

# REACHING THE FINANCIAL BOTTLENECK

REPORT ON THE 20<sup>TH</sup> MEETING OF THE  
ADAPTATION FUND BOARD

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## Brief Summary

The Adaptation Fund (AF) was established under the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) in order to finance concrete adaptation projects and programmes in developing countries affected by the global climate change. This report summarizes the key decisions taken during the 20<sup>th</sup> meeting (April 4-5, 2013) of the Adaptation Fund Board (AFB).

More detailed information about the Adaptation Fund is available on the Germanwatch website ([www.germanwatch.org/klima/af](http://www.germanwatch.org/klima/af)). Germanwatch has also established a NGO Network to help NGOs in developing countries to better accompany the implementation of projects funded by the Adaptation Fund (see [www.af-network.org](http://www.af-network.org)). The background information and preparatory documents of the 20<sup>th</sup> meeting are also available at [www.adaptation-fund.org/afb-meeting/3612](http://www.adaptation-fund.org/afb-meeting/3612).

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# 1 Executive Summary

From April 4-5 2013, the 20<sup>th</sup> meeting of the Adaptation Fund Board (AFB), the operating body of the Adaptation Fund established under the Kyoto Protocol, took place at Langer Eugen in Bonn, Germany. Two days prior to the meeting, the members of the two committees of the Board, the Ethics and Finance Committee (EFC) and the Project and Programme Review Committee (PPRC) met for the eleventh time respectively. In the course of the meeting the AFB has taken the following key decisions:

During the meeting of the Accreditation Panel (AP) no new implementing entities could be accredited as for most of the overall 16 proponents the final review by the AP was still pending. Out of the 16, one RIE did not manage to achieve accreditation, due to unsatisfactory fiduciary standards. Furthermore, the AP conveyed that it would continue to discuss a re-accreditation process to deal with initial IE accreditations reaching the originally designated five-year mark.

Prior to the 20<sup>th</sup> AFB meeting the PPRC received seven submissions from implementing entities that were ultimately reduced to five due to withdrawals: **two submissions from National Implementing Entities (NIEs), three from Multilateral Implementing Entities (MIEs)**. As for the NIEs, a project concept for **Rwanda** was submitted by the Ministry of Natural Resources of Rwanda (MINIRENA) seeking to increase the adaptive capacity of natural systems and rural communities living in exposed areas of north-western Rwanda to climate change impacts. In addition, a fully-developed project for **Argentina** was submitted on behalf of the Unidad para el Cambio Rural (UCAR) that strives to enhance the adaptive capacity and increase the resilience of small-size agriculture producers in the northeast of Argentina. In regard to MIEs, at first a project elaborated by the World Bank on behalf of **Belize** was considered that seeks to implement priority ecosystem-based marine conservation and climate adaptation measures to strengthen the climate resilience of the Belize Barrier Reef System. Second was a project submitted by the UNDP for **Ghana** that aspires to enhance the resilience and adaptive capacity of rural livelihoods to climate impacts and risks on water resources in the northern regions of Ghana. Lastly, also submitted by UNDP, was a project from **Uzbekistan** that strives to develop climate resilience of farming and pastoral communities in the drought prone parts of Uzbekistan. Having considered the recommendations by the PPRC the AFB decided to approve all projects elucidated above.

The three project proposals from MIEs were subsequently queued into the project pipeline launched at the previous Board meeting according to the respective criteria that apply.

The report from the EFC led to a range of discussions. First, the AFB debated on the fundraising campaign and strategy after hearing the initial report from the fundraising task force that was decided upon at the 19<sup>th</sup> AFB meeting. As ways forward for the AF the task force brought up five key questions that are of vital importance to identify a suitable strategy for the Fund to attract more resources. Building on that, the Board also emphasized to enhance the visibility of the Fund and raising the awareness of the financial situation among potential donors.

Thereafter, a heated debate on the financial status of the Adaptation Fund Trust Fund arose following the corresponding report by the AF trustee. Accordingly, the financial situation of the Fund is quite serious. With no relevant revenue originating from CER

sales and reluctant donor contributions the Fund is facing economic failure in the near future. The Board expressed severe concerns about the situation requesting to become more pro-active in engaging donors.

At last, the status of the pipeline raised the attention of the Board. Having already reached the 50% cap that restricts total funding for MIE projects to half of total resources, the project pipeline for MIEs already consists of seven projects awaiting additional funds amounting to US\$ 45.5 million. Therefore the Board exchanged views on how to handle the matter, ranging from loosening the MIE cap to actively promoting shelved projects on the AF website to address potential bilateral or multilateral donors.

In addition to the afore-mentioned topics the AF also decided to join the International Aid Transparency Initiative (IATI) underscoring the Funds ambition of displaying the highest level of transparency and accountability.

Finally, as is customary, the AFB met with representatives from civil society organizations. For this, two representatives from South Africa shared their experiences and views on governance and strategy development processes for direct access.

## 2 Report of the 12<sup>th</sup> meeting of the Accreditation Panel (AP)

The Adaptation Fund (AF) provides two ways of access to its resources: developing countries can either pursue the conventional path of relying on the service of a Multilateral Implementing Entity (MIE) or utilize their own national institutions to access the Fund. Prior to receiving funds from the AF, implementing entities (multilateral, regional or national) must conclude a systematic accreditation process to verify that they meet the principles of the AF such as “sound financial management, including the use of international fiduciary standards<sup>1</sup>”.

The Adaptation Fund Accreditation Panel (AP) carries out the task of reviewing the applications by potential implementing entities and drafting a recommendation for consideration by the Adaptation Fund Board (AFB).

Below, the decisions taken by the AFB at its 20th meeting are outlined.

