

Briefing Paper

Briefing on the 23rd Meeting of the Adaptation Fund Board

Alpha O. Kaloga with the contribution of David Eckstein

General background to the Adaptation Fund under 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 the adaptation of developing countries to negative impacts of climate change. As Germanwatch has been following all the meetings one can find elaborate information on the Adaptation Fund and the past meetings on our web page www.af-network.org. 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). If you would like to be part of AF NGO Network; please fill the Membership form. Last but not least, you can have a simple overview on the projects submitted to the AF through the Germanwatch Project Tracker at: af-network.org/4889.

Official background information and the preparatory documents for the 23rd meeting can be found at <http://af-network.org/adaptation-fund-board-meetings>. Most of the sessions are usually webcasted at www.unccd.int/live/gef/index.php.

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1 Executive Summary

From 20-21 March 2014, the 23rd meeting of the Adaptation Fund Board (AFB), the operating body of the Adaptation Fund established under the Kyoto Protocol, will take place in Bonn, Germany. In the two days prior to the meeting, the Board members will convene in their respective committees: the Ethics and Finance Committee (EFC) and the Project and Programme Review Committee (PPRC).

The 23rd AFB meeting will start with the transition to the new chair and vice-chair and the new EFC and PPRC chairs. Afterwards, the AFB will deliberate on the recommendations of the Accreditation Panel. The Accreditation Panel (AP) is in charge of the accreditation of National, Multilateral and Regional Implementing Entities. According to the recommendations of the AP, the Board will have to approve the accreditation of one National Implementing Entity (NIE) from Peru, the Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE), one Regional Implementing Entity (RIE), the Corporación Andina de Fomento (CAF) and one Multilateral Implementing Entity (MIE), the European Bank for Reconstruction and Development. These new accreditations would increase the number of NIEs to 16, MIEs to 11 and RIEs to four - for a total of then 31 implementing entities.

Secondly, the AF will have to decide, based on the recommendations of the PPRC, on the potential approval and endorsement of nine projects and concepts, all submitted for this meeting. The nine proposals have been submitted to the Secretariat by accredited IEs, with the total requested funding amounting to US\$ 42,450,265. Five of the proposals were concepts, with a total requested funding of US\$ 25,367,482 and four were fully-developed proposals, with a total requested funding of US\$ 17,082,783. Furthermore the PPRC will engage in the discussion related to the status of the pipeline. Noteworthy will be at this meeting, the discussion on options to finance approved MIE projects or programmes in the pipeline. Four MIE proposals are still in the pipeline, in addition to a new one forwarded for approval at this meeting. After successfully reaching its USD 100 million fundraising campaign in Warsaw, the AFB had instructed its Trustee to clear four of the eight projects in the pipeline, which brings uncertainty with regard to the funding of the remaining four projects in the pipeline. The discussion here could become a political one, as Board members will be invited to explore different funding options as proposed by the AF Secretariat in the corresponding document.

The EFC will consider among others, the evaluation of the Fund, a policy to deal with multiple executing entities and core indicators for its Result Management Framework. With respect to the evaluation of the Fund, it is important to highlight here, that the evaluation of the AF is different from the second review of the Fund. The later is informed by the first. With respect to the option with multiple executing entities, the EFC will consider the case, in which additional execution or management fees may be charged - above the Board cap - for implementing and management fees. This happens in projects, where some components such as capacity building or knowledge sharing are undertaken by multiple executing entities, resulting to additional management fees.

In addition, the Board will discuss execution arrangements for its readiness activities. Background to this issue is the growing cognition by the AF Board that there is an obvious need for a range of capacity enhancement measures, ranging from support in the identification of potential NIEs within a country to strengthening the appraisal, design, implementation, and monitoring of adaptation projects and programmes undertaken by NIEs

and RIEs. Interesting will be also the strategic discussion on objectives and further steps of the Fund. This discussion will be informed by the fundraising task force of the Fund. After the success of the first fundraising campaign, members of the Board are invited to explore new strategies to reach out to the donor countries for additional contributions to the Fund.

This briefing paper will highlight and summarise the key issues on the agenda of the 23rd meeting of the AFB, and outline some further actions to be taken by the Board.

