

Good Governance:

Oversight and compliance support mechanisms within the context of Enhanced Direct Access and Climate Change Adaptation

Case Study 4



Clockwise: Small Grant Recipients during an Intra-District Learning Event sharing experiences on community-based climate change adaptation project development, Mopani District (Photo: SANBI); Heat and drought tolerant climate-resilient livestock that were introduced in the Leliefontein and Kamiesberg communities, Namakwa District (Photo: SANBI); An established climate-smart communal garden in the Mamanyoha Village has introduced drip irrigation techniques to irrigate agricultural produce, Mopani District (Photo: SANBI).

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Above: Representatives from the Adaptation Fund with project implementation and governance partners of the Small Grants Facility project during a site visit in the Namakwa District (Photo: SANBI).



Key Messages

The Community Adaptation Small Grants Facility (CA SGF) project required detailed and technically rigorous levels of reporting, in accordance with the requirements of global climate finance.

Given that this initiative sought to cascade access to climate finance to the ground, this necessitated an accompanying cascading of administrative requirements that were both new and onerous for Small Grant Recipients and even parts of the CA SGF project itself. Lessons learned about how best to accomplish this include:

- Given the complexity of monitoring the implementation of Community-Based Climate Change Adaptation projects, discerning poor practice, mismanagement and/ or malpractice required time, careful oversight and skilful negotiation. Although sometimes a cause of frustration, rigorous compliance and oversight monitoring, particularly of financial management, was a key mechanism through which poor management and mismanagement could be detected and remediated as appropriate.
- A supportive, rather than punitive, approach to monitoring and managing the Small Grant Recipients yielded opportunities to increase organisational capacity and strengthen regional competence to administer future projects.
- A thorough eligibility process, including measures to ascertain the organisation's capacity to manage grants of this size, was important to reduce the risk of mismanagement. However, continual and systematic oversight was required for all organisations and was the primary mechanism through which poor project performance or management was identified.

Project Overview

The “Taking Adaptation to the Ground: A Small Grants Facility for enabling local level responses to climate change” project (known as the Community Adaptation Small Grants Facility project) was funded by the Adaptation Fund in 2014. The project sought to pilot a new mechanism of Enhanced Direct Access for local level climate change adaptation in South Africa, with a broad goal of understanding how such a mechanism could be scaled and replicated in the future.

The objective of the project was to increase resilience and reduce the vulnerability of local communities who are most vulnerable to climate change through building capacity and empowering these communities to identify and implement adaptation measures. It aimed to facilitate the inclusion of climate change adaptation responses into local practices so that assets and livelihoods would be protected from local climate-induced risks associated with expected dry spells and droughts, seasonal shifts and storm-related disaster events. The emphasis was to support projects that harnessed local knowledge and creativity, integrated climate science, addressed gender disparities and ultimately generated tangible adaptation responses.

The Community Adaptation Small Grants Facility project targeted vulnerable, rural communities in the Namakwa District in the Northern Cape and the Mopani District in Limpopo, South Africa. The project offered grant sizes of approximately US\$100 000 to communities for the implementation of tangible climate change adaptation responses that were identified locally. The project was approved as a four-year pilot project but was extended to over five years to accommodate unforeseen delays.

Promoting Effective Project Governance

The CA SGF project sought to provide a mechanism through which Enhanced Direct Access grants could be provided in support of community efforts to implement climate change adaptation projects. This required that strong administrative processes and values be instilled within CA SGF project operations and those of the Small Grant Recipients. To support Community-Based Organisations and communities themselves, the CA SGF project developed support and management structures to assist and develop this requisite competence and experience.

Below: Small Grant Recipients in the Namakwa District during an Intra-District learning workshop, Namakwa District (Photo: SANBI).



Context and background

Enhanced Direct Access climate finance delivers a potential solution to the implementation of locally-driven adaptation interventions. However, ensuring communities and local organisations have the capacity to receive, manage and monitor large amounts of international donor funds remains a challenge in South Africa, and throughout much of the world.

This Case Study explores how the CA SGF project approached financial and technical compliance and oversight to

effectively support local organisations to implement and report on complex adaptation interventions. Specifically, it explores how oversight and compliance measures assisted in identifying situations of poor management and how these were then addressed to ensure the integrity of the project and its funds, while also delivering fair and appropriate action. Finally, it reflects on the practice and instruments required to navigate and resolve the challenges that occurred.

