



## **Towards the Implementation of concrete adaptation projects and programmes**

### **Report on the 10th meeting of the Adaptation Fund Board**

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#### **Summary<sup>1</sup>**

The 10<sup>th</sup> meeting of the Adaptation Fund Board (AFB), the operating body of the Adaptation Fund established under the Kyoto Protocol, took place from the 15<sup>th</sup> to the 16<sup>th</sup> of June in Bonn, Germany

Just a few weeks after the accreditation of the first National Implementing Entity, the “Centre de Suivi Ecologique” of Senegal, as well as some Multilateral Implementing Entities, the Board has approved the first four project concepts (with a total value of USD 21.8 million) and thus started the long-awaited implementation phase. Senegal, Nicaragua, Pakistan and the Solomon Islands are now allowed to submit a full proposal. This marks the first concrete realisation of the direct access approach in climate financing and the success of this phase is dependent on many factors and actors, in particular those within developing countries. It will determine whether the AFB fulfils the expectations and whether it deserves to be called a model for the future.

Also, during the last meeting, the committees of the Board met for the first time in a closed session day prior to the 10<sup>th</sup> Meeting. While the Project Program Review Committees (PPRC) reviewed the submitted project proposals in accordance with the *Provisional Operational Policies and Guidelines for Parties to access resources of the Adaptation Fund* (the Operational Policies and Guidelines) in order to provide recommendations and advice to the Board thereon<sup>2</sup>, the Ethics and Finance Committees (EFC) reported to the Board on issues of conflict of interest and the code of conduct for the AFB.

In addition, the Accreditation Panel (AP) - responsible for the accreditation procedures of National Implementing Entities (NIEs) as well as the Multilateral Implementing Entities (MIEs) - presented its second report and recommended the accreditation of four further MIEs. It also highlighted the need to concretise a work programme to promote the accreditation process of NIEs and thereby to respond to the needs expressed by many developing countries.

Furthermore, the IPCC presented on its work on vulnerability, giving expert advice to the Board on how it can prioritise and distinguish between different projects from countries and, therefore, channel its scarce resources to those who need it most.

This briefing gives an overview of the key issues on the agenda of the 10<sup>th</sup> AFB meeting for interested stakeholder.

#### **General background to the Adaptation Fund of the Kyoto Protocol**

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, which should support developing countries in their adaptation to negative impacts of climate change. Germanwatch has followed all the meetings, and one can find elaborate information on the Adaptation Fund and the past meetings on our web page

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<sup>1</sup> Contact: [kaloga@germanwatch.org](mailto:kaloga@germanwatch.org). Germanwatch acknowledges the support from Bread for the World for its work on the Adaptation Fund. Further documents on the Adaptation Fund can be found at <http://www.germanwatch.org/klima/af.htm>

<sup>2</sup> AFB/B.6/6 Adaptation Fund Board Committees p. 3

[www.germanwatch.org/klima/af](http://www.germanwatch.org/klima/af) . Official background information and the preparatory documents for the 10th meeting can be found at [www.adaptation-fund.org](http://www.adaptation-fund.org) . Most of the sessions of the AFB are usually webcasted at [www.unccd.int/live/gef/index.php](http://www.unccd.int/live/gef/index.php).

### Presentation on vulnerability by Kristie Ebi (IPCC WG II)

One of the main challenges of the AFB is how to divide fairly the limited resources among the 149 developing country Parties eligible to the AF, based on its agreed criteria. For considering project proposals it seems reasonable that the Board provides further guidance on financing priorities and resource allocations in order to undertake funding decisions. One approach to do this is to generally define what vulnerability to climate change means (in the context of the AF), as well as developing a means for assessing how vulnerable a country compared to others<sup>3</sup>. This is needed to prioritize those who are most vulnerable to the adverse effect of climate change.

Developing a vulnerability index, which has been proposed by some developing countries, is a controversial issue amongst all developing countries, because the context of vulnerability encompasses all transverse sectors of human activities. Vulnerability is a set of conditions and processes resulting from physical, social, economic and environmental factors that increase the susceptibility of a country, a region or a community to the impact of hazards<sup>4</sup>.

