



Historic milestone achieved in the 9th Meeting of Adaptation Fund Board

By Alpha O. Kaloga and Sven Harmeling, April 2010¹

Summary

In Copenhagen the progress achieved by the Adaptation Fund Board in the last years towards its full operationalisation was explicitly appreciated by the Parties to the Kyoto Protocol. Thereafter this year's first meeting, the 9th meeting of the Adaptation Fund Board (AFB) which took place in Bonn from March 23rd to 25th, was expected to deliver progress towards entering into the state of project and programme implementation.

Thus, the accreditation of the first National Implementing Entity (NIE) meant a decision, which can be considered a milestone in international climate politics. The accreditation of the Centre de Suivi Ecologique (CSE) from Senegal has a symbolic character, as it is now for the first time possible for developing countries to attain direct financial support from a multilateral climate fund without the need to take the detour via the World Bank or similar multilateral institutions. Applications for NIEs from several other developing countries are in the pipeline. Nevertheless, through the accreditation of UNDP and the International Bank for Reconstruction and Development as Multilateral Implementing Entities (MIE), also other countries can now submit projects. On April 9th, the Board has send out Invitation Letters to Eligible Parties to submit Project and Programme Proposals to the Adaptation Fund Board in order for the first projects and programmes to be submitted and financed. It is worthwhile mentioning, that a Memorandum of Understanding has been decided upon by the Board and the Implementing Entities, which will serve as a preliminary contract and should be applied until the legal capacity process is realised in the German government and Parliament.

The Adaptation Fund Board has also continued work on a Result Based Management (RMB) in order to attain steadfastness and sustainability of future projects, which should guarantee the coherence and quality of the Adaptation Fund Portfolio of Projects in developing countries. The Board has also introduced its new members and unanimously elected Mr. Farrukh Iqbal Khan as Chair (Pakistan – Non-Annex I) and Mr Hiroshi Ono as vice Chair (Japan – Annex I). Finally, the AFB also decided to explicitly invite, based of the CMP decision in Copenhagen, developed countries to contribute resources to the fund, given the insufficient amount generated by the CDM levy.

Due to this comprehensive agenda the last meeting was strongly attended both by members of the Board as by NGO.

The accreditation of the first National Implementing Entity realises direct access (AFB/B.9/4)

The principle of direct access aims to simplify and accelerate the process by which resources for adaptation flow to developing countries. Vulnerable developing countries can nominate domestic national institutions for accreditation by the Adaptation Fund as National Implementing Entities (NIE)². The countries also have the possibility to use the services of Multilateral Implementing Entities (MIE) like the World Bank or UNDP, including going through the MIEs while preparing an NIE application.

It should be noted here that the way the AFB designed the direct access process is unique in international environmental governance, the only similar example is the Global Fund to Fight

¹ Contact: kaloga@germanwatch.org; Germanwatch acknowledges the support from Bread for the World (www.bread-for-the-world.org) for its work on the Adaptation Fund. Further documents on the Adaptation Fund can be found at www.germanwatch.org/klima/af.htm; the original documents of the AF at www.adaptation-fund.org

² "National Implementing Entities (NIE) are those national legal entities nominated by Parties that are recognized by the Board as meeting the fiduciary standards established by the Board. They may include inter alia, ministries, inter-ministerial commissions, government cooperation agencies." (AFB/ B.7/4)

HIV/Aids, Tuberculosis and Malaria which the AFB took into account in its approach. As part of the 5th replenishment debate under the GEF, the GEF itself initially proposed to pilot direct access in a similar way as the AF is set up now.³ However, looking at the documents of more recent meetings of the 5th replenishment, it becomes obvious that this ambitious approach has not survived and there is no more reference to any expansion of direct access to NIEs.⁴

In order that an institution nominated by a government can be accredited by the Adaptation Fund as implementing entity, it must undergo the accreditation process. Therefore an Accreditation Panel (AP) was established, which consists of two Board members and three independent experts⁵. According to the accreditation process, the Secretariat forwards, after a pre-screening, the accreditation applications to the AP. The AP reviews applications and forwards its recommendation to the AFB for a decision. The review by the AP should ascertain whether the applications are consistent with the fiduciary management standards set up by the Board. Those standards, which are contained in the “Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund”⁶ include (i) financial integrity and management, (ii) institutional capacity, and (iii) transparency and self-investigative powers. The established fiduciary management standards are a kind of security check in order to guarantee that the contract partners of the AFB have the capacity to manage the supplied financial means appropriately.