CA SGF Project Management

Institutional arrangements of the CA SGF project were established to address the anticipated level of intense oversight of the ground level practical implementation of climate change interventions. The resultant structure incorporated various stakeholders, each with their own oversight and support role.

The National Implementing Entity, the South African National Biodiversity Institute, monitored project budgets, project implementation and the achievement of the project outcomes and ensured the efficient use of donor funds, while the Executing Entity (SouthSouthNorth) was the organisation through which the CA SGF project was administered. The National Implementing Entity and the Executing Entity interpreted the compliance and reporting requirements and provided strategic insight to ensure alignment of the CA SGF project with Adaptation Fund strategic goals.

A Facilitating Agency was contracted by the Executing Entity in each District to deliver site-based support to put into practice the tactical and strategic requirements. Responsible for the local coordination and daily operational oversight, the two organisations ensured the Small Grant Recipients developed and implemented project activities and had the support necessary to achieve project goals as well as effective financial administration and reporting on implementation. The Facilitating Agencies ensured compliance through direct and regular monitoring.

The success of the CA SGF project required the competence and agility to respond to multiple and complex scenarios for as many as 13 unique projects while facilitating compliance with, and linkages to, international expectations. Oversight mechanisms played a distinct role in identifying challenges experienced by the Small Grant Recipients, assessing those challenges and employing a range of customised tactics to provide support.

Below: Members of the Project Advisory Group meeting at Kirstenbosch Gardens, Cape Town (Photo: SANBI).