On the other hand, in the climate change discussion, the concept of vulnerability is very political due to its close link to the allocation of the resources. If a more advanced developing country is not deemed particularly vulnerable to the adverse effect of climate change then this entails that they have no or at least not prioritised access to the funds established to finance their adaptation efforts.

Although the AFB is trying, based on its document on “initial funding priorities<sup>5</sup>”, to find the rightful way to channel the scarce money among its eligible parties, many of the board members expected from the presentation of the Expert of the IPCC a concrete indicator for determining levels of vulnerability.

The presentation clarified that the IPCC cannot make recommendations on approaches, and will only say what can be done. It also showed how difficult it is to make a vulnerability index which can be applied to all cases, while vulnerability is largely based on existing specific situations and circumstances<sup>6</sup>. For human systems for instance, vulnerability relates to the consequences of exposure, not to the exposure itself<sup>7</sup>. It is crucial, therefore, to think of characteristics of communities looking at where vulnerability implies looking at all scales. The presentation also

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<sup>3</sup> One has many definition of vulnerability. Like the IPCC the AFB understand under vulnerability: The degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes. Vulnerability is a function of the character, magnitude, and rate of climate variation to which a system is exposed, its sensitivity, and its adaptive capacity. (IPCC TAR, 2001).

<sup>4</sup> Satu Kumpulainen (2006): Vulnerability concepts in hazard and risk assessment. Natural and technological hazards and risks affecting the spatial development of European regions. Geological Survey of Finland, Special Paper 42, 65–74, 2 figures, 1 table, 1 map

<sup>5</sup> For more information see: Initial funding priorities (AFB/B.9/5) or Kaloga and Harmeling (March 2010): Briefing on the 9th meeting of the Adaptation Fund Board

<sup>6</sup> There is no one metric on who is most vulnerable at one time. Physical aspects are important. Bangladesh and Netherlands face the same risk, but different vulnerability levels – related to both past and present situations

<sup>7</sup> Kristie L. Ebi, 2010: Vulnerability Index Presentation at the Adaptation Fund Board 10th Meeting , WG II TSU vulnerability

highlighted another big hurdle being that most studies look at current and not future vulnerability. It is difficult to not merely make a vulnerability level, but also to see development pathways; some countries will be more affected by climate variability, others by the long term effects (EBI et al. 2005).

The AFB decided to put the issue of vulnerability on the agenda of the next meeting, and asked the secretariat to prepare a report based on the presentation and discussion in the Board. It also called for the assistance of the observers in the work of IPCC on this issue.

#### Report of the Accreditation Panel AFB/B.10/4

The Accreditation Panel (AP) consists of two members of the Board and three independent experts. The AP is in charge of making recommendations for approval of the Board. with regards to the accreditation of Implementing Entities in accordance with the fiduciary standards contained in the Operational Policies and Guidelines for Parties to access Resources from the Fund (OPG)<sup>8</sup>.

During the last meeting, the AFB - after a long discussion mainly in closed session-, adopted the recommendation made by the AP in the report to accredit the following three MIE: United Nations Environment Programme (UNEP), World Food Programme (WFP) and Asian Development Bank (ADB). In the case of the International Fund for Agricultural Development (IFAD), the overall AFB, like the AP, had no objections towards the ability of the institutions to act as a MIE, but supported the reservation made by the Panel referring to an internal rule in the statutes of IFAD: to accept a new role such as that of a MIE, the Executive Board of IFAD would have to approve it specifically.

During this item the AFB noted with regret that no further NIE as the CSE “Centre de Suivi Ecologique” of Senegal had passed the accreditation process. Although a few further NIE applications have been submitted and are in the examination phase, the Board decided due to the deficient of the application to postpone the accreditation of an NIE until more information is obtained from the applicant and to authorize the AP to conduct a field visit to the applicant country (decision B.10/2)

The AFB explicitly encourages eligible countries to accredit their NIE in order to substantiate the direct access approach.<sup>9</sup> Therefore the AFB recognised the need to initiate as soon as possible its work programmes to promote the accreditation process of the NIEs, as well as a need for a simple guidance document, which can easily explain to countries how to successfully accredit their NIE, as well as how to prioritize projects and how to prepare the necessary dossiers<sup>10</sup>.