The AP has recommended in its report the accreditation of the first NIE, the Centre de Suivre Ecologique du Senegal (CSE), and two MIEs, United Nations Development Programme (UNDP) and the International Bank for Reconstruction and Development (IBRD) as part of the World Bank Groupe⁷. The AP recommended the accreditation of CSE from Senegal with reservation, since it identified some deficiencies ie with regard to risk management. Due to inexperience in implementing and executing large size projects and programmes the Panel suggested to the Board to apply special care, when financing projects larger than US\$ 1 Million. This proposed condition was a reason for prolonged discussions among the Members of the Board. On the one hand one wanted to be sure, that the proposals of CSE for projects above US\$ 1 Million would face additional hurdles, in order to assure that CSE is able to administer this money with trust. On the other hand an accreditation with reservation could be seen as an indication that the fiduciary standards, which have been installed with special care, are insufficient, or can be used by other NIEs as an argument to justify its insufficient fiduciary standards towards the Board.

An additional safeguard can be found in para 46 of the most important document of the Fund, the Operational Policies and Guidelines. It says: “The Board may instruct the Trustee to disburse funds for programmes in tranches based in time specific milestones, and may require a progress review from the Implementing Entity prior to each tranche disbursement.” This para provides an additional guarantee in the case that problems with the NIE occur during the implementation of a project (e.g. its insufficient capacity becomes obvious), since the money is not transferred at once but rather step-by-step according to the progress of implementation.

Furthermore it emerged from the discussion that the Board should not apply micromanagement by determining everything to the smallest detail, and establishing additional reporting requirements would also increase the workload for the Secretariat as well as the implementing and executing entities rather than focusing on the appropriate implementation of the project.

Eventually, the Board with consensus accepted the accreditation of CSE without reservations. Both MIE (IBRD and UNDP) were accredited as expected. According to the recommendation of the AP the application of UNDP will be presented on the homepage as an example for a good accreditation

³ See the document “Draft GEF policy, institutional, and governance reforms” prepared for the 2nd meeting of the 5th replenishment; <http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.R.5.15.pdf>

⁴ The documents prepared for the 4th and 5th meeting only mention that the status quo should be kept which allows the seven multilateral executing agencies to maintain direct access to GEF resources: http://www.thegef.org/gef/fifth_replenishment

⁵ See e.g. AFB/B.9/4, Report of the Accreditation Panel

⁶ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund. Accreditation of Implementing Entities, para 32-33.

⁷ See Germanwatch Briefing on the 9th Meeting of the Adaptation Fund, www.germanwatch.org/klima/af

application which other applying multilateral institutions should take into account.

The accreditation of CSE from Senegal has an important symbolic, groundbreaking character, as it is now for the first time possible for developing countries to attain direct financial support to address climate change without taking the detour via the World Bank or similar institutions. In the past, this has often lead to a long time deferral, high expenses and often the feeling of patronization. With the accreditation of the first National Implementing Entity the long discussed direct access has become reality. Other national institutions from developing countries have already applied and it is currently being reviewed, whether they fulfil the fiduciary standards of the Board.

It remains to be seen in how far countries will need additional capacity building efforts to successfully fulfil the applications, an issue which was also discussed in the AFB meeting, due to certain request by some developing countries. UNEP and UNDP, institutions which have a long history of capacity building in developing countries, reported that they received similar requests and are considering how to support. While latter ones could potentially play an important role in building capacity for this process, at least theoretically a conflict of interest situation may arise. Both envisage to function as Multilateral Implementing Entities, but at the same time would advise developing country governments how to successfully become less dependent from them through the accreditation of National Implementing Entities. However, if such support would be focused on the specific demand and limited to the NIE process if governments desire this, there is a potential for a valuable collaboration which could accelerate the implementation of direct access for many countries.