### 2.1 Accreditation of Implementing Entities

Prior to the 20<sup>th</sup> meeting of the AFB, the AP examined five new applications<sup>2</sup> by implementing entities while also continuing to review eleven submissions<sup>3</sup> that had been under review before but required further analysis. In sum, out of the sixteen considered applications nine originate from National Implementing Entities (NIE), which highlights once more the willingness by developing countries' institutions to choose the direct-access path offered by the AF's institutional setup.

By the time of the finalization of the report, however, the AP only concluded the review of one Regional Implementing Entity (RIE): RIE005<sup>4</sup>. For the remaining fifteen projects in the accreditation pipeline, the AP requested some further information and explanation from the applicants on some outstanding issues and will resume their consideration at its 13<sup>th</sup> meeting or intersessionally.

#### 2.1.1 Non-Accreditation of RIE005

The AP started evaluating the application by RIE005 already at its 10<sup>th</sup> meeting where it requested further information and clarification by the applicant. After reviewing the additional documents and concluding the analysis at its 12<sup>th</sup> meeting, the AP decided to recommend to the AFB not to accredit the Implementing Entity as it constituted that RIE005 had not satisfactorily shown the required fiduciary standards, e.g. an internal audit function. Since RIE005 had already provided information for most of the issues raised, the AP concluded that further interaction with the applicant would likely not alter its final as-

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<sup>1</sup> see decision 5/CMP.2 paragraph 2(g); available at <http://unfccc.int/resource/docs/2006/cmp2/eng/10a01.pdf#page=28>

<sup>2</sup> the five new applications consist of 3 NIEs, 1 RIE and 1 MIE

<sup>3</sup> the eleven pending reviews comprise 6 NIEs, 4 RIEs and 1 MIE

<sup>4</sup> for purposes of confidentiality, only the assigned code is used to report on the status of each Implementing Entity's application

assessment, stating that the Implementing Entity would need more than a year or two to eradicate the outstanding issues.

### **2.1.2 Re-Accreditation Process**

Besides reviewing and evaluating applications, the AP furthermore discussed the design of a re-accreditation process. According to paragraph 36 of the "Operational Policies and Guidelines" of the AF<sup>5</sup>, the initial "accreditation will be valid for a period of 5 years with the possibility of renewal". Up until now, however, it has not been outlined how the "possibility of renewal" shall be interpreted and implemented. Having in mind that the accreditation of UNDP, World Bank (MIEs) and the Centre de Suivi Écologique of Senegal (NIE) reach the five year mark in March 2015, a decision on this matter must gradually be established. For this purpose, the AP will further discuss possible options at its 13<sup>th</sup> meeting, planning to flesh out and develop a full proposal for the AFB to consider at its 22<sup>nd</sup> meeting scheduled for October 31st - November 1st, 2013.

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<sup>5</sup> see [https://www.adaptation-fund.org/sites/default/files/OPG Revised 4.4.12 \(with annexes\).pdf](https://www.adaptation-fund.org/sites/default/files/OPG Revised 4.4.12 (with annexes).pdf)

## 3 Report of the 11<sup>th</sup> meeting of the Project and Programme Review Committee (PPRC)

The Project and Programme Review Committee (PPRC) is responsible for assisting the AFB in tasks related to project and programme review in accordance with the "Operational Policies and Guidelines" and for providing recommendations and advice to the Board thereon<sup>6</sup>. Thus, during the 20<sup>th</sup> meeting, the AFB debated the recommendations suggested by the PPRC on approval of the submitted project proposals, which are based on the technical review made by the secretariat.

### 3.1 Review of project proposals

Before the AFB engaged in discussions on the approval of submitted project and programme proposals, the secretariat presented its report on the initial screening and technical review of the respective submissions.

For the 20<sup>th</sup> meeting of the AFB, seven proposals were submitted by accredited implementing entities - two project concepts (US\$ 14,396,868) and five fully-developed proposals (US\$ 34,279,941) - amounting the total requested funding to US\$ 48,676,809. During the initial reviewing process, one project concept for Guatemala and one fully-developed proposal for Nepal were withdrawn, both submitted by the World Food Programme. Hence, the final number of proposals was reduced to five, with one project concept (US\$ 9,904,868) and four fully-developed project proposals (US\$ 25,349,075).

After the introductory remarks by the secretariat, the Board briefly debated on the apparently diminishing trend in the submission of proposals. While 22 proposals were submitted in the margins of the 18<sup>th</sup> meeting of the AFB, the number of proposals dropped to 15 prior to the 19<sup>th</sup> AFB meeting, to now reach 7 submissions that were ultimately reduced to just 5 - tying an all-time low. This factual decline is reasoned with the financial constraints that MIEs have become aware of, which limit total funding of projects directed through MIEs to half of total resources of the AF. This 50% cap of total funds requested had been exceeded for the first time at the 19<sup>th</sup> meeting of the AFB, causing the creation of a pipeline arrangement, which queues projects awaiting additional funding.

While stating that the impression arises that the balance between MIE and NIE funded projects may shift in the near future (as of now 84% of funded projects are implemented by MIEs), the chair of the PPRC again highlighted the importance of acquiring new resources.

#### 3.1.1 Proposals from National Implementing Entities

##### 3.1.1.1 Rwanda

The first proposal presented by the PPRC for approval by the AFB depicted a project concept submitted by the Ministry of Natural Resources of Rwanda (MINIRENA), which

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<sup>6</sup> see document AFB/B.6/6 on the Adaptation Fund Board committee



had received accreditation at the 16<sup>th</sup> meeting of the AFB in December 2011. The project itself seeks to increase the adaptive capacity of natural systems and rural communities living in exposed areas of north-western Rwanda to climate change impacts. Aside from the funding of US\$ 9,904,868 for the concept, the NIE also requested a Project Formulation Grant (PFG) with a budget of US\$ 30,000.