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<sup>8</sup> For more information see ECBI – Germanwatch Policy: Adaptation Fund under the KP: *Mature for concrete implementation of projects and direct access*, pp.6-8. Or See : Alpha O. Kaloga and Sven Harmeling, June 2010: Germanwatch Briefing on the 10th meeting of the Adaptation Fund Board

<sup>9</sup> One of the fundamental principles and innovative features of the AF is to allow the developing countries direct access for the developing countries to the Fund. It is the first time in the history of climate finance that direct access is possible, which in the case of the AF is achieved through the NIE. However, as seen in the accreditation process, it seems not to be a straight-forward task to identify appropriately qualified NIE in developing countries. While there seem to be further expression of interests from countries who want to nominate NIEs, the countries have not yet managed to provide the necessary information to the AP. Therefore it is crucial to assist developing countries in establishing these necessary National Implementing Entities.

<sup>10</sup> AFB/B.10/6

### AFB/B.10/6 Work Program to promote Accreditation Process of the NIEs

Following the request of the AFB made during the 9<sup>th</sup> Meeting to consider modalities for providing technical support to Implementing Entity applicants, the AFB secretariat has prepared a document, which contains an awareness raising programme with the objective of achieving equity among regions, and takes into account activities that have already been carried out in some regions. The aim is to use for example the planned regional and other conferences as a platform to organize workshops and side events, where the AF can be presented and its innovative features be promoted. The main objective of such activities is to facilitate, promote and simplify the accreditation process of NIEs by providing technical support to Implementing Entity applicants.

On this basis the Board members made clear that the AF is not the capacity building institution for NIE, but rather should act as facilitator for this. Therefore, the AFB sent an invitation to a multilateral organizations requesting financial and technical support for the establishment of NIEs. In this context three multilateral organizations - UNEP, WB, UNDP- expressed their interest in supporting the AFB.

The aforementioned organizations hosted a dinner to present on and discuss how to help governments select the appropriate institution to be the NIE, and how to support them in preparing the documentation. During the dinner quite few people commented positively on the initiative to assist developing countries.

However, this is also a situation which needs to be watched carefully. Since the multilaterals UNEP, WB and UNDP are also accredited MIEs and are seeking to benefit from this role, there is – at least potentially - a conflict of interest when they act to assist developing countries in the accreditation of NIEs, because they are expected to work towards own redundancy. A way to overcome this problem could be if bilateral aid agencies take up such a role, who do not seek to become Multilateral Entities.

Nevertheless, eligible countries to the AF need support in establishing their NIEs in order to use properly the direct access approach of the AFB rather sooner than later. Doing this requires the co-operation of both governments and other organizations, multilaterals, but potentially also bilateral or private actors. They could help the entity chosen by the government meeting the fiduciary standards set up by the AFB with the appropriate documentation.

### A need for clarification: Report of the Project Programme Review Committee report AFB/PPRC.1/11/Rev.1

For the first time since its establishment, the Project Programme Review Committee (PPRC) met, prior to the 10<sup>th</sup> Meeting of Adaptation Fund. The PPRC is responsible for assisting the Board in tasks related to project and programme review, in accordance with the OPG, and for providing recommendations and advice to the Board thereon<sup>11</sup>. Based on the documents prepared by the AFB Secretariat, which screened and reviewed the so far eight project proposals submitted by the

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<sup>11</sup> Operational policies and guideline for Parties to access resources from the Adaptation Fund, para 8

implementing entities, the PPRC drew the attention of the Board to some relevant issues before its made its recommendations on the submitted projects.

First of all, the PPRC brought forward to further held its meeting further in closing sessions because some issues discussed in the Committee are very confidential and delicate and could even bring the AF or its member into disrepute. Since the report of the Committee to the board is public, this does not conflict with the transparency of the board's functions.

First of all, in the cases whereby conflicts of interest could arise - for instance, that some Board members are involved in projects that are subject to discussion by the committee - this member should leave the room when that arises. This decision to ban the members who have a conflict of interest from the room during the discussion of such issues has actually been taken by the EFC and added to the code of conduct of the AFB.

