

The Adaptation Fund: Maturing on the way to Copenhagen

Briefing on the outcomes of the 8th meeting of the Adaptation Fund Board

By Alpha O. Kaloga and Sven Harmeling, November 2009¹

Summary

The 8th meeting of the Adaptation Fund Board (AFB), which is the operating body of the Adaptation Fund established under the Kyoto Protocol, took place from the 16th to the 18th of November in Bonn. Just a few weeks ahead of the COP 15 in Copenhagen the Board can be satisfied with the progress it has achieved in 2009, while challenges remain for the future work. The Fund is almost fully operational. The Board has developed the modalities for direct access. Its credibility has been enhanced through strong fiduciary standards, good and reliable policies and procedures, and good recipient accountability. First discussions on a proper monitoring and evaluation systems have been fruitful and have to be turned into guidelines in early 2010. With the final corrections made to the program/project templates for Parties to access resources from the AFB that were made during the meeting, important steps were taken for entering the stage of submission of concrete proposals.

In addition to this, the offer from the German government to host the Adaptation Fund Board in Bonn and to give to it legal capacity was accepted. The Accreditation Panel, that is responsible for Accreditation procedures of National Implementing Entities (NIEs) and Multilateral Implementing Entities (MIEs), was established and can begin its work. The foundation of a proper framework for ongoing work has thus been put into place. Sending out the invitation letter to submit project proposals for funding has been delayed until the first meeting of the Adaptation Fund next year, to give countries some more time to nominate National Implementing Entities.

Despite of this, the AFB members can go to Copenhagen with the certainty of having done a very good job, and therefore legitimately demand more resources for one of the most innovative funds of the global climate change finance architecture. This briefing provides an overview of the key issues under debate during the 8th meeting².

Bonn (Germany) to host the Adaptation Fund Board

One of the central outcomes of the 8th meeting was a final decision on the host country of the AF, after the matter was considered intensively in the previous two meetings. The AFB finally followed the recommendation from its specific working group, and accepted the offer from Germany to give legal capacity to the AFB and host the Fund in Bonn. The only other offer has come from Barbados, but mostly practical reasons led to the decision in favour of Bonn. The Board can now receive the legal status required to sign contracts with developing countries. The German government now has the task to ensure the Adaptation Fund is made a legal entity as soon as possible, so that it can support the urgent adaptation needs of developing countries through direct access (the non-direct access through Multilateral Implementing Entities is possible without the legal capacity). This will be an important step to strengthen the AF institutionally, and a basis for further expansion as an instrument for funding adaptation. With this decision, the Board also progressed on the task it received from the Conference of the Parties serving as the Members of the Parties to the Kyoto Protocol in Poznan (CMP 4).

As of now, this does not mean that the AF will build up a permanent Secretariat in Bonn, since in line with the interim institutional arrangements agreed at the Bali climate conference in 2007 the Global Environment Facility (GEF), based in Washington, D.C., continues to provide secretariat services to the AFB. Nevertheless, these arrangements are subject to a review at next year's COP to be held in

¹ Contact: kaloga@germanwatch.org, Germanwatch acknowledges the support from Bread for the World for its work on the Adaptation Fund. Further information can be found at www.germanwatch.org/klima/af.htm. Original information on the Adaptation Fund can be found at www.adaptation-fund.org

² This analysis is also based on Kaloga/Harmeling, 2009: Briefing on the 8th meeting of the Adaptation Fund Board. <http://www.germanwatch.org/klima/af>

November 2010 in Mexico. This review will have to base its discussion inter alia on the performance of the cooperation between the GEF and the AFB, which, at least, has improved significantly compared to the early days of the AF. The relationship to the World Bank as a Trustee will, of course, also play a role. Already now it is important to keep in mind that by 22 March 2010, Parties and observers can submit their views and recommendations on the possible terms of reference for the review of all matters relating to the Adaptation Fund, including the institutional arrangements.³

Challenges for implementing direct access through National Implementing Entities

The accreditation of National Implementing Entities (NIE) is the key element in the AFB's approach to implementing the provision of direct access. These entities will be the formal recipients of resources from the AF and will have to oversee project and programme execution at the developing country level. They are the key to the necessary devolution of funding decisions to that level. In early October, after the 7th AFB meeting, the Secretariat sent out invitation letters to developing countries' permanent missions to the UN in New York, the UNFCCC focal points and multilateral organisations. Several Multilateral Implementing Entities expressed their interest, including WMO, UNHABITAT, World Bank, UNEP, UNDP and a number of NGOs.