Having considered the recommendation provided by the PPRC the AFB decided to endorse the project concept, encouraging the Government of Rwanda to submit a fully-developed project proposal that would address some made observations.

### 3.1.1.2 Argentina

The second and last submission from NIEs came from Unidad para el Cambio Rural (UCAR) - the Unit for Rural Change - from the Ministry of Agriculture, Livestock and Fisheries in Argentina. UCAR manages the funds of the Ministry, which are assigned for the portfolio of programs and projects with international funding to promote equitable development in rural areas. The NIE gained accreditation at the 17<sup>th</sup> AFB meeting in March 2012.

The reviewed fully-developed project proposal, requesting US\$ 5,640,000 in funds, seeks to enhance the adaptive capacity and increase the resilience of small-size agriculture producers in the northeast of Argentina.

The AFB briefly discussed the approval of the project proposal. One board member expressed concern about the management capability of the NIE and advised the trustee to advise the secretariat on any difficulties encountered in the transfer of funds. Taking into account the proposed stipulation, the AFB decided to approve the project.

*The approval of the Argentine project-proposal raises the number of NIE projects to four, joining Jamaica, Uruguay and Senegal. Remarkably, three out of the four belong to the GRULAC region. This reflects the general dominance of the constituency in regard to accredited NIEs. At the same time the project allocation also reveals the apparent deficiency in Asia in terms of establishing national institutions to serve as implementing entities. This circumstance has to be kept in mind to prevent geographical imbalance. One should therefore further encourage a targeted effort to engage potential NIEs from Asia to consider the direct access approach and offering assistance if needed.*

## 3.1.2 Proposals from Multilateral Implementing Entities

### 3.1.2.1 Belize

The World Bank submitted a fully-developed project proposal on behalf of Belize, requesting US\$ 6,000,000. The project is based on a concept already endorsed at the 17<sup>th</sup> AFB meeting seeking to implement priority ecosystem-based marine conservation and climate adaptation measures to strengthen the climate resilience of the Belize Barrier Reef System.

Having considered the recommendation by the PPRC the AFB decided to approve the project.

### 3.1.2.2 *Ghana*

The project proposal submitted in a one-step process<sup>7</sup> by UNDP on behalf of Ghana has already been reviewed and discussed at each Board meeting since the 17<sup>th</sup> session of the AFB in March 2012. However, the AFB decided not to approve the proposal up to this point, which aims at enhancing the resilience and adaptive capacity of rural livelihoods to climate impacts and risks on water resources in the northern regions of Ghana.

After reviewing the revised proposal at this meeting, the PPRC found that all made observations had been adequately addressed, and recommended to the AFB the approval of the project proposal with a budget of US\$ 8,293,972.19, which the AFB subsequently did.

### 3.1.2.3 *Uzbekistan*

The final submission for consideration by the AFB depicted a project from Uzbekistan also submitted through the UNDP, requesting funds in total of US\$ 5,415,103. The project has been reviewed prior to the last AFB meeting in December 2012, at which the Board decided not to approve the project document suggesting to the UNDP to reformulate the proposal taking into account the remarks from the review process.

Following the submission of the revised project document, the PPRC found the proponent had addressed all issues, recommending the AFB to approve the project, which strives to develop climate resilience of farming and pastoral communities in the drought prone parts of Uzbekistan.

In accordance with limiting total funds being directed through MIEs to 50% of overall resources, all three projects listed above were queued in the project pipeline awaiting additional financial means.

## 3.2 *Prioritization of projects in the pipeline*

At its 17<sup>th</sup> meeting, the AFB established a set of criteria according to which projects are prioritized in the pipeline. In line with this decision<sup>8</sup>, the following criteria are applied to determine the order in which projects are funded, when resources allow:

- Date of recommendation
- Date of submission
- Net cost (i.e. excluding the IE management fee)

Table 1 displays the MIE project pipeline as of April 5, 2013. Remarkably, the UNDP again manifests its predominant role among implementing entities, with 6 out of 7 projects in the pipeline.

The total amount of additional resources required to implement all projects in the pipeline has increased to about US\$ 91 million, since only 50 cents of every dollar can be allocated to projects from MIEs. Furthermore, when looking at proposals by MIEs that have

<sup>7</sup> Project proposals may undergo either a one-step or a two-step approval process. In the one-step approval process the proponent directly submits a fully-developed project document. In the two-step approval process a brief project concept is submitted as a first step followed by an elaborate fully-developed project document.

<sup>8</sup> see decisions B.17/19 and B.19/5 respectively

already been endorsed as a concept or fully-developed projects that have been reviewed once without approval, it is likely that the project queue will increase in the near future.

This circumstance leads to the question of whether or not the AF should continue to accept submissions from MIEs or close the project pipeline at this stage - an issue that will be discussed in this report further below.

