

**18<sup>th</sup> Meeting of the Adaptation Fund Board**  
**Talking Action Points – a proposal of the AF NGO Network**



**1. Investigative Procedure AFB/EFC.8/.4**

To protect itself against corruptions misappropriations and misuses of its resources during the implementation of projects it has funded, the AF needs to set up a mechanism that can alert investigate and penalise any financial mismanagements of its fund. The AF NGO therefore welcomes the introduction of an Investigative Procedure that should prevent the AF from misuses and mismanagements of its funds. Given the limited funds that the AF has at its disposal and the straightforward numbers of developed countries willing to pledge money to, the AF cannot afford the corruption accusation that have hit the Global Fund leading to bad reputational .

Having analysed the document on **Investigative Procedure AFB/EFC.8/.4**, the AF NGO Network supports all options as proposed by the Secretariat and urges the AF to swiftly set up this procedure. In addition, AF Network suggest to the AFB inter alia:

1. Clarifying and reinforcing the relationship between the consultant in charge of the investigative procedure and the GEF Evaluation officer responsible for the Evaluation of projects. Both independent officers should work jointly on a complementary basis. The investigative function should have at any time access to the information gathered by the Evaluation Officer and vice-versa.
  
2. The starting point or foundation of the investigative procedure under the AF should not be based on information coming from outside the AF structure through a third whistleblower, but rather it should primarily be triggered by its own mechanism. This could be ensured through implementation of the provision and guidelines of the AF. For instance through Para 37 of the Operational Policies and Guidelines of the of the AF, which stipulates: *The Board reserves the right to review or evaluate the performance of implementing entities at any time during an implementing entity's accreditation period.* Following the expression an ounce of prevention is worth a pound of cure, the investigative procedure functions should act pro-actively by picking out regularly at random an implementing entity, whose performance should be reviewed and evaluated. In doing so, the AF would improve it oversights role over the Implementing Entities and also keep a high level of transparency as well as accountably, which are necessary to avoid mismanagement. Furthermore, the investigative function should cover not only the project implementation, but also the concept endorsed. For instance, the AF could pick out one project endorsed among those in the pipeline to check whether the information provided - for instance the consultative process, the focus on the most vulnerable communities-, which has lead to the endorsement are correct and accurate

**2. Option for Fundraising Campaign and Strategy AFB/EFC.8/.6:**

It is no secrets to nobody, that the AF is underfunded. At the current rate of project submissions, it is very likely that the AF will tap all its funds available by the end of this year. The financial straits have already obliged the AF to set a country cap of \$US 10 million as well as a cap of 50% for fully developed proposals submitted by MIEs. In addition, considering the increasing decline of CERs prices on the carbon market, and the fact that the AF should have – despite the low price of carbon- to sell by end of this year at least 8,6 million tones of CERs out of its total 13,1 million tone, it is now due that the AF sets up a smart fundraising strategy, which could help the AF to scale up its resources so as it would be able to respond to the urgent adaptation needs of developing countries.

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Furthermore, according to the Trustee, the funding generated from the monetization of the Share of Proceeds SoP from CDM is estimated to 168 million as of 31 December 2012<sup>1</sup>. The estimate of demand for funding -without operational expenses of the AFB and Secretariat- over the short to medium term (up to end of 2013) is estimated at around USD 331 million.<sup>2</sup> Given the fact, that USD 204 million could be available during this period, the AF is expected to be short of USD 127 million<sup>3</sup>.

Bearing all this in mind, the AF Network welcomes the introduction of a long awaited Fundraising Campaign and Strategy. Assuming that, USD 127 million would be missed to cover the funding demand requests of developing countries until end of 2013, the AF Network most welcomes the Secretariat's proposal to consider setting an initial fundraising target of USD 100 million to run up until the end of 2013 as well as all the other options presented in the document to be explored in order to scale up the resource of the Funds. In addition,

1. The AF Network would like firstly to congratulate following countries for their pledge to the AF: Sweden, for having deposited for the second time in frame of its fast start finance 100 million Swedish Krone, the government of United Kingdom for its recent pledge of 10 million Pounds to the AF, and Switzerland for its donation of CHF 3 million. In addition the AF Network calls upon all Board Members from Annex I to advocate for the AF in their respective countries and to encourage their government to allocate at least US\$ 50 million of their climate finance commitment to the AF.