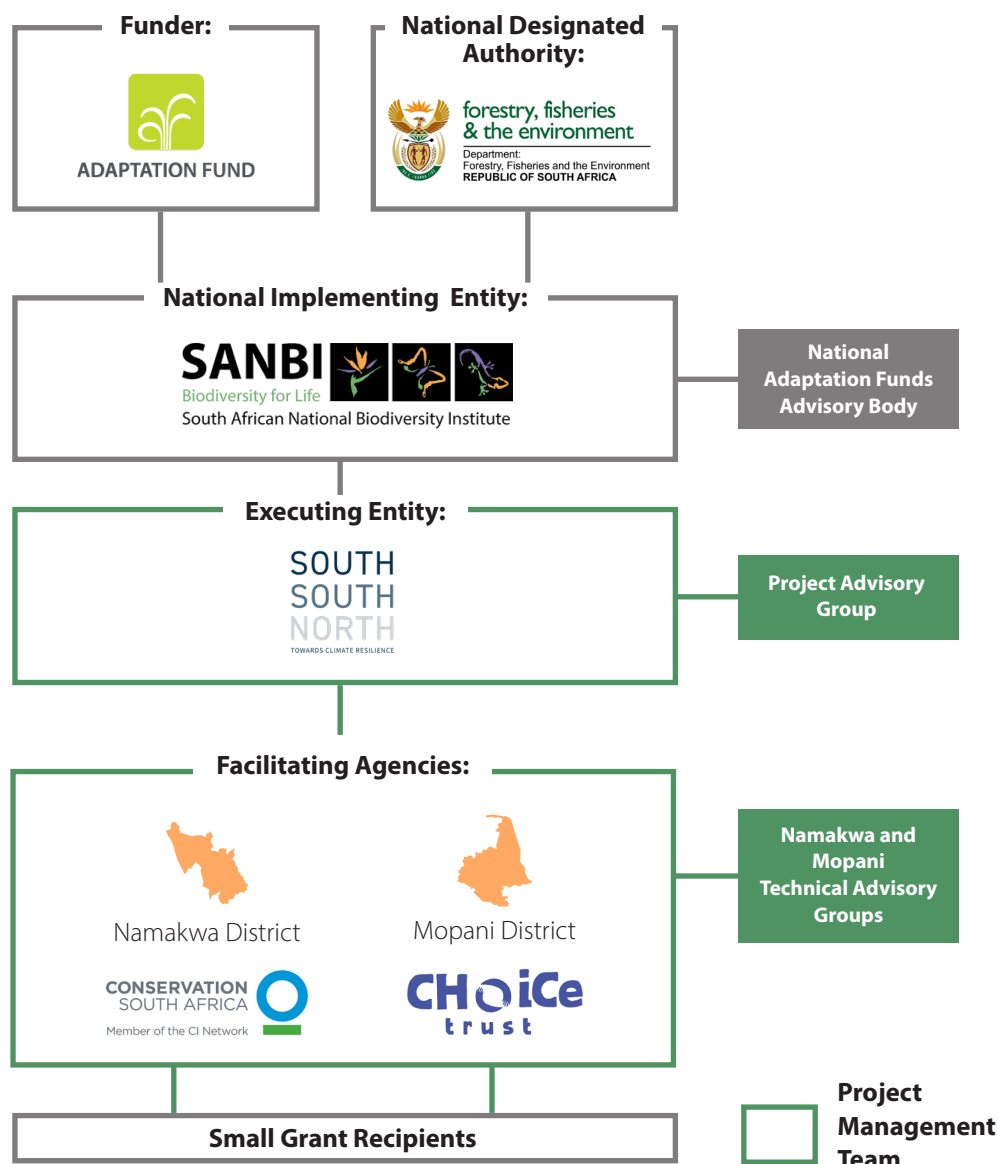


Figure 1: CA SGF project management & execution.

Oversight and monitoring mechanisms

Once awarded a grant for implementation, each Small Grant Recipient was obliged to provide supporting documents and ongoing reports as part of the contractual arrangements. A detailed work plan that outlined projected expenditure, deliverables and milestones within project implementation was required during the inception phase. Following an initial disbursement, funds required for the Small Grant Recipients to conduct project activities were dependent upon achieving established milestones and the receipt of quarterly financial and technical reports, which were submitted and reviewed by the Facilitating Agency

as well as the Executing Entity prior to final approval by the National Implementing Entity. Disbursements were only made when all reports and supporting documentation were submitted for the projects, causing cash flow challenges for Small Grant Recipients - even those that were compliant.

Financial reporting included detailed expenses in accordance with bank ledgers as well as documentation that demonstrated compliance with the procurement policy, which generally required competitive procurement or approved motivations for single sourcing. From the

start, several Small Grant Recipients expressed difficulties in managing these requirements, noting that since it is predominantly a cash economy, there is a lack of formal bookkeeping expertise, and there are challenges in following and documenting procurement processes. Quarterly technical reports required systematic reporting against each deliverable, forecasting of activities for the subsequent two quarters, documentation of beneficiary numbers as well as recording general challenges, successes and lessons learned. The detail which the reports required was often unfamiliar and their completion required considerable support from the respective Facilitating Agencies.

In addition to financial and technical reporting, there were compliance measures that required engagement with local government and other local institutions over and above adherence to strict procurement process requirements. A cornerstone of the compliance tools was the Environmental and Social Policy of the Adaptation Fund, which sought to promote desired project impacts while mitigating any risk of adverse results. The Environmental and Social Policy included 15 principles, based on the highest risks identified by the Adaptation Fund when designing and implementing

adaptation projects. While the Adaptation Fund had developed guidelines for applying and reporting on these safeguards during project implementation and monitoring, there was a lack of experience, locally, nationally or even globally, in applying and documenting the Environmental and Social Policies. There was less experience still in seeking to provide a grants facility in small-scale, rural and under-resourced contexts.

In addition to supporting Small Grant Recipients with reporting requirements, the Facilitating Agencies were in direct contact with each Small Grant Recipient around four times a month, conducting scheduled site visits as well as delivering or facilitating capacity building workshops. In total, Facilitating Agencies conducted 313 site visits during the four years of implementation. Capacity building efforts were customised to project needs; the understanding of these requirements were reached, in part, through site visits that provided a clear insight into knowledge level and gaps. Site visits also provided the opportunity to develop a rapport with key people involved in the project as well as verify activities and, in many instances, doubled as in situ capacity building mentorship while simultaneously providing oversight and/or training.

Differentiating poor project performance

The rigours of the reporting regime provided what was often the first indication of project challenges. Red flags noting potential poor project management were raised when reports were late or incomplete. Particular concern was raised when the financial documentation was not adequate. A pattern emerged whereby a lack of reporting tended to be accompanied by poor project performance or delays in requisite activities.

