Knowledge Series #2

Making the Climate Change Argument

Tips & Tricks for Writing a Winning Proposal



Climate Change Asia
Catalyzing Capacity for Action

AIT
Asian Institute of Technology

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Acknowledgements

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This knowledge product is jointly developed by the Regional Resource Centre for Asia and the Pacific at the Asian Institute of Technology (AIT RRC.AP), under the umbrella of the Climate Change Asia Initiative, and the Overseas Environmental Cooperation Center with generous financial support from the Ministry of the Environment of Japan (MOEJ). The views expressed and information contained in this publication is not necessarily those of or endorsed by MOEJ, which accepts no responsibility or liability for the accuracy of the information provided below.

The authors wish to thank all the respondents from international financial institutions and other experts who shared their experiences and recommendations on project development.

This publication is the second in a series of knowledge products on climate finance being developed by AIT RRC.AP with partner organizations. The first publication, ‘Beginner’s Guide to the Climate Change Mitigation Funding’’, can be accessed online.

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Introduction

Climate finance refers to 'finance that aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts' . The flow of funds from public, private and alternative sources can be channelled by local, national or transnational entities.

Despite the substantial increase in the volume of available climate finance over the last decade, developing countries still face unique challenges, which limit their access to these financial resources. One of the most prominent constraints is the lack of in-country technical knowledge and institutional capacity to prepare project proposals that comply with international financial institutions' policies and requirements.

This publication has been created to help potential project developers overcome these challenges. It does so by providing a compilation of tips and tricks to strengthen climate change project proposals to be submitted to international or national financial institutions. These insights have been drawn from experiences of experts and practitioners who have successfully designed and implemented numerous climate change projects around the world.

While the list of tips and trick is not exhaustive, it is hoped that readers will find this publication of use to tackle some of the obstacles encountered along the way of designing project submissions.

1.

SETTING THE STAGE FOR A WINNING PROPOSAL

Understanding the Problem

Having a clear idea of the challenge to be addressed and the context in which it develops is a first key step to develop a winning project proposal. Consider the following tips:

☐ Take advantage of existing background information

Desk research of publicly available documents (such as Nationally Determined Contributions under the Paris Agreement, national development strategies, vulnerability and climate risk assessments, economic and environmental studies) is useful in understanding the problem at hand, as these offer valuable insights into national priorities and may contain data necessary for establishing baselines and identifying assumptions and barriers to a project implementation.

☐ Conduct a comprehensive analysis of the local context

Climate change impacts as well as institutional, socio-economic, political and regulatory contexts can vary greatly even over small geographical areas. Hence, it is important to gather localised and context-specific information. Field visits and consultations with local stakeholders are among the best means to achieve this.

Words of wisdom

"Too often I see proposals designed by people who haven't been in the project area or don't have experience with the country, and that is a disaster. Particularly in the case of adaptation projects, which are by and large local, it's important to get in and use your eyes and ideas to understand the real situation, because quite often governments or research will tell you one thing, and the poorest family in the area will tell you another."

Practitioner with more than 20 years of experience in climate change projects

☐ Embrace complex thinking

Often, those who design projects tend to think about problems as if these were linear. This type of thinking results in solutions that neither address the root cause nor ensure a long-term impact. Analysing an issue in a systemic way and using diverse research methodologies can lead to innovative and viable solutions to some of the most pressing climate change challenges in a local context.

Diversity on the working team

Assembling a cross-sectoral working team to participate both in problem identification and project design phases can incentivise complex thinking, as diversity tends to open the space for more varied perspectives and novel ideas.

Mind the politics

Basing the justification for a project only on scientific information can lead to a one-sided and incomplete picture, as other causes of vulnerability and risk can be left unnoticed. The issues that are harder to observe (such as power and political dynamics, embedded inequalities) are often the greater challenges during project implementation.

Before moving on...

- Review national and subnational climate change and development plans to identify priorities: Many financial institutions require that a project proposal be aligned with national and subnational climate change priorities, plans and development strategies. These are normally available to the public. If they are not accessible online, respective government entity in each country can offer them. Examples from the Philippines are shown below:
  - National: Philippine National Climate Change Action Plan 2011-2028, Philippine Development Plan 2017-2022
  - Subnational: Local Climate Change Action Plans

- Verify that mitigation of, or adaptation to, climate change is the focus of the project: If the main objectives of the project are not combatting the root causes of climate change or decreasing vulnerability to its impacts, the proposal is not likely to be funded from a climate finance source. It may nevertheless be eligible for funding through development assistance channels.

Crafting Effective Interventions

Once a climate action priority has been mapped out and the problem has been analysed and understood, identifying an optimal combination of interventions to solve the problem follows. Consider the following tips:

☐ Engage local stakeholders

Communities should not be seen as passive subjects. Civil society organisations and other local groups, including the most vulnerable, offer indispensable insights to craft the most viable and locally relevant solutions. Engaging with these stakeholders at the earliest stages of a project development can also help secure local support, ensure added value, avoid duplication of efforts, and reduce the risk of social rejection of a project during its implementation.

