

Editorial

Severe impacts of climate change are already visible around the world and are set to worsen in the future, making adaptation necessary, even under the most optimistic emission reduction scenarios. The increasing number of extreme weather events, such as flooding, as recently experienced in China and Pakistan, rising sea levels and shortages of water and food will put billions of people at risk, particularly those living in developing countries. Preventive and concrete adaptation measures in those countries exposed to the adverse manifestations of climate change are urgently needed in order to avoid further damage and a future cost explosion.

To address this, the Adaptation Fund (AF) can play a pioneer role. The Fund was established under the Kyoto Protocol to finance concrete adaptation projects and programmes aimed at helping developing countries cope with the negative impacts of climate change. It is a unique Fund in several regards, in particular through its pilot function for direct access for developing countries to international funds. This year, the AF has set several milestones in the climate change debate. Naturally, civil society also has a role to play in accompanying the Fund's development, both globally and especially on the level of developing countries. Our objective is to ensure that it serves the most vulnerable people as much as possible.

As the Adaptation Fund has become fully operational, this newsletter, published by Germanwatch, International Institute for Environment and Development (IIED) and ENDA-TM, is making its debut. Its purpose is to provide a brief update on recent and future developments around the Adaptation Fund. Civil society has a crucial role to play in international adaptation funding by providing good examples and assistance, as well as by pointing to shortcomings which may appear. We welcome the engagement of everyone interested in our common task of making international adaptation funding serve the most vulnerable.

Sven Harmeling (Germanwatch) and Dr. Saleemul Huq (IIED)

**12th Meeting of the Adaptation Fund Board
December 14 and 15, 2010
Webcast at: www.unccd.int/live/gef/index.php**

The Adaptation Fund – facts and figures

Project level		
Full projects approved	2	Senegal, Honduras
Project concepts approved	6	Guatemala, Madagascar, Mongolia, Nicaragua, Pakistan, Solomon Islands
Project concepts rejected	6	Egypt, Mauritania, Mauritius, Niue, Uganda, Turkmenistan
Funding decisions (full projects and concepts)	USD 29.92 million	
Resources in the pipeline (projects considered at AFB 12, Dec. 2010)	USD 85.66 million	
Implementing Entities accredited		
National IE (direct access)	3	Senegal, Jamaica, Uruguay
Multilateral IE	6	ADB, IFAD, UNDP, UNEP, WFP, World Bank

Policy Pointer:

- Adaptation to ongoing and future climate change in developing countries is urgent in order to avoid present damage and a future cost explosion.
- Started from scratch as a new Fund under the Kyoto Protocol, the AF and its Board have reached a number of milestones.
- It has accredited a number of NIEs and MIEs as well as issued its first call for project proposals.
- The recent signature of a Memorandum of Understanding between the AF and the CSE, the first accredited National Implementing Entity, proved that direct access works, although challenges remain.
- However, this groundbreaking initiative is not only an opportunity, but also a responsibility for poor countries.
- Despite the clear signal sent by the AF this year through a concrete track record of fund disbursement, wealthy nations have not yet acknowledged this progress sufficiently (with the exceptions of Spain, Germany, Sweden and Monaco). Up to today, only one percent of the promised fast start finance has been channelled to the AF.

Greeting from the Chair of the Adaptation Fund

Adaptation to climate change is an increasingly important challenge for many vulnerable developing countries. The unusually prolonged and torrential rains in Pakistan two months ago and elsewhere since demonstrate the urgency to find financial resources to help countries adapt to this challenge.

The Adaptation Fund provides a new avenue for these countries to access resources that are urgently needed. Even though the Adaptation Fund has extremely limited resources, it represents a step in the direction of creating a viable mechanism that can find solutions to this challenge. The innovative feature of the Adaptation Fund, direct access, presents yet another important step at the international level towards enhancing the capacity of the developing countries in meeting collective objectives.

The Adaptation Fund, which has already begun project implementation, is proof of international community's positive efforts over the past two years. I am confident that the Adaptation Fund Board's efforts in setting rules and structure for direct access will be path breaking in internationally financing and channelling such resources to the developing countries.



The critical, but always-constructive input from civil society has helped the AFB to steer the Fund onto a successful path. I deeply value this contribution. Continuing this relationship is in the interest of the AFB and the international community as a whole. In fact, it is now all the more important to further cement civil society's contribution when adaptation has to materialise for those most in need in developing countries.

Farrukh Khan, Chair of the Adaptation Fund Board

What constitutes the uniqueness of the AF?