**Table 1: MIE Project Pipeline**

	<b>Country</b>	<b>Recommendation date (Criterion 1)</b>	<b>Submission date (Criterion 2)</b>	<b>Net cost, US\$ Million (Criterion 3)</b>	<b>Request, US\$ Million</b>	<b>Cumulative, US\$ Million</b>
<i>Projects added at the 19th Meeting</i>						
1	Guatemala (UNDP)	12/14/2012	10/8/2012	5.00	5.43	5.43
2	Cuba (UNDP)	12/14/2012	10/8/2012	5.59	6.07	11.49
3	Seychelles (UNDP)	12/14/2012	10/8/2012	5.95	6.46	17.95
4	Myanmar (UNDP)	12/14/2012	10/8/2012	7.29	7.91	25.86
<i>Projects added at the 20th Meeting</i>						
5	<b>Uzbekistan (UNDP)</b>	<b>4/4/2013</b>	<b>1/28/2013</b>	<b>4.99</b>	<b>5.42</b>	<b>31.28</b>
6	<b>Belize (WB)</b>	<b>4/4/2013</b>	<b>1/28/2013</b>	<b>5.53</b>	<b>6.00</b>	<b>37.28</b>
7	<b>Ghana (UNDP)</b>	<b>4/4/2013</b>	<b>1/28/2013</b>	<b>7.64</b>	<b>8.29</b>	<b>45.57</b>

**Table 2: AFB Funding Decisions (April 5, 2013)**

	Country/Title	IE	Document Ref	Project	Fee	NIE	RIE	MIE	IE fee %	Total Amount	Decision
<b>1. Projects and Programmes:</b>											
	Argentina	UCAR	AFB/PPRC.11/5	5,360,000	280,000	5,640,000			5.2%	5,640,000	Approved
	Belize	WB	AFB/PPRC.11/6	5,530,000	470,000			6,000,000	8.5%	6,000,000	Placed in Pipeline
	Ghana	UNDP	AFB/PPRC.11/7	7,644,214	649,758			8,293,972	8.5%	8,293,972	Placed in Pipeline
	Uzbekistan	UNDP	AFB/PPRC.11/8	4,990,878	424,225			5,415,103	8.5%	5,415,103	Placed in Pipeline
<b>Sub-total</b>				<b>23,525,092</b>	<b>1,823,983</b>	<b>5,640,000</b>	<b>0.00</b>	<b>19,709,075</b>	<b>7.8%</b>	<b>5,640,000</b>	
<b>2. Project Formulation Grant:</b>											
	Rwanda	MINIRENA	AFB/PPRC.11/4/Add.1	30,000.00		30,000.00				30,000.00	Approved
<b>Sub-total</b>				<b>30,000.00</b>		<b>30,000.00</b>				<b>30,000.00</b>	
<b>3. Concepts:</b>											
	Rwanda	MINIRENA	AFB/PPRC.11/4	9,229,801	675,067.00	9,904,868			7.3%	0.00	Endorsed
<b>Sub-total</b>				<b>9,229,801</b>	<b>675,067.00</b>	<b>9,904,868</b>	<b>0.00</b>	<b>0.00</b>	<b>7.3%</b>	<b>0.00</b>	
<b>4. Total (4 = 1 + 2 + 3)</b>				<b>32,784,893</b>	<b>2,499,050</b>	<b>15,574,868</b>	<b>0.00</b>	<b>19,709,075</b>	<b>7.6%</b>	<b>5,670,000.00</b>	

## 4 Report from the 11<sup>th</sup> meeting of the Ethics and Finance Committee (ETC)

According to its terms of reference, the Ethics and Finance Committee (EFC) is responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit<sup>9</sup>.

The EFC met for the 11<sup>th</sup> time two days before the 20<sup>th</sup> meeting of the AFB to discuss several topics as followed.

### 4.1 Investigative procedure

At its 16<sup>th</sup> meeting the AFB reviewed a document prepared by the secretariat on how to deal with possible cases of financial mismanagement and the corresponding opening of an investigation process thereupon. The initial document was followed by a concrete elaborated proposal by the secretariat that was discussed and commented by the Board at its 17<sup>th</sup> and 18<sup>th</sup> meeting. At the 18<sup>th</sup> meeting of the AFB, the Board requested the secretariat to revise the proposal and to include terms of reference for the investigative consultants. This revised version<sup>10</sup> was prepared by the secretariat as requested following consultations with the former World Bank legal counsel and ultimately presented to the AFB at its 19<sup>th</sup> meeting. During the session the AFB requested a proposal by the World Bank legal counsel on possible alternatives for establishing an investigative procedure.

Accordingly, the WB representative suggested the AF to develop general principles and guidelines for investigation based on the Uniform Framework for Preventing and Combating Fraud and Corruption, established by the seven main international financial institutions<sup>11</sup>. Since implementing entities are bound to the principles and procedures of the AF, any amendment thereof would by default apply to the IEs as well.

The AFB decided to follow this recommendation and asked the secretariat to present a proposal on general principles and guidelines to be considered by the AFB at its 21<sup>st</sup> meeting.

### 4.2 Analysis of Project Delays

Having reviewed and approved the Annual Performance Report for fiscal year 2012 at its 19<sup>th</sup> meeting in December 2012, the AFB had requested the secretariat to present a document at this meeting entailing an in-depth analysis of project cycles and subsequent delays<sup>12</sup>.

Accordingly, projects on average started the implementation well within the 6 month period (from first disbursement of funds to project start) set as a target by the AFB in the

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<sup>9</sup> see [https://www.adaptation-fund.org/sites/default/files/Ethics and Finance Committee.pdf](https://www.adaptation-fund.org/sites/default/files/Ethics%20and%20Finance%20Committee.pdf)

<sup>10</sup> see document AFB/EFC.10/3 and AFB/EFC.10/3/Add.1

<sup>11</sup> see for instance [http://www.eib.org/attachments/general/uniform\\_framework\\_en.pdf](http://www.eib.org/attachments/general/uniform_framework_en.pdf)

<sup>12</sup> see decision B.19/22

past. Furthermore, project delays were mostly caused and associated with country-related issues and not due to specific project design<sup>13</sup>. Up till now, however, it has not been clarified how the AF should deal with project delays that exceed the envisaged 6 month period and what measures need to be undertaken thereupon. This issue also applies to delays associated with project implementation and closure as the case of Senegal illustrates that will be outlined further below.