2 Report of the Accreditation Panel (AP)

The Accreditation Panel (AP) of the AFB is in charge of reviewing accreditation applications for National Implementing Entities (NIEs), the key element in the AF's direct access approach, as well as for Multilateral Implementing Entities (MIEs) and Regional Implementing Entities (RIEs).

Since the last meeting, the AP has been reviewing and scrutinizing both new and pending applications. In doing so, it has held teleconference with, and conducted field visit to some applicants, if their applications were seen as strong enough to have prospect for accreditation.

For this meeting, the AP received two new accreditations in addition to the seven NIE applications, three RIEs and two MIEs. Ten applications (seven for potential NIEs, two for potential RIEs and one for a potential MIE), are still under review by the Panel:

2.1 Accreditation of Implementing Entities

After due consideration and appraisal, the Accreditation Panel recommends to the AF to accredit one NIE, the Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE), one RIE, the Corporación Andina de Fomento (CAF) and one MIE, the European Bank for Reconstruction and Development (EBRD). The number of accredited IEs has increased to 16 NIEs, four RIEs and 11 MIEs.

2.1.1 Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE)

The application was submitted on 18 August 2012 for the Panel's consideration at its eleventh meeting. After first review, the AP concluded that the applicant has the potential to be accredited, despite some gaps to be addressed. It therefore decided to undertake a field visit, in order to appraise firsthand the project management system and control. The finding of the field visit was discussed in the AP and concrete recommendations were made to the applicant, how to address the remaining gaps, in order to meet the fiduciary standards. The applicant then undertook the necessary action as suggested by the AP and submitted to the Panel the requested information. This was followed by a call conference, during which the applicant further explained and provided the required information related to the outstanding issues. After deliberation and due consideration of the application, the AP decided to recommend the accreditation of PROFONANPE as a NIE.

PROFONANPE is based in Lima, Peru. It was established in 1992 by a government decree as a dedicated administrator of funds for the protection of biodiversity. Though it was created by a Government decree, PROFONANPE is not a government organisation. Its focus areas have been biodiversity and conservation. PROFONANPE is managed by a Board of Directors with nominees from the government, private institutions and civil organisations.

2.1.2 Corporación Andina de Fomento (CAF)

The accreditation application of the CAF has been submitted on 06 August 2012. After first review, the AP was of the view that the application is strong, despite a number of gaps to be resolved, before final accreditation. Since then, there was an ongoing exchange between the Panel and the applicant. Main issues related to the accreditation were outlined in some documents that were classified as confidential by the applicant. Thus, the entity was not able to provide the information on time. These concerns were addressed, however, in frame of the field visit, conducted by the Secretariat and the Panel at the expense of the applicant. The field visit actually enabled a Panel expert together with a member of the secretariat staff to examine the confidential documentation on-site and follow up on open items, which were identified in the review process. Afterwards, CAF took appropriate steps to put in place the policies, systems, and procedures to deal with financial mismanagement and other forms of malpractice. Accordingly, the Panel recommends the CAF as Regional Implementing Entity.

CAF is a regional development cooperation, settled in Central and Latin America, that is transforming itself into a Latin American Development Bank. CAF started operations in 1970 and specializes on large infrastructure lending such as clean water projects and road structures. It is an efficient investment bank which is shown by the administrative cost to loans ratio of approximately 6%.

2.1.3 European Bank for Reconstruction and Development (EBRD)

The submission of the EBRD is the oldest among the applicants - submitted in September 2011, after the first call of submissions for accreditation by the Board. A list of questions on a number of aspects regarding the application was forwarded to the applicant, after the first review by the AP. However, the additional documentations requested by the Panel were classified by the EBRD as confidential, hence difficult to share externally. This has led to a delay in the accreditation process of this application, as EBRD was not ready to disclose this confidential information on time.

As in the case of CAF, EBRD invited the Panel and the Secretariat to undertake a field visit at the applicant's expense. During the field visit, which occurred in December 2013, all required documents classified as confidential, but inalienable for the assessment of the fiduciary capacity, were put at the disposal of the representative of the Secretariat for review. After due appraisal, the AP is now in the position to recommend the accreditation of the EBRD as MIE.