Call for project and programme proposals issued (AFB/B.9/6)

The Invitation to Eligible Parties to submit project and programme proposals to the AFB is the logical next step after the accreditation of first implementing entities, both national and international ones. The AFB adopted the document which was prepared and amended for the third time by the Secretariat in advance of the meeting without much debate. The letter will be sent to the permanent representatives of the countries to the UN in New York, and the UNFCCC focal point.

According to the Operational Policies and Guidelines, "each Party shall designate and communicate to the Secretariat the authority that will endorse on behalf of the national government the projects and programmes proposed by the implementing entities." So far it has not been reported that any country has designated such authorities, so the mentioned addressees sound logical. However, there is also the concern that within governments the Adaptation Fund and the direct access procedures have not yet received the attention they deserve. Given the cross-cutting nature of adaptation which affects many economic sectors, and also the high workload of many UNFCCC focal points, some governments may prefer to nominate others than the UNFCCC focal points to be the authority to endorse projects and programmes. This remains to be seen when it comes to first project applications. This letter, issued on April 9th, does not contain information on a financial cap of how much a country or a project/programme may attain from the AF until 2012, which could function as a guidance to countries to not propose too big projects. However, answering this question was postponed until the next meeting.

Legal capacity still awaiting finalisation

According to the decision 1/CMP.4, para 11 of the Conference of the Parties to the Kyoto Protocol the Adaptation Fund should be conferred "*such legal capacity as necessary for the discharge of its functions with regard to direct access - in particular legal capacity to enter into contractual agreements and to receive project, activity and programme proposals directly and to process them.*"

In its eighth meeting, the AFB decided to accept the offer from Germany to legally host the Fund in Bonn. A delegation of the German Government attended on request of the Board the last meeting and informed it on the status of the legislation process and the conducted initiatives. The Federal Ministry for Economic Cooperation and Development (BMZ) has prepared a final draft law, which it has sent to different ministries for inspection. According to this, the AF should attain a legal status, which will allow the Board to contract with third Parties, and it will protect the members in its activities and during the meeting of the Board from any kind of prosecution. They hence will attain so called

indemnity and immunity.

Mr Frank Fass-Metz from BMZ made it clear that the law would and should be kept simple and should be similar to prior decided laws. For example, the German government already granted legal capacity to the UNFCCC Secretariat. It has not been fed yet into the parliamentary process since the BMZ saw the need to respond to comments by the AFB members in this meeting. The full realisation of the legal capacity is primarily a timing issue since the German parliamentary process to pass such a law usually takes around a year. However, this timing caused some confusion since it appeared that most Board members assumed that it would take one year from last year's decision for Germany as the host, while now the BMZ representatives pointed out that it could take a year from the point where the Parliamentary process has started (in fact soon after this meeting, but 5 months later than the decision taken at the last meeting). After taking note of this report the Board requested the German government to do everything possible in order to clarify the Legal Status of the Board as soon as possible. However one has to note that the ministries themselves have limited possibilities to influence on the Parliamentarians, but indeed there are other channels to make the Parliamentarians aware of the need to accelerate the process, such through NGO contacts.

Memoranda of Understanding (MoU) as preliminary solutions (AFB/B.9/8)

Until the problem of the legal capacity is solved the Board will be unable to contract with third parties because it doesn't have legal capacity. To avoid bypass of this problem and be able to finance projects, the AFB Members have agreed upon the preliminary use of a Memorandum of Understanding (MoU)⁸: "Thus the secretariat will draft contracts, Memoranda of Understanding (MoU) and /or other necessary agreements with implementing entities and provide these agreements for signature by the Chair or any other member designated to sign these documents."⁹ During the AFB's discussion on the exact framework of the declaration of intent respectively a basic agreement, the Board Members criticized that for example each conclusion of a contract with a National Implementing Entity would require a state guarantee, which would have to state that if the funds are wrongly spent it cannot be called into account. Others have pointed out that if there were no guarantees then it would be necessary to introduce a report every 6 months with the goal of avoiding that the money is badly spent. Of course it is crucial for the credibility of the Fund and the AFB to minimise the risk of wrong spending of the resources transferred by the Fund to Implementing Entities.

