PROMOTING GOOD GOVERNANCE

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

KEY MESSAGES

The Community Adaptation Small Grants Facility (CA SGF) 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 (SGRs) and even parts of the CA SGF itself. Lessons learned about how best to accomplish this include:

- Given the complexity of monitoring the implementation of Community-Based Climate Change Adaptation (CB CCA) 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 SGRs 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 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.

Background

The Community Adaptation Small Grants Facility (CA SGF) aimed to ensure that vulnerable, rural communities in two selected areas in South Africa have reduced vulnerability and increased resilience to the anticipated impacts of climate variability and change. Originally a four-year community-based adaptation project, its full implementation extended over five years in the two identified Districts of Namakwa, Northern Cape and Mopani, Limpopo provinces.

The CA SGF piloted a small granting mechanism known as enhanced direct access (EDA), which allowed civil society organisations to access climate finance to implement locally relevant adaptation projects at the community level in at least one of the three investment windows: Climate-Smart Agriculture, Climate-Resilient Livelihoods and Climate-Proof Settlements.
Promoting Effective Project Governance

The CA SGF project sought to provide a mechanism through which EDA 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 operations and those of the SGRs. 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.

Context and Background

EDA 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 is 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 (NIE), the South African National Biodiversity Institute (SANBI), monitored project budgets and supported contracting of personnel. SANBI also monitored project implementation and the achievement of the project outcomes and ensured the efficient use of donor funds, while the Executing Entity (EE) was the organisation through which the CA SGF was administered. The NIE and the EE interpreted the compliance and reporting requirements and provided strategic insight to ensure alignment of the CA SGF project and Adaptation Fund (AF) strategic goals.

A Facilitating Agency (FA) was contracted by the EE 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 SGRs 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 FAs 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 SGRs, assessing those challenges and employing a range of customised tactics to provide support.
Oversight and Monitoring Mechanisms

Once awarded a grant for implementation, each SGR 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 SGRs 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 FA as well as the EE prior to final approval by the NIE. Disbursements were only made when all reports and supporting documentation were submitted for the projects, causing cash flow challenges for SGRs – even those that were compliant.

Financial reporting included detailed expenses in accordance with bank ledgers as well as documentation that demonstrated compliance with procurement policy, which generally required competitive procurement or approved motivations for single sourcing. From the start, several SGRs expressed difficulties in managing these requirements, noting that 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 FAs.

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 (ESP) of the AF, which sought to promote desired project impacts while mitigating any risk of adverse results. The ESP included 15 principles, based on the highest risks identified by the AF when designing and implementing adaptation projects. While the AF 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 ESPs. There was less experience still in seeking to provide a grants facility in small-scale, rural and under-resourced contexts.

In addition to supporting SGRs with reporting requirements, the FAs were in direct contact with an SGR around four times a month, conducting scheduled site visits as well as delivering or facilitating capacity building workshops. In total, FAs conducted 313 site visits during the four years of implementation. Capacity-building efforts were customised to project needs; the understanding of these requirements was 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 SGR 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 SGR projects started. While the intent was to simplify the systems, the change itself created complexity for the SGRs. SGRs were Community Based Organisations that generally had not engaged with international grant funds with this level of oversight and related reporting requirements and intensity. SGRs struggled to complete reports on time. Furthermore, given that the CA SGF was a pilot project, the mechanism through which the grant was administered was new; indeed, EDA 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 SGRs 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 SGRs to meet core operational costs and squeezing delivery into ever tighter time-frames.

The FAs were responsible for providing ongoing assistance and training regarding SGR capacity building, including financial administration and project management. It was understood from the CA SGF project concept that capacity gaps existed in the community; 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 proceeded, the FAs invested significant time in assisting and training SGRs to record information, establishing reporting and financial management systems as well as incorporating project monitoring tools and processes. The FAs approached all scenarios from the perspective of a shared intention to achieve results established in the SGR 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 inherent ability or willingness to account, but in managing the complex and evolving systems created by the CA SGF.

Eventually, it was not oversight of the centralised technical accounting system but the consistent engagement by the FAs, and the SGRs’ responses to practical assistance, that raised red flags of mismanagement. Ultimately, it was the SGRs that were persistently unresponsive to questions or queries, or even blaming the FAs 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 FAs.