EBRD was established as a regional development bank following the collapse of the Soviet Union and the associated political changes that took place in Eastern Europe. The Bank, in its lending, encourages co-financing which significantly increases the resources for needed projects beyond their own funding.

2.1.4 NIE 043

Last but not the least, the AP recommends the Board not to accredit NIE043¹. Although, after reviewing the application of NIE043 in 2012, the Panel was of the view that NIE043 had the merit of being accredited; requesting additional documentations in order to conclude the accreditation process. NIE043 was, however, not able to submit the requested documents to the satisfaction of the Panel.

2.2 Other applications under review

Ten applications (seven for potential NIEs, two for potential RIEs and one for a potential MIE), are still under review by the Panel. The screening process of these applications is ongoing but not yet finalized or concluded. Therefore the Panel is not in the position to make any response with respect to their accreditation.

The Panel has initiated for the first time an Internal Control Framework, to discuss different elements of the fiduciary standards. This is due to the perception by some members and experts of the Panel that it could better articulate and explain how to advance the understanding of the applicants on fiduciary standards, as to maximize the chance of accreditation. In doing so, the AP has prepared a brief guidance on its Internal Control Framework for applicants and accredited entities. This document will be made available on the AFB website.

This recognition is a manifestation of the difficulty by several countries, which despite the willingness to pave the direct access modality are still reluctant to submit their accreditation or master the accreditation process. There have been several attempts by the Secretariat to assist eligible countries to achieve the accreditation of their national institution. In addition, the regional workshops have been designed to familiarise eligible countries with the fiduciary requirements, the accreditation tool-kit or the recent readiness activities for accreditation of NIEs. The Panel is of the view that there is still room for advancements of the understanding of country applicants. It is important that the work undertaken here is fed into the readiness programme of the AF. The Internal Control Framework should be designed, based on the experience of the AP and the Secretariat, as not to duplicate efforts, but rather provided tailored and user-friendly tools, that will help countries throughout the accreditation process.

2.3 Issues related to conditional accreditation

Conditional accreditations were introduced by the AFB to grant strong applicants an accreditation, subject to additional reporting requirements or structural institutional change. So far there are two types of conditional accreditations by the AF. The first group included conditions that had to be met prior to receiving funding from the Fund. A second required additional reporting. While the first type of conditional accreditation presumes that the accredited entity should address all remaining gaps, before the submission of any project, the second additional reporting is given, when an applicant meets the fiduciary standards but may have limited experience demonstrating how the standard works in practice.

¹ For purposes of confidentiality, only the assigned code is used to report on the status of each Implementing Entity's application.

The document provides an overview of progress to date on entities accredited with conditions: six NIEs (Senegal, Benin, Belize, Rwanda, Jordan and Kenya), three MIEs (United Nations Environment Programme (UNEP), International Fund for Agricultural Development (IFAD), African Development Bank (AfDB)) and one RIE (Banque Ouest Africaine de Développement (BOAD)). The document includes in its Annex V a useful table on condition of accredited entities as of March 20th.

A lecture of the document shows that not only NIEs are accredited subject to conditional requirements, but also MIEs. The discussion here should on the one side focus on the extent in which conditional accredited IEs have been working to meet the condition. Also important will be to find out, how these conditions are affecting the implementation of the entrusted money. In addition, it is our view that the AP should draw lessons from its accreditation process and see how far the conditions affect the performance of IEs. Along this line, it is also time for the Panel to consider the issue of re-accreditation of the accredited entities, as the accreditation is time bound and valid for five years.

3 Report of the fourteenth meeting of the Project and Programme Review Committee

The Project and Programme Review Committee (PPRC) is responsible for assisting the Board in tasks related to project and programme review and implementation in accordance with the Operational Policies and Guidelines and for providing recommendations and advice to the Board thereon². Thus, at the upcoming meeting, the AP will consider the project submitted based on the recommendations emanating from the technical review by the Secretariat on approval status of the submitted project proposals, which are based on made by Secretariat. Furthermore, the PPRC will discuss issues related to the project/programme pipeline as well as the intersessional review of proposals.