The first steps erecting the AF were undertaken in 2001 during the 7th Conference of the Parties (COP7) to the United Nations Framework Convention on Climate Change (UNFCCC) in Marrakech, Morocco. Thus, the AF is mandated to finance the full cost of concrete adaptation projects and programmes that are country-driven and based on the needs, views and priorities of eligible developing countries. A few years and several COP meetings later, in 2007, in Bali, the legal framework of the AF was adopted and the Adaptation Fund Board (AFB) was set up as the operating entity, served by a Trustee and a Secretariat. In Poznan in 2008, the Parties decided to confer the AFB its own legal capacity, in order to be able to contract with third parties. During the Copenhagen COP, the Operational Policies and Guidelines of the AF were adopted, and it was agreed that Germany (the UNFCCC hometown Bonn) would formally host the AF.

The Adaptation Fund is unique in several regards:

Firstly, it is unique **in the way it is governed**. The representative governance of the AF is supervised and managed by the Adaptation Fund Board (AFB), which works under the authority of and accountable to the Conference of the Parties to the Kyoto Protocol. The AFB has 16 Members and 16 Alternates with appropriate technical, adaptation, and policy expertise, all representing relevant regional and country groups. Its governance composition, with a majority of the members from developing countries, enshrines the principle of equitable and balanced representation of all Parties more than the governance composition of any other existing Fund. Nevertheless, even with the developing country majority, the working atmosphere can largely be described as open, constructive and willing to move the Fund forward as a joint effort between developed and developing countries. Neither of them can dominate the other.

Secondly, the **opportunity to access resources from the AF through direct access** is unique in international climate finance. The principle of direct access approach is simple. It aims at simplifying and accelerating the allocation process of resources to the developing countries. Developing countries can nominate domestic organisations for accreditation as a National Implementing Entity (NIE). For accreditation, these NIEs have to meet a set of fiduciary standards set by the AFB. Such fiduciary standards constitute the credibility of the Board and warrant that the money will deliver the result for which it has been disbursed. Thus, the AFB sets the standards in order to remove barriers for the developing countries, while simultaneously ensuring fiduciary oversight of its scarce resources. After having mastered the accreditation, the NIE will be responsible for endorsing project and programme proposals from their countries and will be the direct funding recipients. So far, NIEs from three countries have been accredited: Senegal, Jamaica and Uruguay. All of these are institutions already existing in their countries and are experienced in very different tasks. This shows that there is not the one recipe which all countries have to follow to gain direct access, but they should start by looking at the set of institutions existing domestically. Of course, countries can also choose to go the conventional route, through the, so far, six accredited Multilateral Implementing Entities (World Bank, UNDP, UNEP, etc.).

Thirdly, the AFB has adopted the strategic priority of **giving special attention to the particular needs of the most vulnerable communities**, which was also approved by all Parties to the Kyoto Protocol. This kind of qualification will go hand in hand with the fiduciary standards, in order to channel money to serve those who are most in need.

Fourthly, the **transparent working mode** is the most important feature regarding reliability and transparency. Except for a few closed sessions, observers are allowed to participate and even sit in the meeting room of the AFB, as well as follow the sessions

How to make direct access work?

As the government of a developing country, you have to take the following steps to arrive at direct access. The AF website provides further guidance, including an example application by UNDP:

www.adaptation-fund.org/AccreditationPanel

1. Check the fiduciary management standards set up by the AFB.
2. Think about whether you have an institution which is experienced in international project finance oversight and may meet the standards. You can check the examples of the already accredited National Implementing Entities from Senegal, Jamaica and Uruguay and communicate with their directors:
www.adaptation-fund.org/accreditedNIEs
3. Once you have identified a potentially suitable institution, prepare an application to the AFB using the template presented on the AFB website.

Further steps are outlined on the aforementioned AFB website. Good luck with your application!

on the web. Most of the documents are available on the website. In order to represent the interests of NGOs and Civil Society Organisations (CSOs), the AFB enabled the public to comment on project proposals prior to their adoption. What is still a comparative disadvantage to other funds such as the Pilot Programme for Climate Resilience (PPCR) is the lack of a more institutionalised role for civil society. An initial step towards this is the decision by the AFB to have a regular exchange with observers during future AFB meetings.