Navigating a multitude of challenges while skilfully negotiating with each SGR and ‘sensing’ where wrongdoing might have taken place was a task led by the FAs. Support by the EE 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 CA SGR project risks were minimised and good governance within community organisations was significantly strengthened. In the final analysis, the CA SGF 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 NIE, EE, FAs and the SGRs, that ultimate success was made possible.
CASE STUDY: PROMOTING GOOD GOVERNANCE

Following are two examples of situations that occurred in the CA SGF 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 wrong-doing on the other.

In both cases described below, the SGRs 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 SGRs).

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 SGRs and the process to promote good governance on the part of the CA SGF Project Management Team.

Example: 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 SGR 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 SGR 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 EE intervened at the request of the FA, who had been working with the SGR to understand the series of events that led to the multiple construction and reporting problems. The SGR worked closely with the FA to understand 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 FA 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 SGR 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 FA worked very closely with the SGR throughout the CA SGF project, providing direct support and assisting with the establishment of improved governance systems. In total, the SGR received the most capacity building interventions of all the SGRs – totalling 49 site visits to deliver technical support to the SGR 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 SGR 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: Poor project management identifies mismanagement*

The project that is the subject of the second example had a budget of approximately USD110,000. 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 FA followed up on several occasions to assist the SGR 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 ESP assessment was conducted, resulting in concerns about the structural integrity of a project structure, which was under construction. The EE offered to provide technical assistance to ensure that the structure, along with all other activities, was aligned with CA SGF 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 SGR to be a steward of the ESP.

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 FA provided support and training. Financial reporting irregularities continued, characterised by a lack of cooperation. The FA 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 conflict of interest in the procurement process of a service provider. It was explained that nepotism is a breach of the SGF policies to which the SGRs 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 SGR 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 SGRs 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

EDA 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 identified that, despite due diligence to ensure that SGRs 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.

Furthermore, rigorous monitoring and accompanying of systems development, responsive to the needs and challenges of each project, is needed. In the CA SGF, this was largely conducted by the regionally-based FAs 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.

Acknowledgements

The CA SGF Project would like to thank Mikateko Sithole and Lindelani Mudau from the Department of Environment, Forestry and Fisheries, as well as Ntshavheni Mudau from the Mopani District Municipality and Denver Smith from Namakwa District Municipality for their guidance and support on the development and review of the case studies. In addition, appreciation is extended to the Adaptation Network as well as the various individuals and institutions who offered their support and expertise as members of a regional Technical Advisory Group. Gus Brown, who represented the Namakwa District Municipality, is recognised in memoriam.

Particular gratitude is extended to the Small Grant Recipients and the community beneficiaries who contributed an extraordinary amount of time, energy, and commitment alongside their hopes and belief in a better and more resilient future and without whom these stories could not be told.

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Cultural heritage site, Betelsklip, in the Namakwa District. Credit: Faslona Martin (SANBI)

This case study was compiled by SouthSouthNorth as a deliverable of the CA SGF with input from partners and stakeholders.

Design and editing is credited to SouthSouthNorth’s Knowledge Management Hub, with significant contributions from Chevon Griffiths, Emma Baker, Karen Morris and Ncumisa Magadla.

This work was funded from an Adaptation Fund grant. The views expressed herein do not necessarily represent those of the Adaptation Fund or the entities managing the delivery of the Community Adaptation Small Grants Facility (CA SGF). Significant effort was undertaken to ensure the views in the case studies are representative of all CA SGF stakeholders, however, the authors do not claim to represent the parties involved in the CA SGF and do not warrant the accuracy or completeness of information presented. Credit for the contribution of content, design and pictures were obtained through a diligent process and any exclusions are fully accidental. Copyright © 2020, Community Adaptation Small Grants Facility. Information herein may be shared on a non-commercial basis and provided the CA SGF is duly acknowledged.

The SGF is funded by the Adaptation Fund, endorsed by the Department of Environment, Forestry and Fisheries (DEFF) as the National Designated Authority, implemented by the South African National Biodiversity Institute (SANBI) as the National Implementing Entity, and executed by SouthSouthNorth Trust (SSNT) as the Executing Entity. The project is locally supported by the Namakwa and Mopani District Municipalities and locally facilitated in the Districts by Conservation South Africa (CSA) as the Namakwa Facilitating Agency and CHoiCe Trust as the Mopani Facilitating Agency.

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