The Board members, during the UNFCCC negotiation, should strive to ensure that the innovative sources of finance to be set up such as levies on air and maritime will have to allocate certain percentage of their levies to the AF. For instance the submission of the African Group to the AWG-KP on carry-over of surplus assigned amount units from the first to the second commitment period

*The CMP shall adopt guidelines to ensure the supervision and public scrutiny of such projects implemented using these revenues. All AAUs that are carried over shall be earmarked. Sales of earmarked AAUs and the use of their revenues are to be reported as a special item in a Party's annual inventory report. 50% of revenue must be transferred to the Adaptation fund within one year of the sale of units*

### **3- Accreditation Process:**

The AF NGO Network welcomes, the consideration of the Accreditation Panel to eventually organise a workshop with agencies in order to discuss with them priorities and effective mechanisms for enhanced assistance in the accreditation process.

The AF NGO Network encourages the AF to insert in its report to the CMP the need to organise a workshop for multilateral agencies. This workshop should help to explore ways on how they could help developing countries to set up their NIE. In doing so the AF could request the CMP to invite developed countries to facilitate and finance such a meeting.

*It is always encouraging to notice that developing countries are still interested than ever in the direct access and by any means necessary are struggling to get their NIEs accredited. This is a strong signal that direct*

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<sup>1</sup> AFB/EFC.7/6.

<sup>2</sup> This figure assumes a cap of \$10 million per country and that all countries demanding funding from the AF make full use of this amount. It does not take into account potential demand stemming from newly accredited RIEs, which may have the potential to significantly increase the demand for funding, particularly if the Board decides that countries can exceed their individual \$10 million cap through regional projects and programmes.

<sup>3</sup> Ibid 2. Note that this calculation assumes that no CER sales are undertaken in 2013.

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*access is no longer a pilot programme, but a reality that is becoming popular and well appreciated by vulnerable communities. With respect to the AP report, it is crucial to support the capitalisation of the possibility of holding a workshop for Multilateral Agencies (MA) that are keen to assist developing countries in their accreditation process. One need not to mention that, although the AF has so far accredited 12 NIEs, hundred other developing countries are trying in vain to master the accreditation hurdle. Most of them are vulnerable developing countries to climate change with low institutional capacities. These countries need to be assisted. Germanwatch was since beginning in favour of the option that the MIEs will only get funding to implement an AF project in a country, only if it commits itself to assist this country to get a NIE during the implementation stage. The planed workshop will help to strategise how to achieve this. Of course, there is a conflict of interest, that the Multilateral Agency should help those organisations supposed to substitute them, it remains to reiterate that MA will always exist and remain needed. There are diverse fields, where their expertises are irreplaceable. In this century of pragmatism, these MA are, however, well advised to redefine their strategies and broaden their expertise so as to accommodate them with the reality and needs of developing countries. This process will be an interesting starting point to do so. At the time, where the AF is exploring ways to co-exist with the GCF, the facilitation of such a workshop could be an additional featuring that could enhance the uniqueness of the AF.*

The AF NGO Network further welcomes the discussion on the implementation of the conditionalities tied with certain accreditations with the view of streamlining the implications of these decisions for the further work of these entities and the disposition that the AF needs to take to assure their full implementation.

*It is important that the AF follows up the implementation of the conditionanalties bound with the accreditation of NIEs, because some of these conditionalities are not related to the implementation of the projects but rather are dedicated to the institutional set up of these NIEs. The accreditation lasts for four years. There so far no mechanism in the AF Policies that ensures the full implementation of the conditionalities.*

#### **Performance Review of the Secretariat and Trustee:**

Except for the NGO's recommendations in italic all information provided emanates from the review's document and its annexes, which summarises the comment of both the IBRD / World Bank acting as Trustee and the GEF providing the secretariat service:

Regarding the institutional arrangement **with the GEF providing the secretariat service**, it is important that the AFB:

1. **To enable the secretariat as recommended by the consultant of this document to endorse (but not to reject) the project concepts submitted to the AF.**

*This will enable the AFB particularly the PPRC to save significant time, which could be better allocated more time on issues related to project implementation such as an in depth examination of the report as well as on strategic issues related to the project to be funded. Since this would give the secretariat a strong role in the project approval process, it would be crucial to gradually scale up the AF secretariat's staff.*