Intensive discussions have shown that the MoU is only a temporary solution until the legal capacity problem is solved and therefore will not be seen as a final contract. Thereupon the Board asked the secretariat to formulate a final draft contract until September which should reflect the critical comments raised and suggestions stated at the Board meeting, hoping that the German government will have solved the board's legal issue.

Further work on the Results-based Management (RBM) required

In advance of the meeting the Secretariat prepared a document which outlined a strategic results framework for the Fund with objectives and measurable indicators, in order to design a performance monitoring and reporting system and to integrate evaluation as a key performance tool.¹⁰ The Board's discussion showed that it is felt necessary to prepare a result framework which can be used as a general evaluation indicator for all projects. The idea is to introduce a system that fits for most of the implemented projects. The Board agreed that the presented document would be too complicated and demanded to make the RMB simpler and more transparent and thus more understandable. It was decided that the Board Members' suggestions concerning the RMB's changes should be prepared and handed in until the 24th of April.

Initial funding priorities: country prioritization stays on the table (AFB/B.9/5)

The Secretariat prepared a document which outlined methods and options of how the resources can be distributed fairly among vulnerable developing countries, given the challenge that if distributed among 149 countries (developing country Kyoto Parties) the available resources would only suffice for very

⁸ For detailed Information see e.g. Germanwatch's Briefing on the 9th meeting of the Adaptation Fund Board

⁹ AFB/B.7/4, Draft operational policies and guidelines for Parties to access resources from the Adaptation Fund paras 42

¹⁰ See Germanwatch's Briefing on the 9th meeting of the Adaptation Fund Board

small projects. The discussion about the initial funding priorities addresses an important, but also controversial aspect of the climate debate, namely the identification of the countries particularly vulnerable to the negative effects of climate change. It has been shown that there is no straight-forward solution to this challenge. The Board had expected helpful insights from the IPCC work, but participation of an IPCC member had to be delayed to the next meeting. The Secretariat's document is quite helpful through providing concrete ideas and calculations for different approaches on this issue which also remains controversial under the AWG-LCA discussions on adaptation.

The deliberations also have shown that even with a more efficient and fair division of the Fund's resources among the vulnerable countries the AF would likely not even be able to finance 1/3 of the 149 countries because of its scarce financial resources¹¹. This underlines again that it is of utmost importance to increase the funds. Against this background, the Board followed the CMP recommendations made in Copenhagen and initiated an appeal for financial support by the Annex I countries in order to receive financial support. The letter will now be prepared and sent by the Chair and co-Chair as legal representatives of the Fund.

However, it remains an important challenge not to stall the adoption of projects just because this issue remains unresolved. To some extent the Board will likely have to work on a first-come-first-serve basis, but keeping an eye on the resource constraints as well as taking serious the other quality criteria and strategic priorities it had agreed for the adoption of the project and programme applications. From a people's and human rights perspective in particular the strategic priority that countries should give "special attention to the particular needs of the most vulnerable communities" and the meaningful inclusion of stakeholders are crucial criteria, both of which appear also in the project proposal templates.

State of AF resources

As in every meeting the World Bank, as Trustee of the Fund and responsible for the monetization of the CERs, gave an update on the financial status of the Fund. The presentation showed the estimates of the potential resources available for the Adaption Fund from January 31, 2010 to December 31, 2012. These range from approximately US\$ 254 Million to US\$ 443 million. Using the medium case assumptions results in a potential value of approximately US\$ 342 million. This new estimate again is a proof for the volatility of the CER market. The price currently is at its lowest point (ca. 11 Euro per Tonne) since the beginning of monetisation of CERs of the Fund last year. However, despite certain uncertainty factors, such as the unclear post-2012 legal architecture and the future of the Kyoto Protocol and the fall in emissions due to the economic crisis, there has not yet been a market break, which shows how complex the market is. Nevertheless, the volatility of this sole funding source of the AF remains a problem, and additional sources are required. That is also why the AFB members in their discussion briefly referred to the work of the High-Level Advisory Group on Finance which the UN Secretary General has initiated.