On the other hand, the Committee highlighted the necessity of further clarification on certain terms in the operational policies and guidelines as well as a CMP decision of the AF. At the dawn of the implementation phase, it is important to clarify or define, for instance, what the AFB means with '*concrete adaptation project and programme*'. After a long discussion on this, the Board decided to have a broader understanding in order to enable a large interpretation. It was agreed to use the 1/CMP4 language ".....*concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties*<sup>12</sup>" However, if this de facto means an operational helpful concretisation remains doubtful.

A further issue met by the committees in doing its review, is the gap between the management fees proposed by the implementing entities. While the World Bank, as a MIE, stipulate 11% as a management fees, the only accredited NIE, CSE from Senegal, demands only 5,4%. Indeed the AFB recognizes that the management fee differs from project to project and this, in turn, depends on the country's circumstances and of the availability of the climate change data. However, it might also be an indication that the facto the system of multilaterals is more expensive than that of national, domestic institutions. The board decided to defer consideration of the issue until its eleventh meeting when it would have a better idea of the issue of management fees and the desirability of waiting to have a larger pool of entities in order to better understand the variation in the practice of charging management fees<sup>13</sup>. The Board besought the secretariat to request more information from the implementing entities on the management fees requested and compile it in a document.

Furthermore the Committee recommended the Board to provide further clarification on the project formulation costs to the implementing entities. These requests were raised especially in relation to NIEs who might not have resources for preparing project proposals. In light of the high expectation, it is important that the AFB, in addition to the innovative feature, not just enables direct access to the fund, but also finances good projects and programmes through its accredited NIE. To do this, it should encourage and assist NIE to submit, not just a small project, but also programmes which encompass diverse fields of adaptation. Based on this recommendation, the Board decided to cover the formulation cost of the project and requested the

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<sup>12</sup> 1/CMP4 Annex IV Strategic Priorities, Policies and Guidelines of the Adaptation Fund para 1

<sup>13</sup> AFB/B.10/7: Report of the tenth meeting of the AFB. p.10

secretariat to prepare a document for it. In addition, the AFB requested the secretariat to channel 90.000\$ to the CSE of Senegal for the formulation costs until the issue is resolved.

Finally, the Committee found out that certain applicants of the projects proposed for funding thought they had made a full project proposal and had wondered as the secretariat had classified their full proposal as a proposal concept. Due to this misinterpretation, the PPRC made clear that the project-concept just fulfils the four first steps of the project cycle:

1. Submission of the project or programme to the AFB secretariat using templates approved by the AFB
2. Screening for consistency and technical review by the secretariat
3. Review by the Project and Programme Review Committee. Can use services of independent experts
4. Decision-making by the AFB

A full project proposal furthermore has to go through a fifth step:

5. Contracting by the AFB. Disbursement of funds by the Trustee upon written instruction by the AFB.

In other words, a fully developed project is one that has been appraised for technical and implementation feasibility, and is ready for financial closure prior to implementation. A brief project concept is approved in the first step, followed by the review and approval of a fully-developed project/document in the second-step. Funding will only be reserved for a project after the approval of a fully-developed project document in the second step. Part of the confusion stems from the fact that the Operational Policies and Guidelines of the AFB speak of a fully developed project when they refer to the only existing template, which everyone now used.

Regarding the eight submitted project proposals<sup>14</sup> - six by UNDP, one by WB, and one by CSE as the only NIE - the PPRC recommended to accept the project-proposals of Solomon Islands, Nicaragua, Pakistan (UNDP) and from Senegal. While the PPRC in these cases followed the proposals of the Secretariat which did the first screening, they did not accept the proposal from Mauritius although the Secretariat had recommended its adoption. Given that the PPRC session was held closed, the specific reasons are not known. Nevertheless this showed that the AFB members are taken the examination of proposals seriously, and are not just adopting everything as some have might concerned. The project proposals from Turkmenistan, Egypt (UNDP) and Mauritania (World Bank) were not adopted and deferred to the next session. All proponents, also those of the accepted concepts, were asked to submit further information or clarification on specific points.<sup>15</sup>

#### Report of the Ethics and Finance Committee (EFC):

The EFC also met a day prior to the 10th meeting for the first time. According to its terms of reference, the EFC shall be responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit.