2. **To have an independent Secretariat as a stand-alone body within the GEF premises.**

This option does not mean to cancel the current institutional arrangement, but rather to accommodate it to the reality and needs of the AF. The independent Secretariat will be lead by a Head of Secretariat responsible for the AF Secretariat staff and accountable to the AF, as proposed in option 2 of the review's recommendation. The institutional arrangement with GEF has helped the fledgling AF to grow from scratch to become a fully operational institution. However the AF is now sufficiently operational to act as a stand-alone body with its own managerial responsibility. This option would help to avoid the expensive relocation to Bonn of the AF secretariat, and at the same time strengthen the independence of the AF Secretariat vis a vis the GEF. In doing so, the Board should:

- a. Provide the secretariat **with the minimum dedicated staff to be able to fulfil its core responsibility** such as the review of project proposals it has received. This could be

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performed by gradually scaling up the number of dedicated staffs so as to avoid any capacity and expertise gaps in the review process. undertake

- b. Provide the **Secretariat with a Senior Executive manager, solely accountable to the AFB.**

*This would allow, in contrast to the current set-up, for an effective, focussed and continuous leadership, worthy of a growing organisation such as the AF. It is a cost effective option. In addition it would enable the AF secretariat to use the services of the GEF Secretariat, should this be necessary. Since the AF is not legally empowered to employ people. So the AF needs to remain affiliated to an institution which is so empowered to handle so.*

**Institutional arrangement with the IBRD acting as Trustee** it is important that the AFB:

1. To request the Trustee to restrict the number of its staff attending the AFB meeting to one.
2. To put in **place a procedure for checking the AF's share of proceeds from CDM project activities as held by the Trustee.** This would ensure that the amount of CERs held is accurate, complete and transferred on time. Since this issue has not yet been addressed or regulated either in the MoU with the Secretariat or the ToS with the Trustee, the proposed procedure should allow the AF to request the secretariat to independently confirm upon its agreement:
  - a. **The number of CERs due to the Adaptation Fund from the CDM in the Share of Proceeds account;**
  - b. The number actually sold; and
  - c. The value credited to the Adaptation Trust Fund as proposed in the NGO's recommendation.

According to the consultant, although the reporting of the CERs monetization is all-embracing and wide-ranging, there is a lack of information with respect to the strategic asset allocation of the resultant cash proceeds (incl. donations) by instrument counterparty and tenor.<sup>4</sup>

3. Bearing in mind the fact that there is no clear liability of the Trustee for any losses of funds the IBRD Trusteeship, and taking note of the silence on the risk exposure of the investments transacted by the Trustee, the AF is well advised to get more involved in the investment strategy of the Trustee<sup>5</sup>.

The involvement of the AF in the investment strategy of the Trustee is by no means a micromangement of the Trustee. Rather, this could be carried out on the basis of risk exposure and investment procedure, which informs the AF "through its secretariat" about the investment strategy of the Trustee. **This should help to avoid both a loss of funds and any possible legal disputes upstream.** This does not imply an oversight role of the Secretariat over the Trustee, but rather should ensure a strong accountability of the Trustee by the AF for any losses incurred during the investment period.

*This would also address the issue relating to the lack of detailed investment-management reports. The above-mentioned procedures should give accurate information about the liquidity returns and ensure an even cash flow. It is also in accordance with the readiness showed by the Trustee in its comments to share information on its investment strategy for the AF funds and to discuss the most suitable investment for each tranche with the AF members. In addition the AF, as a Fund to finance adaptation actions in developing countries should lead by example in placing its resource in the flow of capital to solution to problems arising from natural resource depletion, pollution, demographic changes, sustainability*

<sup>4</sup> see Ref FCCC/KP/CMP/2008/11/Add.2 pursuant to paragraphs 24, 25, 26, 27 and Performance Review of the Secretariat and Trustee p.38

<sup>5</sup> According to the consultant, the AF seems not to be adequately informed on the magnitude of the scheme set up within the IBRD to enable the exemption of its portfolio from losses resulting from unrestricted movements of capital. Regarding this particular finding the review recognises that it is sensible to disclose information about counterparties and that this is a common practice in all international funds.