3.1 Review of project proposals

This part gives an overview of the submitted projects to the Secretariat that underwent an initial screening process by the Secretariat. It contains no recommendation on approval or endorsement of the proposals, as this is not disclosed, until the PPRC formulates its recommendation to the Board. Nine proposals have been submitted to the secretariat by accredited IEs, with the total requested funding amounting to US\$ 42,450,265. Five of the proposals were concepts, with a total requested funding of US\$ 25,367,482 and four were fully developed proposals, with a total requested funding of US\$ 17,082,783.

After initial comments by the Secretariat, the budget requested for some proposals were altered by proponents following the initial review, which made up a total requested funding of the nine proposals amounting to US\$ 42,053,454, including US\$ 24,848,397 for the five concepts, and US\$ 17,205,057 for the four fully developed proposals. The proposals included US\$ 3,208,363 or 8.3% in Implementing Entities management fees³ and US\$

² See document AFB/B.6/6 on the Adaptation Fund Board committee

³ The implementing entity management fee percentage is calculated compared to the project budget including the project activities and the execution costs, before the management fee

\$3,082,980 or 7.9% in execution costs⁴. Only a small size project by India requested an execution fee of 9.6 % exceeding the execution fee cap of 9.5%.

One proposal was submitted by a MIE. The World Food Programme (WFP) submitted a fully-developed project document for Indonesia. One concept has been forwarded to the Secretariat through a RIE (the Pacific Regional Environment Programme (SPREP)) for the Federated States of Micronesia. Three concept documents and two fully-developed proposals were submitted by the NIE for India (National Bank for Agriculture and Rural Development, NABARD). While the NIE for Morocco (Agence de Développement Agricole, ADA) submitted one concept, the NIE for Kenya (National Environment Management Authority, NEMA) submitted one fully-developed project/programme document. Seven out of the nine submitted proposals were regular projects and for the first time two small size projects not exceeding US\$ 1 million.

Noteworthy in this document, is that the AF screened for the first time proposals against its Environmental and Social Policy.

Country	IE	Financing requested (USD)	Stage	IE Fee, USD	IE Fee, %	Execution Cost (EC), USD	EC, % of Total
India	NABARD	\$1,227,000	Project concept	\$96,000	8.49%	\$107,000	9.46%
India	NABARD	\$1,737,864	Project concept	\$136,146	8.50%	\$152,163	9.50%
India	NABARD	\$2,533,533	Project concept	\$198,480	8.50%	\$221,830	9.50%
Morocco	ADA	\$9,970,000	Project concept	\$781,060	8.50%	\$872,950	9.50%
Micronesia	SPREP	\$9,380,000	Project concept	\$711,875	8%	\$293,125	3.38%
Kenya	NEMA	\$9,998,302	Fully developed programme document	\$720,217	7.76%	\$804,948	8.68%
India	NABARD	\$590,602	Fully developed project document	\$46,268	8.50%	\$52,450	9.64%
India	NABARD	\$620,487	Fully developed project document	\$48,610	8.50%	\$54,366	9.51%
Indonesia	WFP	\$5,995,666	Fully developed project document	\$469,707	8.50%	\$524,148	9.49%
Total		\$42,053,454		\$3,208,363	8.38%	\$3,082,980	8.74%

Table 1: Project proposals submitted to the 23rd Adaptation Fund Board meeting

3.2 Joint Report by the Secretariat and the Trustee on the Status of the pipeline:

Background to this document is the decision of the AFB that "the cumulative budget allocation for funding projects submitted by MIEs, should not exceed 50 per cent of the total funds available for funding decisions in the Adaptation Fund Trust Fund at the start of each session. The cumulative allocation would be subject to review by the Board on the recommendation of the Project and Programme Review Committee at subsequent sessions"⁵. To operationalise this decision, the AFB set up a pipeline for approved proposals awaiting funding decisions, as the funding request by MIEs exceeded the 50% cap. The projects set in the pipeline are cleared according to following criteria:

1. Date of recommendation by the PPRC;
2. Submission date;
3. lower "net" cost

⁴ The execution costs percentage is calculated as a percentage of the project budget, including the project activities and the execution costs, before the implementing entity management fee.