Having heard the statements by the EFC the AFB took note of the presentation and decided to request the secretariat to develop a procedure on how to deal with project delays throughout the project cycle to be discussed at the 12<sup>th</sup> EFC meeting prior to AFB 21.

### **4.3 Financial issues**

#### **4.3.1 Administrative budgets of the Board, the secretariat and the trustee**

As usual, the EFC presented a document outlining the budgets of the Board and secretariat as well as the Trustee of the AF for the upcoming fiscal year 2014, starting on July 1 2013<sup>14</sup>.

Accordingly, the operational expenses for the Board and the secretariat amount to US\$ 3,360,613 over the alluded time period. This just about corresponds to the budget approved for the previous fiscal year. As for the trustee, the total cost of services provided to the AF (CER monetization, legal services, auditing, etc.) sum up to US\$ 871,000, leaving the total administrative budget for the AF at US\$ 4,231,613.

Without further debate the AFB decided to approve the presented budget plan.

#### **4.3.2 Fundraising campaign and strategy**

Given the current financial situation of a virtually collapsed market for Certified Emission Reductions (CERs), the AF finds itself at a critical juncture of its existence. With its main source of financing drying up, the AF needs to find innovative ways to attract and scale-up resources, in order to fulfil its mandate of supporting developing countries in their efforts to adapt to the adverse effects of climate change. Moreover, the approaching operationalization of the Green Climate Fund raises the question, which role the AF will play in the institutional architecture of the financial mechanism of the UNFCCC. It is therefore of vital importance for the AF to address these issues to enable successful positioning in the long-term.

To attend to this challenge, the AFB at its 18<sup>th</sup> meeting initiated a strategic discussion of further steps that need to be undertaken to base the AF on a more stable financial foundation, particularly taking into account the review of the secretariat and trustee, and the emerging institutional processes under the UNFCCC, including the Standing Committee on Finance and the Green Climate Fund. To intensify their efforts, the AFB decided at its 19<sup>th</sup> meeting to form a task force to work in conjunction with the secretariat on outreach,

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<sup>13</sup> see document AFB/EFC.11/3 for comprehensive information and a detailed list of AF projects

<sup>14</sup> see document AFB/EFC.11/6

strategy and other efforts to achieve the preliminary fundraising target of US\$ 100 million by the end of 2013<sup>15</sup>.

Before the task force presented the outcome of their first meeting at this session, the EFC gave some brief introductory remarks, recalling three streamlined options for scenarios that could be taken into account concerning the potential interaction of the AF with an at some point operationalized Green Climate Fund<sup>16</sup>.

In the course of their initial work, the task force identified five key questions that - in their view - require further clarification in order to enable effective strategizing:

- 1) What is the sales pitch for the AF?
- 2) What are the unique features of the Fund?
- 3) Why should someone want to be associated with the Fund?
- 4) How is the Fund being seen by the outside world?
- 5) What does the Fund bring for me?

Upon elucidating these questions, the coordinator of the task force, Mr. Zaheer Fakir (South Africa), urged the other Board members to engage with the task force to address these questions and called for additional guidance. Further, he announced that the task force will be presenting a draft strategy for the mobilization of resources at the next meeting.

The Board took note of the brief report and again emphasized the important role that the strategy discussion - and the acquisition of new resources in particular - play for the future of the fund. With one source of financing diminishing the fund must therefore focus on the alternative option of voluntary contributions by donor countries. To promote this, broad consensus within the Board emerged that the AF must intensify its efforts to raise the awareness about the important work the Fund is doing, especially drawing the attention of potential donors. Hence, as a first step, the AFB Chair was asked to write a letter to donors illustrating the financial situation the AF is currently facing. In addition, some members felt it was necessary to increase the visibility of the Fund even further, e.g. by Board members advocating for the AF at regional or ministerial meetings but also within their respective countries and regions, acting as ambassadors for the Fund. To strengthen the Fund's profile, the Board further requested the secretariat to continue the efforts to secure observer status and a permanent seat at meetings held by the UNFCCC. To complement the afore-mentioned measures, it was emphasized by various parties, that the AF must work on building synergies with other stakeholders working in the field of adaptation to draw on their experience and expertise as well as establishing an interface with NGOs in general.

Concerning a broader advertising strategy, one board member suggested to actively promoting the AF, e.g. displaying projects seeking funding on the AF website or even engaging with the media to inform the wider public about the work the AF is doing. This could be enhanced by showing projects already implemented and highlighting achievements in the affected countries that have been made in the process.

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<sup>15</sup> see decision B.19/29

<sup>16</sup> The envisioned scenarios range from business as usual, where both funds would operate independently of each other, to operational cooperation and even institutional integration, whereby the AF could serve as the "adaptation window" of the GCF.

Discussion among parties also evolved around whether or not to favour one particular scenario regarding the interaction between the AF and the GCF over another. Some board members argued that the options elucidated above were purely conceptual and theoretical, as the respective viability of the three different options remains to be seen. Therefore, it was in the best interest of the AF not to put weight on a certain model, but rather concentrating on keeping up the good work. In addition, it was noted that the operationalization of the GCF was yet too far away to start discussing a potential collaboration in any way whatsoever.

### **4.3.3 Financial status of the Adaptation Fund Trust Fund**

As is customary at each AFB meeting, the trustee of the AF - the World Bank - presented the report of the financial status of the Adaptation Fund Trust Fund as well as the CER monetization programme.

Accordingly, as of February 28th 2013 the total resources received amount to US\$ 324.83 million, consisting of US\$ 188.20 million originating from CER sales and US\$ 134.50 million on the part of donations. Since the last Board meeting in December 2012, the CER monetization programme brought about US\$ 250,000 in new additional resources. Deducting the funding decisions to this date leaves the total amount to support new funding decisions at US\$ 123.84 million.