After a long discussion about all issues related to the work of the EFC, the EFC recommended the AFB to approve first of all the code of conduct, as contained in the

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<sup>14</sup> For complete analysis on which countries, through which entities, have submitted which kind of project, see: Kaloga and Harmeling (June 2010): Briefing on the 10th meeting of the Adaptation Fund Board.

<sup>15</sup> Egypt: defer until issues addressed Mauritania: recommend deferral Nicaragua: recommend endorsement Pakistan: ask for full proposal Senegal: recommend endorsement of recs Solomon Islands: recommend full proposal and clarification of issues raised Turkmenistan: Recommend deferral until all issues addressed, especial on concrete adaptation and duplication Mauritius: Recommend deferral

document AFB/EFC.1/4/Rev.1 prepared by the secretariat previous to the 10<sup>th</sup> meeting. The aforementioned code of conduct was addressed in more detail in the Germanwatch briefing paper prior to the meeting.<sup>16</sup>

But nevertheless it is important to mention that this Code of Conduct needs to be seen in connection with the legal capacity arrangements of the German Government as host of the AFB. The German legislative procedure on the legal capacity is expected to be finalised during this year. The arrangement would result in an exemption of the Board Members from criminal prosecution (in special cases such as civil prosecution), so-called indemnity. The adoption of such a Code of Conduct aims to lead to more transparency and credibility and will serve to eliminate any misconduct in advance.

In addition, the EFC pointed out that the secretariat needs more capacity to react and cope with an unexpected flow of proposals for accreditation. In reaction to the decision made during the meeting of the EFC the AFB requested the secretariat to recruit a Junior Professional Adaptation Officer and to prepare therefore a job description for assistance.

### **Other agenda items**

One of the usual items on the agenda is the Report of Financial status of the Adaptation Fund Trust and the Administrative Trust Fund. This report provides the Adaptation Fund Board with information on the financial status of the Adaptation Fund Trust Fund. The revenue of the Adaptation Fund is obtained primarily from a 2 per cent share in the proceeds from the Kyoto Protocol's Clean Development Mechanism (CDM) project activities in addition to the contribution of developed countries and other contribution. Estimates on the revenue of the fund vary from case to case and depend to the volatility of the carbon price. Because of this, the Projections of revenue of the AFB to the end of 2012 differ between \$264 million, at the lowest, and 404 million for the best case.

It is clear that this income will not suffice in order to finance the deficit in adaptation finance for developing countries, which the recent Adaptation to Climate Change (EACC) study estimates needs to be \$75 - \$100 billion each year to adapt to climate change from 2010 to 2050. Furthermore, it is important to mention that, since Copenhagen, in the realm of fast-start financing pledges some money has been accrued. Noteworthy in this respect is Spain's contribution of Euro 45 million to the AF. This laudable initiative was supported by Germany and Sweden by financial support in the amount of each EUR10 million. While this is also only a drip in the ocean, these voluntary contributions signal an increasing trust of the work of the AF<sup>17</sup>. There is a clear need for a boost in adaptation funding. For the future debate, it is important that the AF will receive funds from other sources than the CDM levy, such as government contributions or innovative finance mechanisms, such as levies on air and maritime topics, assuming it continues to play a role in the future architecture<sup>18</sup>.

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<sup>16</sup> See: Kaloga and Harmeling (June 2010): Briefing on the 10th meeting of the Adaptation Fund Board.

<sup>17</sup> See ECBI June 2010: Germanwatch briefingspaper for policy maker: Mature for concrete implementation of projects and direct access

<sup>18</sup> During the review of AF in SBI 32, the LDC have proposed to introduce a levy on air and transport in addition to the 2% CERs CDM activities which were provided for the fund. As the review was postponed until CMP 7 in 2011, there is the possibility to fully reflect on this suggestion, cope with reasonable exceptions and reach a text that is acceptable to all Parties. Of course, the debate about innovative finance instrument goes much beyond just the specific purpose of financing the AF.