So far, not one NIE has been formally nominated to the AFB. While the Board Members had to note this fact with regret, one has to confess that this delay is not too surprising. Examining the fiduciary standards agreed upon by the AFB will take some time in many developing countries, and will also require coordination within governments as well as a certain institutional capacity. Furthermore there is no security that the invitation letter yet has really reached those who would be responsible for taking up this matter within developing countries, with lack of translation into other UN languages (both the letter as well as the Operational Policies and Guidelines which contain the fiduciary standards) being another barrier. Nevertheless, several countries asked the Secretariat for more information, which shows that the matter is on its way at least in some developing countries. Everyone, including NGOs following the development of the Fund, can contact their government's UNFCCC focal points and find out about the state of NIE consideration.⁴

The discussions in the Board revealed that there is a desire to have more clarity on the reasons for the lack of nominations, but also to think about support for developing countries where it is required, addressing questions such as a) where are the exact difficulties for countries, b) which way forward is the easiest for them, and c) how should one best help them building up their NIE's?

The role of the Finance Ministry as well as the environment and other sectoral ministries is important. The Ministry of Finance is usually the only Ministry (sometimes the only institution) in such countries that has experience with international fiduciary management standards (e.g. with the World Bank or the International Monetary Fund). Care needs to be taken that the money for projects does not just disappear in the state's budget but is transparently distributed, so that governments can also be held accountable by their citizens. The Ministry of Environment is usually the one most experienced with adaptation and has much relevant information on adaptation projects and/or programs in the country, including experience with their implementation. So linking these two is probably crucial in most of the developing countries for the tasks that are expected from the NIE's.

Finally it is also important to bear in mind that in principle also regional organisations can take up the role of implementing entities, e.g. regional development banks or regional environment organisations, if they fulfil the required standards. This may be particularly useful for smaller countries which do not have an adequate national entity, do not want to invest into developing one and who have good experience with, and trust into, a regional organisation.

³ See FCCC/SBI/2009/L.16

⁴ The contact list of the UNFCCC focal points is available at: <http://maindb.unfccc.int/public/nfp.pl>

Establishment of the Accreditation Panel

The establishment of the Accreditation Panel is an important step in the development of the Adaptation Fund because its role will be to accredit nominated National and Multilateral Implementing Entities. This accreditation procedure has to follow a transparent and systematic process.

The Accreditation Panel of the Adaptation Fund Board will consist of two Board Members and three experts. The Board members William Kojo Agyemang-Bonsu (Alternate Member from Ghana, representing Non-Annex I Parties) and Jerzy Janota Bzowski (Member from Poland, representing Eastern Europe) will be chairing the panel, and had already been elected at the previous meeting. For the selection of experts, the secretariat of the board had tasked the International Accreditation Forum, International Accounting Standards with an international advertisement for the panel positions. 50 applications were received.

Along with expertise and experience, the geographic origin played a large role for the pre-selection to achieve regionally balanced representation, as well as for the final choices made by the working group, which was appointed especially for this task by the Board. This working group consisted of the two Accreditation Panel⁵ Chairs as well as Mr. Anton Hilber (Switzerland, WEOG) and Mr. Octavio Pérez Pardo (Argentina, GRULAC).

The working group announced the election results on the last day of the meeting. Out of the short list containing 8 candidates, three were chosen: Candidates with the numbers 7 from Nepal, 2 from South Africa and 8 from Canada were elected.⁶ Additionally, three alternates were selected which would replace the first candidates in the following order, if required: number 5 from India, number 3 from Kenya and number 1 from Canada.

The Group of Latin America and Caribbean Countries (GRULAC) expressed their regret that none of the candidates were from their region, but declared they would ensure that it would be better represented when the next Panel is put together. In order to cope with the workload of the panel, which may be substantial if many countries nominate NIE's, the Board intends to add a new category for short-term support as required and then have a 10 percent contingency. This would add about \$60,000 to the current budget.