The document presented by the trustee also contained a projection of funds available up to December 2020 based on an analytic estimate of CER issuance and current level of pledges. In a highly optimistic scenario regarding CER proceeds the total amount of additional resources attained up to 2020 thus accumulate to US\$ 25.54 million, or US\$ 149.36 million overall.

When having a closer look at these numbers the financial bottleneck the AF is facing becomes evermore evident: If predictions are accurate the available level of resources allow the AF to fund projects and programmes in the amount of only about US\$ 18 million annually over the next eight years, without regarding the funds needed to cover the administrative budgets of the Board, the secretariat and the trustee (estimated at about US\$ 4.2 million as mentioned in section 4.3.1). In its report the trustee explicitly expressed serious concern about the looming financial situation of the Fund should the CER prices not recover significantly or other sources of revenue not be acquired soon.

Nonetheless, the trustee recommended continuing to sell industrial gas-derived CERs through April 2013 while then proceeding to divest Green and Large Hydro CERs at a modest pace.

### **4.3.4 Issues arising from decision 1/CMP.8**

To complement the presentation by the trustee the UNFCCC secretariat gave a brief overview about the issues arising from decision 1/CMP.8<sup>17</sup>. According to paragraph 21 of the Doha amendment of the Kyoto Protocol (KP) the Conference of the Parties in Qatar decided to augment the AF "through a 2 per cent share of the proceeds levied on the first

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<sup>17</sup> see decision 1/CMP.8 at <http://unfccc.int/resource/docs/2012/cmp8/eng/13a01.pdf#page=2>



international transfers of AAUs and the issuance of ERUs for Article 6 projects immediately upon the conversion to ERUs of AAUs or RMUs previously held by Parties."

Following the report, the implications deriving from this paragraph result in two technical questions: one being where to host the account accumulating the additional levy and further, how to ensure adequate tracking and enforcement. The former question renders options ranging from establishing a new dedicated AF registry to using the CDM registry to host the account. In terms of the tracking and enforcement of the 2% levy the UNFCCC secretariat highlighted a pre-payment of the 2% levy to be the most technically feasible and cost-effective solution. Therefore however, the wording in paragraph 21 stating that the levy should augment the AF "[...] immediately upon the conversion to ERUs of AAUs or RMUs [...]" would require further clarification to see if the suggested option is compatible with the decision made in Doha.

After outlining these technical questions the UNFCCC representative also discussed two other issues. Currently the AF Trust Fund is designed to receive funds from donors and sales of CERs only. To being able to hold the proceeds from future AAU/ERU monetization would thus require an amendment of the previous agreement. In the same context the matter of how the monetization of AAUs and ERUs will be carried out arises. At present, the monetization of the CERs is performed by the trustee of the AF - the World Bank. Should it be decided that the World Bank is also empowered to monetize AAUs and ERUs the agreement with the trustee would have to be amended correspondingly.

The Board took note of the brief presentation seeking some further clarification on some aspects thereupon. Unanimously, the members requested information about the stream of revenue that can be expected from the new potential source, i.e. concrete numbers. In addition, input on a tentative timeframe by which funds could actually begin to start flowing to the AF was asked for.

Following the comments by the Board, the trustee provided some insight to some of the issues raised. Regarding the timeframe, the WB representative pointed out that resources would not be available until after 2013 and that the prospect of significant income looked grim, without wanting to speculate about specific numbers.

#### **4.3.5 Status of the pipeline**

Before closing the agenda item on the financial issues the Board came back to discuss the status of the project pipeline that had already been broached after the report of the PPRC, as outlined here in section 3.2. For this purpose, the secretariat and the trustee presented a joint report on the matter.

As elucidated above, currently seven project proposals have been queued in the pipeline requesting a total of US\$ 45.57 million. To be able to fund all MIE projects in the pipeline at once, the AF needs at least US\$ 91 million in additional funding. Taking into account that various projects have been already brought up that have either been already endorsed as a concept or been submitted as fully-developed projects but not approved after the initial review (see Table 3), it seems reasonable to assume that more MIE project submissions might follow in the future.

**Table 3: Potential projects entering the pipeline after AFB 20<sup>18</sup>**

<b>MIE proposals endorsed as concepts or submitted earlier as fully-developed proposals but not approved by the 20th meeting as fully-developed proposals</b>				
	<b>Country (MIE)</b>	<b>Endorsement date</b>	<b>US\$ Million</b>	<b>Submitted as full proposal</b>
	<b><i>Endorsed concept</i></b>			
1	El Salvador (UNDP)	12/15/2010	5.43	Yes
2	Fiji (UNDP)	6/22/2011	5.73	Yes
3	Paraguay (UNEP)	6/29/2012	7.13	No
4	Peru (IDB)	6/29/2012	6.95	No
	<i>Total (endorsed concepts)</i>		25.24	
	<b><i>Not endorsed, submitted as full proposal</i></b>			
1	Mali (UNDP)	-	8.53	Yes
2	Mauritania (WMO)	-	2.16	Yes
	<i>Total (non-endorsed full proposals)</i>		10.69	
	<b>Total (all)</b>		<b>35.93</b>	

After the brief presentation of the document and picking up on the debate that started after the PPRC report, an extensive discussion evolved in the Board. One of the most prominent questions asked was whether or not to close the MIE project pipeline for the moment or if MIEs should still be encouraged and invited to submit proposals. On this matter, however, the Board showed broad consensus remarking that a closure of the pipeline would put the vitality of the AF into question and send out the wrong signal. As a consequence, the alternative option of loosening the 50% cap emerged. One argument to support this notion marked the statement by one Board member who reminded that some projects in the pipeline might not have the time to wait for additional funding before the situation described in the project proposal is aggravated<sup>19</sup>. In the same context, the state of affairs depicted in the project proposals might change over time calling for an adjustment, be it the estimated budget needed or other relevant details. The PPRC therefore suggested requesting from proponents to indicate the validity of the proposal for about twelve months.