⁵ Decision B.12/9

At its 21st meeting, the AFB had placed eight approved proposals by MIEs in the pipeline, for which there was no funding, due to the 50% cap. Before that meeting, the Board was already able to intersessionally approve one proposal in the pipeline, which was a project of Guatemala submitted by the UNDP.

The receipt of funding at COP19 in Warsaw, a result of the Funds fundraising campaign, allowed the Board to intersessionally approve four additional proposals in the pipeline for a total value of US\$ 25,847,199. The amount required to fund the remaining four project/programmes in the pipeline is US\$ 32,354,480.

Order of priority	Country (MIE)	Recommendation date	Submission date	Net budget, US\$ M	Funding requested, US\$ M	Cumulative, US\$ M
1	Belize (WB)	4/4/2013	1/28/2013	5.53	6.00	6.00
2	Ghana (UNDP)	4/4/2013	1/28/2013	7.64	8.29	14.29
3	Mali (UNDP)	7/4/2013	4/24/2013	7.86	8.53	22.82
4	Nepal (WFP)	10/31/2013	8/26/2013	8.78	9.53	32.35

Table 2: MIE pipeline

For this meeting, a proposal by the World Food Programme acting as MIE has been submitted to the AF as a fully developed proposal, after the project concept has been endorsed. This proposal will be considered for approval at this meeting. Should this project be approved, it will be put in the pipeline awaiting additional resources.

The financial constraint of the AF is becoming desperate, when one bears in mind that, according to the Trustee projection for this meeting, the estimated funding available would allow less than US\$ 30 million in new project and programme funding approvals annually to 2020, not taking into consideration amounts required for the administrative budgets of the Board, its secretariat and the Trustee. This implies that without additional contributions or an amendment to the 50 per cent cap on projects implemented by MIEs, it may not be possible to fund those projects awaiting funding in the year to come.

With regard to the 15 accredited NIEs, five have secured funding to implement their projects after approval by the Board. Five have also received a Project Formulation Grant, after their concepts have been endorsed by the Board. It is expected that the remaining five will submit at least their concept note and will therefore take advantage of the Project Formulation Grant. In addition, nine NIE and four RIE applicants are under review by the Accreditation Panel. It is very likely that some of them will be accredited during the course of this year. This also may have further implication on the financial status of the AF.

3.3 Options for intersessional review and approval of project and programme proposals

Background to this document was the proposal of the outgoing chair, who pointed out that assuming that the number of project submissions will be more or less the same like in 2013, and given the financial constraint of the Fund, it will be advisable to reduce the number of Board meetings per year from three to two meetings. In its explanation, the Chair was of the view that the Board now had good administrative procedures in place to allow it to take decisions intersessionally. Having discussed the proposal and the implication of the diminution of the number of meetings, the Board:

- requested its Secretariat to present to the PPRC, at this meeting options for intersessional review of, recommendation on, and approval of, project and pro-

gramme proposals by the secretariat, PPRC and Adaptation Fund Board, respectively;

- and to continue considering the number of meetings per year on a periodic basis, in accordance with the Rules of Procedure of the Board⁶.

At the 13th meeting of the PPRC, the Secretariat presented the document⁷ containing two options for the intersessional approval of project and programme proposals and an analysis of the feasibility of the two options. In the subsequent discussion on the matter at the Board meeting, despite the recognition by the PPRC of its active role in the process, the Committee failed to give clear guidance to the Secretariat on some issues raised in the document. These issues are related for instance to the amount of time required for the intersessional review process and the types of proposals that could be reviewed. After consideration of the recommendation by the PPRC, the Board:

- a) Recognized the need for intersessional review of project and programme proposals by the secretariat and PPRC, and approval of proposals by the Board, in order to preserve the opportunity for IE to present proposals at regular intervals; and
- b) Requested the secretariat to prepare a revised options paper on the intersessional review and approval of project and programme proposals, including the process for such reviews and the types of proposals that could be reviewed intersessionally, for consideration by the PPRC at its fourteenth meeting⁸.

This part, hence, presents and analyses the option proposed by the secretariat for intersessional review of projects.