The challenge, however, was that the lack of project and grant management experience resulted in many Small Grant Recipient projects being unable to deliver adequate documentation, regardless of their performance on the ground. This was exacerbated by CA SGF project management systems being refined after Small Grant Recipient projects started. While the intention was to simplify the systems, the change itself created complexity for the Small Grant Recipients. Small Grant Recipients were Community-Based Organisations that generally had not engaged with international grant funds with this level of

oversight and related reporting requirements and intensity. Small Grant Recipients struggled to complete reports on time. Furthermore, given that the CA SGF project was a pilot project, the mechanism through which the grant was administered was new. Enhanced Direct Access as a means of accessing climate finance was itself a newly created approach. Even the oversight systems were new and roles and responsibilities were still being discerned.

The result was that many Small Grant Recipients delayed submission of reports and often omitted information or submitted incomplete documents, which required a back and forth engagement – generating considerable delays in upward reporting and the disbursement of funds. The knock-on effect on cash flow created its own implementation challenges and further delays, placing project budgets under pressure and making it difficult for Small Grant Recipients to meet core operational costs and squeezing delivery into ever tighter time-frames.

The Facilitating Agencies were responsible for providing ongoing assistance and training regarding Small Grant Recipient capacity building, including financial administration and project management. It was understood from the CA SGF project concept that capacity gaps existed in the communities; the project sought to understand and strengthen local capacity for that reason. However, navigating poor performance due to organisational capacity gaps and distinguishing these from obfuscation of activities potentially in breach of protocol was difficult.

As the CA SGF project proceeded, the Facilitating Agencies invested significant time in assisting and training Small Grant Recipients to record information, establishing reporting and financial management systems as well as incorporating project monitoring tools and processes. The Facilitating Agencies approached all scenarios from the perspective of a shared intention to achieve results established in the Small Grant Recipient project work plan, which required extensive time and energy – while trying not to alienate stakeholders by inappropriately placing immediate blame when systems were not fully adhered to. This level of intensive engagement, while sapping energy and resources, provided the opportunity to deliver intensive and customised training and the close engagement required to discern lack of capacity from malintent. Close interaction revealed the difference over time.

Upon reflection, the determining factors had little, if anything, to do with existing organisational structures because each underwent a financial due diligence process. Organisations both large and small, technically developed and less technically developed, expressed challenges. For some, the challenge lay not in the inherent ability or willingness to account, but in managing the complex and evolving systems created by the CA SGF project.

Eventually, it was not oversight of the centralised technical accounting system but the consistent engagement by

the Facilitating Agencies, and the Small Grant Recipient's responses to practical assistance, that raised red flags of mismanagement. Ultimately, it was those Small Grant Recipients that were persistently unresponsive to questions or queries, or even blaming the Facilitating Agencies for unreasonable expectations, that were revealed as mismanaging their projects. Other behaviours included continually making financial transactions without supporting documents despite training and support, and/or making significant and multiple transactions quickly and within short time periods (perhaps brought on in part as a response to delayed cash flows). Consistent lack of openness and cooperation was the hallmark of mismanagement and, in particular, financial imprudence. On the other hand, organisations that demonstrated similarly inadequate documentation, but were genuinely unable to do so, consistently shared information, openly acknowledged errors and were cooperative, and even grateful, for the assistance of the Facilitating Agencies.

Navigating a multitude of challenges while skilfully negotiating with each Small Grant Recipient and 'sensing' where wrongdoing might have taken place was a task led by the Facilitating Agency. Support by the Executing Entity was provided upon request and, when mismanagement was suspected, involved the entire Project Management Team. Determining this took time, leadership and effort, but ultimately was managed on a case by case basis and ensured Small Grant Recipient project risks were minimised and good governance within community organisations was significantly strengthened. In the final analysis, the CA SGF project succeeded in holding a strict line on accountability, while supporting improved capability across the system. However, it was impossible to predict the level of intensity and resources required to achieve this and it was only due to the high levels of commitment, including voluntarism and co-finance across the board by the National Implementing Entity, Executing Entity, Facilitating Agencies and the Small Grant Recipients, that ultimate success was made possible.