Further, concerning the easing of the cap, one Board member proposed to explore the idea of prioritizing projects sought to be implemented in most vulnerable countries, regardless of the IE that submitted the proposal. As an alternative, the party representative suggested to encourage MIEs to team up with NIEs to push the pending MIE projects through.

Building on the measure that informed the debate regarding the fundraising campaign and strategy, the active advertisement of MIE pipeline projects on the AF website was brought up again by one Board member. In concrete terms, it was suggested to have MIEs compiling a video, highlighting the importance of the projects for the affected countries in an attempt to draw the attention of potential donors and facilitate the implementation of projects, even if not through the AF itself. In deviation of this view, the remaining Board members generally expressed serious doubts about the outlined approach. In their view, advertising AF projects that need funding would be equivalent to admitting that the Fund

<sup>18</sup> see document AFB/EFC.11/Inf.1

<sup>19</sup> e.g. the project proposal from Belize that seeks to strengthen the resilience of the Belize Coral Reef system

is unable to do its work and stopped operating. Hence, caution should be exercised before undertaking this step.

In sum, the Board member unanimously expressed serious concerns about the financial status describing the situation not only as dire but openly talking about the AF being bankrupt. Reflecting on the options at hand it was hence reiterated that the only short-term solution was to approach donors, developing a strategy to do so and conveying the exceptional urgency as timely as possible.

Being just for informational purposes the Board asked the PPRC and EFC to reflect on the issues raised and announced to continue with the debate at the next meetings.

*A potential loosening or even abolition of the MIE project cap is an extremely sensitive matter that requires careful consideration. Given the predominance of MIEs among the approved projects (currently 24 out of 28) and with already elaborated MIE projects likely to be submitted in the near future, the risk exists that the prevalent imbalance will further increase. In conjunction with the deteriorating financial situation of the AF an abandonment of the cap regulation could render the direct access modality meaningless if the increasingly scarce resources are exhausted by funding MIE projects. Being one unique feature of the AF - enabling country-driven development and building institutional capacity - it appears questionable to jeopardize its viability.*

*On the contrary, these arguments could be countered by reminding of the ultimate goal the AF has through its mandate: helping vulnerable countries adapt to the adverse effects of global climate change. Therefore, it should not matter whether the projects are realized by NIEs or MIEs as long as in result the affected countries benefit from their implementation. It might therefore be worth considering the idea brought forward by one Board member to prioritize projects in the most vulnerable countries.*

*One way to merge both views elucidated above would be to promote the cooperation between both NIEs and MIE, as was also discussed in the Board. This would capture the positive aspects of both arguments and lead to a desirable outcome. However, the feasibility and implementation of a NIE/MIE liaison is subject to examination and requires, above all, the willingness of the potential partners.*

## 5 Other matters

### 5.1 *International Aid Transparency Initiative (IATI)*

The International Aid Transparency Initiative (IATI) is a voluntary multi-stakeholder initiative that seeks to improve the transparency of aid in order to make information more accessible and comparable, increasing effectiveness in tackling poverty<sup>20</sup>. At the 19th meeting of the AFB, the IATI standard was introduced to the party representatives by members of the IATI secretariat and "Publish What You Fund"<sup>21</sup>, encouraging the AF to become a signatory. The London-based NGO is the author of the "Aid Transparency Index" which ranks donors according to their transparency and accountability policies. In their Index for 2012 the AF already managed to attain a fairly high score while also still showing some room for improvement.

Having heard the presentation, the AFB decided to ask the AF secretariat to prepare a document for consideration at this meeting, highlighting the necessary steps for the AF to join the initiative.

According to a first assessment by the secretariat, the AF is already well positioned to become a signatory of IATI and comply with the respective IATI Standard. Nevertheless, to fully meet all the requirements, the secretariat identified three components that need to be carried out beforehand. First, the AF must develop and approve a disclosure and licensing policy. Second, a data mapping exercise has to be undertaken to see how the existing data complies with the IATI Standard so far. Lastly, the AF must develop an implementation schedule indicating by when data will be available to be published. Furthermore, all existing data has to be validated and verified before being converted to the IATI standard, a task that will take up to two weeks and require the expertise of an external consultant. In sum, the secretariat estimates that 25 working days would be necessary to make the outlined arrangements and involve costs of approximately US\$ 4000 for the services of an external consultant.

The AFB welcomed the report by the secretariat with several parties emphasizing the array of opportunities that being a signatory of IATI would bring to the Fund. In their views, the good ranking in last years Aid Transparency Index (17th out of 72 donor organizations, 1st among climate finance funds) provides a brilliant selling point for the AF when addressing potential donors. Therefore, it was now time to utilize this positive image as a central marketing strategy, extending it even further by becoming a signatory of the IATI. One board member added that not joining the IATI is something the AF can hardly afford as it constantly asks the highest fiduciary standards from recipient IEs and must therefore set a good example itself.

Having considered the comments by its members the AFB decided to follow the recommendation provided by the secretariat and authorized the Chair to sign the IATI Standard on behalf of the Board.

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<sup>20</sup> see <http://www.aidtransparency.net/>

<sup>21</sup> see <http://www.publishwhatyoufund.org/>

## **5.2 Environmental and Social Safeguards**

After going through the provisional timeline, the item of environmental and social safeguards was added to the agenda, a matter that had been brought up by some parties and especially the civil society organizations in the past.