From the outset, it is important to remember that the review and approval process of projects or programmes is outlined in the Operational Policies and Guidelines⁹ for Parties to access resources from the Adaptation Fund (OPG) approved by the AFB. According to the rule of procedures of the AF, decisions by the board could also be taken intersessionally, if it is deemed as necessary, in order not to disturb the working modality of the Board. The decision on the proposal should be forwarded to the Board members for approval on a non-objection basis. This means in other words, that the AFB basically can take decisions, unless a clear objection is expressed by one of its members.

3.3.1 Process of intersessional decision

The current practice of the project and programme review process foresees that a proposal is submitted to the AF no later than nine weeks before each board meeting¹⁰. The arrangement for the review of a proposal is made up of technical review by the Secretariat, which is presented to the PPRC no later than one week before the committee meeting. This is followed by in-person consideration of the recommendation of the Secretariat by the PPRC members, who then make final recommendations to the Board on approval or not.

One of the differences between intersessional decisions and considerations by the Committee is that in the intersessional considerations, members do not have a chance to deeply discuss each proposal face-to-face, but rather the decision is made by using web

⁶ Decision B.21/27

⁷ AFB/PPRC.13/13

⁸ Decision B.22/15

⁹ https://www.adaptation-fund.org/policies_guidelines

¹⁰ Para 44 and 46 of the Operational Policy and Guidelines of the AF

tools such as email exchange, video conferences, etc. Hence, an intersessional consideration of projects is going to consume more time than the regular face-to-face meeting. The document proposes a week time frame to allow members of PPRC to consider the technical findings of the Secretariat on the proposals and make comments thereon¹¹. Soon after, the Secretariat will compile the comments received and send the revised review documents for comment and final endorsement on a no-objection basis. In cases in which there is no objection, the recommendation by the PPRC will be posted on the AF website and circulated to the Board members for approval in compliance with its rule of procedure. In contrast to the regular project approval cycle of nine weeks, the intersessional consideration will last 13 weeks. Bearing this in mind, the Secretariat suggests to undertake only one intersessional decision, between the Fund's first and second meeting of the year. Therefore, being able to arrange both an intersessional review cycle and the regular review cycle between two regular Board meetings would require that the time between the meetings would not be less than 24 weeks (1 + 13 + 1 + 9 weeks).

3.3.2 Options for intersessional decisions and an analysis of their feasibility

This part will deal with the types of proposals to be reviewed intersessionally and in face-to-face meetings by the PPRC. Despite the possibility of virtual commenting, it is obvious that taking decisions intersessionally may decrease the effective exchange between members compared to a face-to-face meeting. Bearing this reality in mind, the question will be which kind of decisions can be taken intersessionally and which funding decisions need to be undertaken in the regular board meeting and which not. Project proponents can submit their proposal following two distinct approval processes. A concept note, which once endorsed is further developed taking into account the recommendation by the Board - with respect to the elaboration of the fully developed proposals - and fully-developed proposal seeking funding decisions. The concept stage is a voluntary step, as proponents may opt for a one-step process and directly submit a fully-developed proposal, while the fully developed proposal is a necessary step that each project should undergo, in order to get funded¹². Hence the Secretariat recommends that since the fully developed proposal is a funding decision, it should hence be considered in a regular meeting.