Agreement on the Programme proposal template

According to the AFB guidelines, a concrete adaptation project is defined as “a set of activities aimed at addressing the adverse impacts of and risks posed by climate change”, while an adaptation programme is a “process, a plan or an approach for addressing climate change impacts which has a broader scope than an individual project.”⁷ Following the adoption of the Operational Policies and Guidelines at the 7th meeting, a proposal for a programme template was developed based on the already agreed project template. The consideration at the AFB meeting showed that the distinction between projects and programmes has significant implications for the role of the AFB in the process.

The Board can follow two approaches. One is to look at the results, which applies to programmes - the second is to focus on the activities, and predominates for projects.⁸

For *programmes*, the focus is not on the exact activities, but rather on the results of a number of projects. When the Board considers a programme, it must trust the proponent to take the right decisions to ensure that the results are achieved, which is different from a project. The instructions for a programme need to address that the proponent has something more complex to explain – a more complex situational analysis and a more complex set of objectives. That requires listing the types and

⁵ See Harmeling/Kaloga, 2009: Adaptation Fund: Critical progress at the 7th Meeting, p.2.

<http://www.germanwatch.org/klima/af>

⁶ The candidates were presented anonymously; see the short list of experts AFB/B.8/5.

⁷ Paragraph 9, 10 of AFB/B.7/4 Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund Board

⁸ Much of the following explanations builds on the input given by Mr Yvan Biot, AFB member from the UK.

numbers of projects a programme is likely to support.

It was also proposed by a Board member that programmes, as well as projects, should also identify milestones and targets. Otherwise specific implementation arrangements are needed to explain how a program strategy will be managed and evaluated. Programmes need to show a very high level of management competency, in line with the AF fiduciary management standards (and it is suggested that NIEs execute programs). Nevertheless, the discussion resulted in not expecting the executing entities carrying out projects under a programme to meet the fiduciary standards, but only the NIE/MIE which oversees a programme.

The question of treatment of projects under a programme is the crux of the matter, and highlights the difference between programs and projects. The whole idea of the programme is that the Board can delegate the design and implementation of projects to an authority in which it has confidence – confidence that it can design a strategic plan and operationalise the projects required to achieve the strategic objectives. For example, a country might have a programme to climate-proof its rain fed agriculture. This might involve a large number of projects and the Board will not be adequately equipped to look at all of these – and if it did, the Board wouldn't gain anything from the programme approach. The programme proposal needs to contain the information that allows the Board to assess it, in particular to get an idea what the funds be used for.

It was also clarified that the AF within its current mandate and guidelines will not fund preparation activities, such as pre-feasibility studies which may be required for larger-scale programmes (at least more than for a project). It was pointed out that there are other agencies financing such activities.

Invitation to submit project proposals delayed

The AFB has not yet decided on sending out a specific call to submit project proposals to the Fund. One of the main reasons is that no NIE has yet applied for accreditation, and only the World Bank submitted information sufficient to be accredited as MIE. It is appropriate to give developing countries more time to identify and nominate their NIE's. If the invitation had been sent out already, it could be assumed that developing countries would prefer sending in a proposal through MIE's, rather than putting capacity into the identification and nomination of the NIE. Partially a reason would be that countries fear not to benefit from the Fund given its limited resources if they come later, but through their NIE's. The risk would be that the behaviour of developing countries would be perceived as if there was no concrete interest in the direct access. Nevertheless, this does not restrict countries from using the MIE's. Nevertheless, each country can already develop and prepare proposals, because the templates to prepare these are already adopted and public.⁹

Allocation challenge: how to prioritise with scarce funds?

A key challenge that is largely due to the too limited amounts available with the Fund is how to allocate and divide up the resources that the AF can spend between countries. The latest estimates from CER monetisation result in about USD 450 million until 2012. The future of the AF in its current legal setting beyond 2012 depends on the Copenhagen outcome on a second commitment period of the Kyoto Protocol. Whether Copenhagen will deliver additional resources until the end of 2012, e.g. through donations, is not clear yet. So the AFB faces questions such as:

- What is the maximum sum a country should receive for its projects and/or proposals during the first period (from 2010-2012)?
- How will decisions be made about which of the projects/programmes will be financed under the AF with priority?