In the process of fulfilling its mandate of enabling developing countries adapt to the adverse effects of climate change the AF has to ensure to prevent negative side effects that may harm the people or the environment in the development process. To underscore this general principle, it might thus be necessary for the AF to formulate and define a safeguard policy to serve as a guideline for both the Fund itself but also for recipient IEs.

The Board engaged in some brief discussion on the matter. One representative emphasized the added value such a policy would bring to improve the quality of the projects the AF is involved and associated with, while cautioning that AF projects that contained adverse social or environmental repercussions would prove detrimental to the fund's reputation. Generally the Board echoed this view and referred to safeguard policies already in effect from MIEs, e.g. UNDP, World Bank<sup>22</sup>, etc. As a starting point it was thus considered appropriate to determine which of these policies in place would also be applicable to the AF, also taking into account existing project review criteria and international safeguard systems in developed and developing countries.

Consequently, the AFB decided to have the secretariat prepare a corresponding document for consideration by the Board at its next meeting in June 2013.

## **5.3 Request of the Centre de Suivi Écologique (CSE) of Senegal**

While discussing the adoption of the agenda, the Chair of the AFB also suggested including a brief debate about the request by Senegalese NIE Centre de Suivi Écologique (CSE), the first accredited NIE in the AF's short history. In a letter addressed to the new Chair, CSE applied for an extension of their project "Adaptation to Coastal Erosion in Vulnerable Areas in Senegal" that achieved approval in September 2010 and started in January 2011. Initially, the project was expected to be completed in January 2013 but apparently administrative complications and delays caused by meteorological events make an extension of one year necessary.

Generally in favour of allowing the requested extension, the Board members demanded further information by CSE regarding the circumstances that required prolonging the project duration. Besides that, some party representatives emphasized the need for a clear narrative on how to handle these situations noting that the issue might arise again in the future, e.g. a visible arrangement setting precise rules. Furthermore, one Board member asked what an extension would mean for the timetable of necessary documents such as the project performance report, etc.

The secretariat briefly addressed the queries by the Board starting by pointing out that various visits to the project in Senegal showed the convincingly good work the NIE was

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<sup>22</sup> Actually, the World Bank is currently in a two-year tri-phase process of reviewing and updating their environmental and social safeguard policies - see <http://www.worldbank.org/safeguardsconsultations>

doing and remarked that the timeline for the project was very ambitious to begin with. In addition the extension would not cause any extra costs nor interfere with due reports by the NIE. In fact, the fourth project performance report is already under review by the secretariat. As for setting up a procedure to deal with these requests it was referred to the EFC where the issue has been already added to the agenda, as pointed out here in section 4.2.

Having heard the statements by the AF secretariat the AFB decided to request the additional details by CSE in order to take an intersessional decision on the subject.

## 6 Dialogue with Civil Society

Usually being held at a separate occasion during the week, the dialogue with civil society representatives was the final item on the agenda at the first day of the AFB meeting this time.

After a brief introduction by the AFB Chair, Mr. Alpha Kaloga (Germanwatch) gave a short presentation highlighting key milestones of the AF NGO Network<sup>23</sup>, an independent network initiated in 2010 by Germanwatch and other NGOs to track projects and NIE process in developing countries. This was followed by an overview of the activities planned during the course of the year, e.g. a proposed conference in June linked to the 21<sup>st</sup> AFB meeting aimed at bringing Board members and practitioners "on the ground" from developing countries together. For this purpose, at least six partners from developing countries are expected to attend the meeting subject to the modest financial capacities of the network. To conclude his presentation, Mr. Kaloga requested the Board to provide further guidance on how the work by the network could be improved and asked for the Board's view on the proposed symposium.

In general, the AFB members unanimously welcomed the idea of an exchange opportunity with beneficiaries from AF projects emphasizing the huge learning value this would offer, especially in regard to the apparent struggles with capacity building around direct-access.

After this first part, two representatives from South Africa shared some experiences and views on governance and strategy development processes for direct access. To begin with, Ms. Dr. Mandy Barnett from the South African National Biodiversity Institute (SANBI) gave some insights on the work SANBI is providing in preserving the rich biodiversity of the country. Besides monitoring and reporting on the state of biodiversity, the institute also provides knowledge and information, gives planning and policy advice and pilots best-practice management models in partnership with stakeholders<sup>24</sup>. Being accredited as a NIE for the AF, SANBI is currently coordinating the efforts of developing a project proposal to be submitted to the AF in the near future. Therefore, SANBI has been reviewing 79 programmes from local communities and stakeholders, looking for potential synergies and seeking to assist them in formulating a joint project proposal. To conclude the presentation, Ms. Bettina Koelle from Indigo Development and Change shared experiences made by the South Africa-based NGO.

The Board members welcomed the inputs particularly praising the work being done by SANBI in enhancing the institutional capacity of stakeholders and improving domestic collaborations. The close cooperation with local communities is perceived as a good approach that could serve as a guiding example for other countries. Further, the continuing engagement by the AF NGO Network was encouraged as well as the involvement of civil society organizations in general.

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<sup>23</sup> see <http://www.af-network.org>

<sup>24</sup> see <http://www.sanbi.org>

## Germanwatch

Following the motto "Observing, Analysing, Acting", Germanwatch has been actively promoting global equity and the preservation of livelihoods since 1991. In doing so, we focus on the politics and economics of the North with their worldwide consequences. The situation of marginalised people in the South is the starting point of our work. Together with our members and supporters as well as with other actors in civil society, we intend to represent a strong lobby for sustainable development. We endeavour to approach our aims by advocating food security, responsible financial markets, compliance with human rights and the prevention of dangerous climate change.

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