Finally, the AF is unique in the way it is funded. As a self-standing solidarity-fund, the AF is primarily financed through a share of proceeds from Clean Development Mechanism (CDM) project activities. This means that the Fund is, to a large extent, not based on usual development assistance contributions. Unfortunately, the resources generated from this levy will not suffice the adaptation demands from developing countries, which amount to the tens of billions. So far, the Trustee (the World Bank) has generated revenues of USD 130 million since the start of the CER sales monetization program in May 2009, and estimates of potential resources available for the Adaptation Fund from November 15, 2010 are about \$360 million¹. The AFB has, therefore, invited developed countries to provide additional funds. This year, four countries followed this request, thus expressing their faith in the AF. Spain has already transferred € 45 million and Germany € 10 million. Sweden has pledged € 10 million and Monaco € 10,000.

Achala Chandani, IIED

Case study Senegal: Challenges and opportunities through the first direct access project

It is no accident that one of the first approved projects for funding arose from the first-ever accredited institution using the direct access route in the AF. Because of the historic character of this achievement, the eyes of all interested stakeholders are on Senegal's Centre de Suivi Ecologique (CSE) to closely follow its progression through the implementation process. Accordingly, Senegal and its NIE have been acting as a success story example for other countries to follow. However, the fruitful implementation of its project, which aims at addressing "Adaptation to

¹ Financial Status of the Adaptation Fund Trust Fund, AFB/EFC.3/8

Coastal Erosion in Vulnerable Areas in Senegal” is not only an opportunity, but also a **responsibility**.

It is an opportunity because it enables the chance to address the significant threat Senegal faces, which handicaps its sustainable development prospects. The leading economic sectors in Senegal are dependent on natural resources, which have been overexploited by satisfying the basic needs of their poor people and will be threatened through the impending impacts of climate change.

The way the Senegalese project is designed and presented justifies the approval process of the Board. In many facets, it seems to be an example for other countries proposals, which, so far, have been submitted to the Board.

For instance, the way how the stakeholder consultations have taken place is more transparent than the other projects, because the proposal not only mentions the numbers of consultations made, but also explicitly indicates in the proposal which inputs arose from which communities and associations. Furthermore, the list of all relevant decisions taken and persons involved are publicly available. While the other submitted projects (even the one other approved proposal of Honduras) rely on government agencies (mostly environment ministries as executing entities (EE), in the case of Honduras the “national” Secretariat Environment and Natural Resources (SERNA)), the execution of the project in Senegal will be undertaken through different organisations with diverse backgrounds. The different chosen EEs (the Department of Environment and Classified Institutions (DEEC) under the authority of the environment ministry, the NGO Green Senegal, an Association of youth and women) will closely work with the local communities, which will undertake several tasks in the execution of the project depending on their capacities.



Joal’s Women showing paddy field degraded by salinization.
Photo: ENDA

The implementation of the projects through a NIE is also linked to certain responsibilities. The CSE of Senegal now has its reputation as an implementing entity to defend. Overall, the outcome of the projects depends on the management of the CSE as well as the implementation through the EE. Both are, therefore, obliged to ensure in every stage of the project’s execution, that the disbursed money is channeled to the targeted communities. Doing so should, at the same time, ensure the provision of the same expected outcome, such as that provided by the MIE or possibly even better.

Emmanuel Seck, ENDA TM, Senegal

How civil society can engage in the development of the Adaptation Fund

How actively and effectively civil society will engage in the work of the Adaptation Fund and other adaptation funding initiatives will play a crucial role to contribute to the AF’s strategic priority to address the needs of the most vulnerable communities. As Farrukh Iqbal Khan, Chair of the Adaptation Fund Board expressed through his greeting in this newsletter, the involvement of civil society is deeply appreciated and has played its part in the AF in the past.



Dr. Saleemul Huq (left) delivers donations to Marcia Levaggi (AF Secretariat, middle) and Farrukh Iqbal Khan (Chair of the AFB), collected at the 4th International Conference on Community Based Adaptation. Photo: Sven Harmeling

There are numerous ways how civil society can engage in the process, on the global as well as on the national level.

On the **national level**, the engagement of NGOs in developing countries is crucial, in particular with regard to the implementation of the projects funded through the AF. To ensure that the projects are meeting their objectives and that they address the needs of truly vulnerable people, NGOs can for example:

- Work with local communities in the project region;
- Arrange independent field visits;
- Engage in dialogues with the Implementing Entities, the Executing Entities and the governments’ Designated Authorities, and provide comments on the project implementation;
- Contact the AFB member in your region;
- Network with other NGOs;

On the **international level**, i.e. on the level of the Adaptation Fund, but also in the broader UNFCCC and adaptation finance context, NGOs can:

- Attend meetings of the AFB to network with AFB members;
- Input written letters and submissions to the AFB;
- Provide independent constructive and critical analysis on the development of the AF;
- Raise public awareness, etc.

