes:

- **NCF Design:** helps to develop detailed term sheets that consolidate the decisions emerging from the design process
- **Capitalization:** supports to establish regulatory frameworks for identifying and collecting resources
- **Trustee or Administrative Agent:** provides transparent and accountable fund management services to enhance coherence, effectiveness and efficiency
- **Capacity Development to strengthen institutions and readiness for national implementation:** ensure that any national fund strengthens the capacity of governing bodies, implementers, recipients and other stakeholders, enhancing their ability to manage the operations of the fund and to support delivery of projects
- **Implementation of climate change projects and programming:** provides implementation services at the national, regional, and global levels, and can support the implementation of NCF programmes in different capacities

7. Conclusion

The relatively conducive delivery mechanism, capacity, credibility, and the community-based approach for delivery development results, and partnership with private sector are among the major competent that makes the SFD as the most appropriate option to serve as the hosting agency of the NCF in Yemen. However, the underlying implication of hosting a NCF by the SFD requires further scrutiny. Nevertheless, proper internal arrangements can be perused to propose alternative structures to host the fund as long as the interest and commitments remain relatively sufficient. With regards to the proposed framework for assessing national NCF's hosting agencies options, the mission, capacity, relevance, and the delivery mechanism are among the critical building blocks of the framework. Further scrutiny is required, and internally appropriate arrangements should be proposed to facilitate hosting the NCF by the SFD if any discrepancy may have identified. Based on the aforementioned policy implication, this article may suggest that proper characterization of the NCF's hosting agencies for future endeavors needs to be further explored. The article further suggests that UNDP to dedicate a chapter for proper characterization of NCF's hosting agencies through one of its forthcoming NCF publications.

Acknowledgment

The authors would like to express thanks and appreciation to UNDP Yemen CO senior management for advice and support, the Boots on the Ground's regional advisor based in Cairo, Marwan Owaygen for continuous advise, support, valuable discussions, consultations, and knowledge sharing, and the Boots on the Ground's team (particularly Isabel Kreisler, Rebecca Carman, and Pia Treichel) in HQ for continuous support, facilitation, and knowledge sharing. The authors would like also to express thanks to the Environment Protection Authority (EPA, Yemen) and the SFD for valuable consultations and discussions, facilitations, and knowledge sharing.