Gathering bottom-up evidence

Participatory methods for community consultation and engagement are a powerful means to gather bottom-up evidence and data. There are various ways to do so. The following documents provide some useful ideas:

1. Participatory Methods: A Facilitator's Guide
2. Consultation, Participation and Disclosure of Information
3. Case Study: Building safe spaces to support young women's participation in local governance in Indonesia

☐ Mind environmental, social and gender considerations

Being cautious of issues of equity and inequalities in resource distribution is very important, as it has often been the case that a project increases the resilience of one sector of society at the cost of harming others. Likewise, it is often proposed to introduce climate change mitigation measures involving the construction of infrastructure in areas with rich biological diversity, without taking into account potential adverse impacts on endemic species of wild flora and fauna.

☐ Consider if there is capacity and resources to deliver

Conducting a basic pre-feasibility of the proposed interventions may be prudent at this point to determine if these can be executed in a timely and cost-effective manner with the available resources. In some occasions, proposals have been submitted without contemplating if there is adequate local capacity to deliver the expected results. If local skilled personnel are not available, a proposal should include provisions for either building the necessary capacity or acquiring required expertise through outsourcing. The former option is preferable as it helps ensure long-term sustainability of the project interventions.

Learn from past mistakes and achievements

Looking at projects that failed or succeeded in the target region or a similar one can help in gathering and validating ideas and avoiding repeating mistakes that others have already committed. Project completion reports prepared by international organizations always include sections on lessons learned, which provide valuable insights on organizational, managerial, logistical and other barriers to the project implementation in the target region along with potential means to remove these barriers.

Selecting the Right Sources of Funding

Evaluate the requirements and priorities of different financial institutions
It is best to select a financial institution whose priorities and eligibility criteria align with the project proposal rather than adjust a proposal to fit requirements at the cost of compromising the project's objectives and design.

☐ Determine the type of a financial instrument that is most suitable for the proposal

Depending on the project's level of risk, its financial strength and its duration, a project may be more suitable for a grant, a concessional loan, guarantee, equity or other financial instruments. Grants tend to be more appropriate for projects with no cash flow, while projects that are financially viable tend to be more eligible for concessional loans. Additionally, projects with higher risk are usually more suitable for equity and those with lower risk for debt.

☐ Consider co-financing

Complementary and multiple co-financing is possible if a project has strong advocacy and an appealing concept, and its viability is apparent. Some financial institutions do not require co-finance, while others require it. To secure co-financing, start by mapping the requirements of each potential co-financier (eligibility requirements, costs, ease of availment, repayment terms) and analysing which ones align best with each intervention of the project. Once the most promising options are identified, it is advisable to initiate conversations with respective financial institutions at the earliest possible.

Before moving on...

- **Seek feedback:** At this stage, you should have enough information and understanding to be able to draft a concept note. While it is not always mandatory, submitting a concept note whenever possible is highly encouraged. Doing so initiates a dialogue with a financial institution and presents a possibility to receive valuable early feedback on substantive issues in a project under development. Feedback may include questions on matters that the concept note failed to address or provide guidance on the interventions. It may also confirm whether a project is eligible for funding from the selected financial institution.

Conducting Feasibility Assessments

By nature, feasibility studies differ from one project to another. However, they most often include a variety of assessments to ensure:

Technological viability

In case a project requires a specific technology, it is important to demonstrate that this technology is suitable for project-specific conditions. This entails testing equipment and its alternatives in those conditions, including microclimate, where it will be used. In addition, different climate change scenarios should be considered. This is particularly important for equipment that will be used for multiple years: the longer the lifespan of an asset is, the wider the range of scenarios that should be used.

For new technologies, proprietary methods of testing and projections are acceptable, provided that full transparency is exercised.

Economic and financial feasibility

Financial institutions have different performance benchmarks for deciding to approve or reject a project. An example of such a benchmark is the minimum required economic internal rate of return (EIRR) of 6 per cent set by the Asian Development Bank for projects that generate environmental benefits. However, failing to meet a set benchmark does not necessarily lead to the project rejection if a sound and strong justification is provided.

Economic and financial analyses commonly include sensitivity analysis to measure whether project objectives can still be achieved if project conditions change adversely; cost-benefit and cost-effectiveness analysis to systematically determine the best intervention among alternatives; and net present value and internal rate of return analysis to measure economic viability.

Environmental soundness

Environmental Impact Assessment (EIA) is conducted to identify and predict potential environmental as well as related social and economic impacts of a project at an early stage in project planning. It is then used to design ways and means to reduce adverse impacts, shape projects to suit the local environment and present the predictions and options to decision-makers.

By using EIA both environmental and economic benefits can be achieved, such as reduced cost and time of project implementation through avoiding treatment, clean-up and ecosystem restoration costs.

Often, project proponents see EIA solely as a regulatory requirement, which results in poor project design that may lead to its rejection.