Germanwatch, IIED, ENDA, Bread for the World and other NGOs are working to set up a broader Adaptation Fund NGO network which aims to accompany the development of the Adaptation Fund on the global as well as the national level. A substantial funding has been secured for this from the German government’s International Climate Initiative (part of this work is this newsletter). We invite everyone who is interested to join this network.

International Adaptation Funding: A drop in the Ocean

It is worrying that less than **1 percent of the \$30 billions** pledged short-term finance of developed countries over the period 2010-2012 is estimated to be channelled to the AF². However, an accurate observation reveals that in the last year, the AF has delivered more palpable results than the preferred existing multilateral institutions in the wealthy nations.

- In December 2008, six months before the operationalisation of the AF in Poznan, the Pilot Program for Climate Resilience (PPCR) was established with the main objective to get projects approved as soon as possible. Since then, however, the PPCR has yet to fund any full programme, although it has spent much time and money on its own design teams visiting the recipient countries. On the other hand, the AF has already approved funding for two concrete adaptation measures in developing countries (Senegal, Honduras) as well as project concepts from Guatemala, Madagascar, Mongolia, Nicaragua, Pakistan and the Solomon Islands. These countries can now submit full projects for approval without the use of international consultants to help them design individual programmes or projects.
- The AF will finance the full cost of adaptation measures and will disburse its money as grants, in contrast to the other climate funds, which are linked to certain conditions. While, for instance, the Least Development Countries Fund (LDCF) will co-finance the implementation of NAPAs, the PPCR will disburse its resource in loans and grants.
- While the LDCF will support 48 LDCs, and the World Bank PPCR has "hand picked" which countries it will support, the Adaptation Fund remains demand driven with all Parties to the Kyoto Protocol (149 countries) able to apply for money.
- Bearing in mind that the first call for proposals has been issued in March this year, since then 23 countries of the 149 eligible countries have submitted their project proposal, worth \$153 million. Considering that only \$130 million has been generated since the start of CER monetisation in May 2009, it remains a great concern whether the AF is not sentenced to fail due to scarcity of resources.
- The CER market is quite volatile, so the revenue stream is neither as predictable nor as reliable as needed. Therefore, the implementation of an innovative funding source, which would channel resources into the AF (and maybe other funds), becomes more important. Such sources have been proposed by the LDCs through their initiative for an International Air Passenger Adaptation Levy (IAPAL).

Regarding the fast start financing promised in the Copenhagen Accord, only Spain has paid \$57 million and Germany \$13.8 million. Sweden have pledged \$13.8 million. **This is a drop in the ocean** compared to the costs between 2010 and 2050 needed to adapt to an approximately 2 °C warmer world by 2050, which is estimated to be in the range of \$70 billion to \$100 billion per year for developing countries.³

	Pledge	Paid	Unpaid	Operationalised
In million US\$				
PPCR ⁴	972	821	151	2008
SCCF ⁵	148	133	15	2002
LDCF ⁶	221	169	52	2002
AF ⁷	85	71	14	2008 ⁸

⁴ SCF/TFC.6/4 Status of Contributions and Receipts as of September 30, 2010.

⁵ Pledged as of October 8, 2010, www.thegef.org/gef/LDCF_SCCF_9_Inf2

⁶ Pledged as of October 8, 2010, www.thegef.org/gef/LDCF_SCCF_9_Inf2

⁷ Pledged as of 31 October, 2010, www.adaptation-fund.org/system/files/AFB.EFC_.3.8_0.pdf

⁸ The actual work could only begin after the Bali COP 2007.

Jargon buster

CER: Certified emission reductions. CERs are generated by 'climate-friendly' sustainable development projects in developing countries, and useable by their governments or companies to meet Kyoto Protocol reduction commitments. A CER amounts to 1 tonne of CO₂ equivalent. CER certificates are issued under the CDM.

Clean Development Mechanism (CDM): an arrangement under the Kyoto Protocol allowing developed countries to invest in emissions-reduction projects in developing countries.

Kyoto Protocol: a protocol under the UNFCCC that sets a legally binding commitment for developed countries to reduce emissions of a range of greenhouse gases, and general commitment for all its 193 member countries.

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Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

² World Development movement (October 2010): why the UK should support the UN AF

³ The global report of the economic of adaptation to climate change study. <http://siteresources.worldbank.org/EXTCC/Resources/EACC-june2010.pdf>