The Board had agreed on criteria which were supposed to guide the allocation earlier, including the vulnerability, urgency, balanced and equitable manner, lessons learned from past experience, adaptive

⁹ See the Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund.

capacity and the maximisation of regional and multi-sectoral benefits. Another criterion derived from the strategic priorities, policies and guidelines is giving special attention to the most vulnerable communities. Nevertheless, the situation is complex.¹⁰ And all these questions need to be clarified before the Board can send out the invitation letters, and before the eligible countries can submit project proposals for funding under the Adaptation Fund.

In previous meetings, the Board could not agree to prioritise the needs of those countries identified as being particularly vulnerable to climate change in the Bali Action Plan, which are Least Developed Countries, Small Island Developing States and African countries prone to droughts, floods and desertification. The Board chose the definition of particularly vulnerable countries from the UNFCCC, which, however, has never been broken down to categorise countries. And there is also no scientific clarity, so a political answer needs to be found. One Board member proposed to take into account population along with some indications of adaptive capacity, which to some extent is reasonable since it is likely that countries with 60 million people will have larger demands than those with 60,000 inhabitants. The LDC prioritisation is one which exactly is based on an indication of adaptive capacity, in particular by including indicators on economic capacity.

The AFB discussed several options, which are briefly summarised here:

- No country cap: this might lead to a situation where some larger countries with more capacity would submit larger projects and programmes and “and eat up” most of the resources; a limit could be set by allowing only one project per country.
- A low country cap (USD 3 to 5 million): this would have the advantage that almost all vulnerable developing countries could receive funds from the AF, but would also signal the Fund does not make a big difference because only very small volumes can be received. Nevertheless, for some countries 5 million would even make a difference.
- High country cap (ca. USD 20 million): this would signal that the AF can fund bigger projects or maybe even programmes, but initially only for a few countries (around 25, assuming every country would go to its limit). This would make the most difficult debate in the AF more important: the pre-allocation of resources to a limited number of countries.

There are also two ways a cap can be understood: a maximum amount for the first application, or the entitlement to receive this money until 2012, but possibly e.g. through a number of projects submitted in 2010 and some more submitted in 2012.

The debate also revealed to some extent the diverging views on the role of the Adaptation Fund in the overall funding setup: is it a tool to scale-up adaptation funding for those most in need, or for those who are not yet prioritised through other Funds (a complement to other existing instruments)? For example, the AFB member from Egypt raised the question if this Fund should not primarily fund the needs of other countries than the LDCs, because they already have their LDC Fund administered by the GEF. And there are also 8 countries (some of them are LDCs) who receive adaptation funding from the Pilot Programme for Climate Resilience (PPCR) administered by the World Bank. However, the mandate of the AF is clearly to assist adaptation in particularly vulnerable developing countries, while double-financing of the additional adaptation costs with other sources for the same project is not possible. No country is excluded because it has special access to other funds.

Some AFB members requested to rely on a Copenhagen outcome, assuming Parties might agree on a clarification of the question of particularly vulnerable countries and arguing that this would go beyond the mandate of the AFB. However it is rather unlikely that this will be resolved. It seemed more reasonable that the AFB would come up with clearer guidance, since their discussions are technically more advanced than that on the UNFCCC level.

Given the complexity of the debate and possible implications of the Copenhagen outcome, there was no decision on the details of prioritisation. The Secretariat is now tasked to work on a new paper for the next meeting, which is also expected to incorporate any new guidance possibly coming out of Copenhagen. It will also inform the assessment of projects that might be submitted in early 2010.

¹⁰ See Chandani, Harmeling and Kaloga, 2009: The Adaptation Fund – a model for the future? IIED policy brief.