Social equity and gender mainstreaming

Community members are not uniformly vulnerable to impacts of climate change and without a clear understanding of these differences, projects can further exacerbate social and gender inequalities. Hence, it is essential that project proponents conduct social and gender assessments to map potential risks of the proposed interventions and determine how to mitigate these. Outcomes of such assessments also provide a basis for developing stakeholder engagement strategies and gender action plans, which are required by some financial institutions.

Before moving on...

- **Consider applying for a project preparation grant**
  Some financial institutions offer project preparation grants to finance such activities as feasibility studies, economic analysis and stakeholder consultations, which are necessary to inform the full funding proposal.

2.

WRITING THE WINNING PROPOSAL

At this stage, all project preparation activities have been completed. These include, but may not be limited to, the following:

- Desk research and gathering of accurate and reliable information;
- Fieldwork and engagement of stakeholders;
- Climate risk and vulnerability assessments;
- Feasibility studies, including environmental, gender and social impact assessments;
- Review of the guidelines and requirements of the selected financial institution;
- Identification of potential co-financing sources and project partners.

The task at hand now is to elaborate a winning full funding proposal that clearly presents the problem and makes a compelling case for the proposed solutions. To achieve this:

☐ Describe the climate change adaptation or mitigation objective, presenting both the big picture and finer details

For a climate change adaptation project, detail the root cause of the problem and how climate change is contributing to this problem at present and in the future under different climate change scenarios.

For a climate change mitigation project, explain how the proposed interventions will result in reduction of greenhouse gas emissions, and highlight economic and social co-benefits.

In setting the broader context, a common good practice is to describe policy and regulatory frameworks at the international, national and local levels; environmental and climate conditions as well as socio-economic, political and institutional details.

☐ Develop a coherent and convincing roadmap

The project's logical framework should include all the key interventions and demonstrate a coherent flow starting from objectives to activities to outputs to desired outcomes and finally long-term impacts, taking into account identified risks and assumptions.

☐ Make every piece of information evidence-based

Supporting every claim or justification in the proposal with sound scientific data is a must. Hence, it is important to exploit the findings of preparatory assessments, research, and other documentation to the fullest extent and to ensure there is high quality of analysis. This will demonstrate that the decisions made are robust and well-founded, and that the project interventions will lead to effective and sustainable results.

☐ Demonstrate support for the project

Due diligence of financial institutions involves examining the alignment of project activities with plans, policies and strategies set at local, national and international levels. Social acceptability of the project, especially by vulnerable groups such as ethnic minorities and women, is also verified.

☐ Clarify how gender and vulnerable groups' considerations have been, and will continue to be, taken into account

Proposals that fail to consider and address climate vulnerability and gender-differentiated impacts will most likely get rejected outright. Proposals must explicitly specify how vulnerable groups will continue to be involved during project implementation to ensure their needs are taken into account, and detail how benefits will be enhanced and impacts minimised or mitigated.

☐ Present comprehensive project governance and knowledge management structures

Having a well-defined governance framework is a crucial component of a project, yet it is often not prioritised. Financial institutions will expect detailed information on project management, coordination mechanisms, implementation measures, and executing agencies. Project proponents should also specify approaches to be used for monitoring and evaluation, knowledge management, and lessons sharing.

☐ Be transparent about risks and limitations associated with the project and provide detailed information on risk-mitigating counter-measures

Being transparent about risks and limitations that can hinder success of the project, and detailing strategies to address these threats, will show diligence and increase the attractiveness of the proposal. It is prudent to consider operational implications, security constraints and financial risks whenever applicable. While developing contingency plans or risk mitigating measures, it is advisable to refer to lessons learned and tested solutions from projects that were subject to similar risks and limitations in the past. Additionally, setting explicit project boundaries, in terms of implementation timelines as well as infrastructure, systems, beneficiaries, institutions and ecosystems involved, will also strengthen the proposal.

In search of transformational change

Some financial institutions will prioritise projects that demonstrate a potential to bring long-lasting positive change or even a paradigm shift. This may entail promoting sustainable lifestyles, consumption patterns and behavioural changes; introducing a novel approach or first-of-the-kind technology; unlocking opportunities to scale up or replicate a project idea in a near future; increasing knowledge and learning; developing an intervention that can be a multiplier force for other projects; or enabling a new regulatory framework that could redirect more local finance or private sector support into climate action.

Before you submit a proposal...

Verify you are not making any of these ten common mistakes:

1. The focus of the project is not within thematic priorities of the selected funding institution.
2. The project is not aligned with national or subnational climate change plans or development strategies.
3. The main challenge to be addressed is a development problem rather than a climate change related one.
4. Not all of the financial institution's requirements were followed.
5. There is lack of necessary detail or weak elaboration of sections in the proposal.
6. There is lack of accuracy in the information presented or poor quality of analysis.
7. The proposal's logical framework is inadequate due to incoherence between goals, objectives, activities, outcomes and impacts.
8. The proposal shows weak compliance with environmental and/or social policies of the financial institution or presents little to no social, environmental and/or economic co-benefits.
9. Proposed risk-mitigating measures are unable to address all project risks.
10. The project proposal was developed tapping on information from other similar projects without adjustments to the local setting.

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