*Below left: A project beneficiary from the Ga-Ntata Village showcasing how he uses harvested rainwater to maintain crops in his backyard garden in the Mopani District (Photo: SANBI);
Below right: Tomatoes planted using Climate-Smart Agriculture techniques in the Mamanyoha Village, Mopani District (Photo: SANBI).*



Examples: Promoting Good Governance

The following are two examples of situations that occurred in the CA SGF project to highlight the nuanced challenges in supporting local community organisations to work within principles of good governance. In these cases, actions were taken to better distinguish between errors and lack of capacity, on the one hand, and active wrongdoing on the other.

In both cases described below, the Small Grant Recipients began incurring expenses and conducting project activities very quickly after being contracted – presumably, in part, because of pressure from the community to take action following a prolonged contracting period. The

first reporting period, which required the submission of supportive documents for every financial transaction, yielded inadequate and incomplete reports (this was also true for many other Small Grant Recipients).

The initial lack of reports did not cause considerable alarm as many struggled with the reporting requirements. However, after several discussions and attempts to fully understand the barriers related to submissions, alongside extensive expenditure for project activities, concerns strengthened. Below outlines the trajectories of the different Small Grant Recipients and the process to promote good governance on the part of the CA SGF Project Management Team.

Example 1: Poor project management rectified through cooperation

This project began quickly in the first two quarters of implementation, conducting a community awareness-raising meeting, selecting beneficiaries, and fencing a 1.58-hectare garden. In addition, a storeroom building plan was approved by the municipal government and construction began. Soon after, two boreholes were drilled.

It became clear following a site visit that the storeroom was inadequate and required remediation. The walls required reconstruction in areas and the roof lining needed to be rectified to prevent leaking. In addition, the Small Grant Recipient extended a service contract for building work to include the construction of a water tank stand. The service provider had no experience in this kind of metalwork – resulting in a stand that was so poorly built that it collapsed, damaging the water tank beyond repair.

It turned out that the approved building plan for the storeroom had not been followed by the contractor. The payment schedule in the service provider contract was also not adhered to, and the contractor was paid in full prior to the structure being reviewed and approved. As the construction occurred mainly during the December holidays, little oversight was provided. The contractor

responsible for the water tank stand was well known for construction experience but extending that scope of work to include building water tank stands was a mistake. In addition, the materials that were purchased by the Small Grant Recipient were not appropriate for the task, illustrating a lack of engineering input in the design and specification.

Serious errors were identified upon review of the procurement, contracting and payment processes. Procurement protocol was not followed to ensure the acquisition of the most appropriate provider and the contract payment schedule was not adhered to. Financial reporting revealed that more than 90% of the transactions were cash transactions and there was no cash reconciliation and documentation system. This placed the project at risk for remedial work that would require additional time and money.

The Executing Entity intervened at the request of the Facilitating Agency, who had been working with the Small Grant Recipient to understand the series of events that led to the multiple construction and reporting problems. The Small Grant Recipient worked closely with the Facilitating Agency to explain the context for their decision-making

and apologised for errors in judgement and their lack of clear understanding and application of the financial procedures.

Following discussions to identify interventions to ensure proper financial processes and documentation, a plan was set in place to deliver training to build organisational capacity. The Facilitating Agency worked directly with the organisation to develop and implement a cash reconciliation process and assisted them to register and use internet banking. Over time, internal controls were established. The Small Grant Recipient was assisted in engaging with the service provider to undertake necessary remedial work and received a refund for certain wasted costs and damages, enabling the re-design of the stand and purchase of a new water tank.

The Facilitating Agency worked very closely with the Small Grant Recipient throughout the CA SGF project, providing direct support and assisting with the establishment of improved governance systems. In total, the Small Grant Recipient received the most capacity building interventions of all the Small Grant Recipients - totalling 49 site visits to deliver technical support to the Small Grant Recipient Project Management Team over the three-year project implementation period. Although reporting didn't improve immediately, there was a continued openness and cooperation throughout the process. In addition, the Small Grant Recipient willingly took responsibility for its actions and demonstrated interest in improving. The project ultimately achieved its goals, directly improving the lives of 131 vulnerable community members who now have increased food security and resilience.