Communication strategy

Another item on the agenda was the Communication Strategy of the Board. This is about developing a professional promotion strategy in order to increase awareness of the AF. Possible elements of such a communication strategy could be the production of information material; development of a power-point presentation template on the work of the Board, an outreach plan to the media etc., according to the preparatory document of the Secretariat. The discussion showed that the Board sees the need for professional help in order to develop a well-aimed and adjusted strategy for the AF. The Board has suggested to the Secretariat to find such people and to agree with them on a temporary extendable contract of six months. The current homepage is of a preliminary nature until the final one will be approved by World Bank experts after a security check.

¹¹ See e.g. Germanwatch's Briefing on the 9th meeting of the Adaptation Fund Board

Increase in observer participation and upcoming challenges

The 9th meeting was attended by a higher number of observers than before, both from international and UN agencies as well as several NGOs. This signals that the AF now enters the state of implementation and is increasingly taken serious.

Two accompanying dinners, one organised by the European Capacity Building Initiative (ecbi)¹² and one by the UNDP department on Gender and Climate Change, provided opportunities for exchange beyond the core discussions of the Adaptation Fund Board. As part of the ecbi dinner, the AF received an additional voluntary donation (185 Euros) from the 185 participants of the 4th International Conference on Community-based Adaptation which took place in late February in Tanzania.¹³

Approaching the state of project implementation also increases the relevance of observer and stakeholder engagement on the levels below the Adaptation Fund Board meetings. When projects are identified nationally, meaningful stakeholder inclusion is required. When National Implementing Entities are starting their work as administrators of projects, they could benefit from civil society experience with project development and execution on the ground, and some NGOs may even play a direct role as executing entities.

When projects and programmes are being submitted and reviewed by the Adaptation Fund Board, when it comes to the crux of the matter, the AFB will have to show that it continues with its open and transparent working mode. During the 9th meeting one controversial discussion on the accreditation of implementing entities was held closed, which in principle may be reasonable in certain instances, but should not become the rule. Also there is the risk that key decisions will be predetermined in the committees - in particular the Project and Programme Review Committee - without the high level of transparency that has been achieved in the AFB meetings.

Furthermore, an important tool to ensure transparency as well as to function as a potential safeguard for projects criteria such as stakeholder inclusion and the focus on the most vulnerable communities still awaits implementation: namely the website facilities to allow for public comments on the proposed projects before their adoption, a tool which the AFB asked the Secretariat to develop in the 7th meeting. Such a tool has proven to be very important in the CDM context. According to the Secretariat, the facilities are in preparation, and it would be very important that these are in place once the first project applications will be examined by the Project and Programme Review Committee.

Upcoming review of the Adaptation Fund

Finally a matter which has not been discussed at the meeting should be addressed, namely the review of all matters related to the Adaptation Fund which is supposed to happen by COP 16. In advance of the upcoming Subsidiary Bodies meeting in June in Bonn, Parties and Observers had the opportunity to submit their views by 22 March. So far the submissions have not been made public by the UNFCCC Secretariat, but it will be interesting to see how Parties will address this, given the significant progress that the AFB has achieved.¹⁴ This would also provide an opportunity to have a closer look at the potential role of the AF in the negotiations on the overall financial architecture.

The next meeting of the Adaptation Fund Board will be held in conjunction with the June sessions of the Subsidiary Bodies to the UNFCCC, from June 15th to 17th, where the accreditation of additional NIEs and MIEs and possibly the first projects applications will be discussed.

¹² <http://www.eurocapacity.org/public/chronicle.shtml>

¹³ <http://www.iisd.ca/download/pdf/sd/yimbvol1135num3e.pdf>

¹⁴ The network of more than 500 environment and development NGOs, the Climate Action Network International, also submitted its views, a document which can also be found at the Germanwatch AF website www.germanwatch.org/klima/af