Discussion on an Evaluation and Result based Management Framework (RBM)

There is no doubt that the credibility of the Fund and in particular the integrity of the direct access system eventually stands and falls with the actual adaptation achieved through the funded measures. Thus, it was important to see that the AF in its 8th meeting had a consolidated discussion on evaluation and a Result-based management Framework (RBM). This can be understood as a comprehensive, life-cycle approach to management that integrates business strategy, people, processes and measurement to improve decision-making and drive change (CIDA). It focuses on results achieved, not activities carried out, improves learning and transparency.¹¹

The AF needs RBM

- (i) to prioritise steps for the Adaptation Fund to identify high-level Fund goals and objectives;
- (ii) to develop an AF strategic results framework with impact and outcome indicators;
- (iii) to develop: a Monitoring, Reporting and Evaluation Strategy – at Project, Portfolio, and Fund Levels.

However, the Board needs to take care (as was the case with the drafting of the fiduciary standards), that the hurdles are not set too high, so that the criteria of the RMB can be met by the countries. The Board should not over-burden the countries, and neither itself. The AF should use the simplest possible indicators to avoid complexities and complications, while at the same time reaching its objectives. The RBM therefore should be designed by the Secretariat for a unified approach to all projects in the portfolio, but leaving space for certain flexibility and taking into account that some projects might be submitted through MIE's, which already have monitoring systems in place.

An evaluation process is required in parallel to the RMB, because these two mechanisms go hand in hand: Monitoring of the RMB tells you if you are on track, and the evaluation tells you whether or not you are on the right track. Evaluation is therefore a 'reality check' on monitoring. Evaluation – ad hoc or episodic - analyses the validity of indicators and objectives, external functions, by means of multiple sources of quantitative and qualitative indicators. During the meeting, questions were raised about efficiency, effectiveness and relevance. The "Provisional Operational Policies and Guidelines for Parties to access Resources from the Adaptation Fund Board" say in paragraph 49 that "complete implementation will be subject to terminal evaluation by an independent evaluator selected by the implementing entity."¹² This means the cost of evaluation can be included within a project proposal. To deal with these, the AF should find areas of minimum agreement, or those minimal common areas that are the same across the portfolio. This might be a small, reasonable burden at the project level. But it took quite a while to develop these minimum elements. Without projects on the ground, it will be hard to identify them.

Recognized as an initial discussion, the debate could be considered quite fruitful. The Secretariat was tasked to work on this for the next meeting. The Board also needs to work on the overall objectives, derived from documents that it already adopted. Then it can look for some good indicators and the relationship between this work and evaluation. Possibly the Ethics and Financing Committee might be the best body to apply and draft this evaluation system.

AF is a signal to the future of Adaptation Funding

The Board members have developed a good working spirit in the Board. It has been quite an achievement to establish a proper framework to work within. The Board now has mostly good and clear procedures and policies, including strong fiduciary management standards. The AFB has

¹¹ For more Information on the RMB see Briefing on the 8th meeting of the Adaptation Fund Board <http://www.germanwatch.org/klima/af>; or AFB/B.8/8 Results Based Management Framework

¹² AFB/B.7/4 Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund Board. Paragraph 49, p. 12.



established committees, panels and anything else that is necessary to deal with Projects, Programs and entities in a good qualitative manner. In addition to its innovative features established in Bali and before – direct access, new revenue source, governance composition – the AFB also developed a very transparent working mode (webcast of meetings, public access to documents, etc.) and agreed to give special attention to the needs of the most vulnerable communities. While further challenges lie ahead, the progress made so far is important.

In this meeting, it became obvious again that the limitation of available funding creates specific challenges, in particular with regards to the prioritisation of allocating funds to countries. It is here where Copenhagen could make a significant difference, with developed country Parties delivering additional resources for near-term action into the Adaptation Fund which is an existing institution under the financial mechanism of the UNFCCC. It would be an important signal of trust and acknowledgement of the progress achieved, and could help to scale-up the implementation of adaptation in developing countries. What further decisions will be taken on the future of the AF – agreement on a second commitment period of the Kyoto Protocol, strengthening of CDM revenues through tight mitigation targets, expanding the resource base through other sources such as auctioning of AAUs, positioning of the AF in the larger setting of institutional arrangements – is very unclear yet. But with the progress made and the trust build the AF should be allowed to grow further and become more mature.