Example 2: Poor project management identifies mismanagement

The project that is the subject of the second example had a budget of approximately US\$110 000. Within the first six months of project implementation, fencing was established for 2.99 hectares of the communal garden, a borehole was drilled and water was found, water testing was conducted, and an application for water-use rights submitted to the Department of Water Affairs. During the same period, a shade net nursery was installed, a reservoir was built, and a Climate Smart awareness and an agroecology capacity building workshop was delivered to community members.

The first reporting period yielded inadequate documentation, particularly with the financial report. The Facilitating Agency followed up on several occasions to assist the Small Grant Recipient to better understand and comply with the financial record keeping and procurement policies. The exchanges led to the acquisition of many supporting documents, yet a full reconciliation was not possible. Over several weeks, conversations continued. The project managers appeared reluctant to provide reports and the reports that were submitted, particularly financial reports, were incomplete. In addition, conversations with different individuals involved yielded different information.

While attempting to rectify reporting challenges, an Environmental and Social Policy assessment was conducted, resulting in concerns about the structural integrity of a project structure, which was under construction. The Executing Entity offered to provide technical assistance to ensure that the structure, along with all other activities, was aligned with CA SGF project's requirements, and indicated that no further building could occur until they obtained written approval of the building plans from the local authority. The written correspondence was followed by a teleconference stating the above requirements and reiterating the contractual conditions that required the Small Grant Recipient to be a steward of the Environmental and Social Policy.

Investigations into the building integrity lead to a close review of financial administration, which revealed procurement irregularities. It was made clear that further financial disbursement would not be possible until the reporting irregularities were addressed in full. As financial reporting was complex, the Facilitating Agency provided support and training. Financial reporting irregularities continued, characterised by a lack of cooperation. The Facilitating Agency advised that while the financial

reports aligned with the revised ledger and procurement documents, the cheque reconciliation was still outstanding, despite training and assistance.

An investigation by the Project Management Team over the course of several months revealed allegations of nepotism and a conflict of interest in the procurement process of a service provider. It was explained that nepotism is a breach of the CA SGF policies to which the Small Grant Recipients are contractually bound. The consequence of non-compliance would be full liability for any inappropriately spent funds and the contract could be cancelled. Opportunity to dispute the allegation was provided and the allegations were discussed in person as well as on the phone and within written communication on several occasions. Ultimately, the level of ethical failing, including the evidence of nepotism and self-interest, resulted in the cessation of further project implementation

and repayment from the Small Grant Recipient of money that was inappropriately spent.

The robust technical and financial reporting compliance was required quarterly, affording the opportunity to quickly identify stunted performance or financial irregularities. The early recognition of structural inadequacy alerted the project management team to potentially poor project management and allowed remedial action to be taken to keep overall project risk within manageable bounds. Quick detection of project management challenges offered the opportunity to identify appropriate technical assistance or support required to remediate the problem and capacitate Small Grant Recipients based on individual needs to promote acceptable performance. Exposure also allowed for remediation actions to be identified and implemented before poor management translated into unmanageable project risks.

Conclusion

Enhanced Direct Access climate finance seeks to enable local communities to design and implement adaptation responses to climate change. A challenge remains that many local organisations and communities, particularly the most vulnerable, lack the organisational, administrative and financial capacity to manage the grants and project activities at the technical level required to receive global climate finance. The CA SGF project identified that, despite due diligence to ensure that Small Grant Recipients had the capacity to administer their projects, poor performance and management still occurred. The need for properly resourced, pre-project implementation training and support is a key learning and recommendation emerging from the CA SGF project.

Furthermore, rigorous monitoring and accompanying of systems development, responsive to the needs and challenges of each project, is needed. In the CA SGF project, this was largely conducted by the regionally-based Facilitating Agencies who assisted in identifying project management problems early. Discerning the root cause of problems was challenging, requiring time and considerable social, organisation and technical expertise to navigate the complexities and dynamics in each project. Adopting a supportive approach to negotiating complex dynamics, while holding a strict line on the need for integrity and transparency, provided the opportunity to develop capacity in ways that would have otherwise not been possible.

Below: Semi-arid vegetation in the Namakwa District (Photo: SANBI).



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