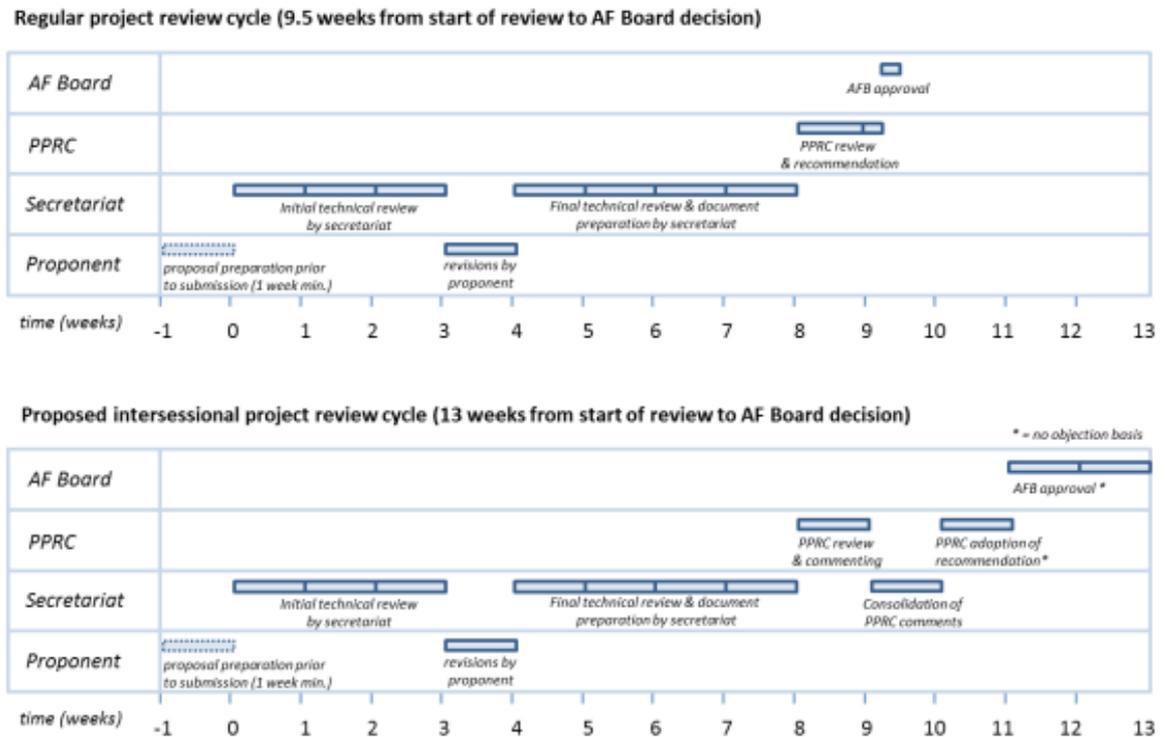
Intersessional proposals are made public on the AF website for public review and comment, similar to proposals submitted to regular meetings, and comments from stakeholders would be similarly incorporated into the respective Board documents. However, the participation of observers are limited in the intersessional process.

Therefore, the Committee may consider whether it is necessary to arrange, as a general principle, at least one face-to-face opportunity for the Committee members to discuss each project proposal. A face-to-face discussion has different pros and cons, when it comes to their applicability in the two different steps of the project approval process. Discussion at the concept stage emphasizes the possibility for the PPRC to provide guidance to the proponent, whereas exchanges at the fully-developed proposal stage may be more significant for making a final recommendation on project approval intersessionally, and the Committee requested that it be revised to clarify those issues and take into consideration the deliberations of the PPRC at its fourteenth meeting.

¹¹ The committee members would be able to familiarize themselves with the proposals for ca. 4 four weeks before receiving the final technical reviews, as those proposals are posted on the Adaptation Fund website.

¹² It is important to mention here that small size proposals (less than USD 1 million) are submitted as fully developed proposal.

Figure 1: Comparison of the existing face-to-face review process and that of the proposed intersessional review process



The Secretariat proposes four selected options for intersessional review as described below:

- a) Enabling of intersessional review of any project submitted to the AF
- b) Requiring that only the first submission is discussed in a face-to-face meeting and enabling intersessional submission later on
- c) Requiring that fully developed proposals are discussed in a face-to-face meeting and that the first submission of each of the two stages are discussed in regular meetings

As outlined above, there is a danger that some delays may occur, as face-to-face meetings will be biannual compared to three meetings a year, as it was standard practice by the Board.

Option	Average additional delay per proposal compared to three regular meetings annually in 2012-13
(a)	None
(b)	1.3 months
(c)	1.3 months
(d)	1.3 months (1-step) or 2.7 months (2-step)

The option assumes that the submission will be made randomly, whereas planning and submission by the proponents are reduced. The additional average delay time can be contrasted to the actual average development times presented in the Adaptation Fund Annual Performance Report for Fiscal Year 2013 (AFB/EFC.13/3): for one-step proposals ca. 9 months (FY12), for two-step proposals ca. 12-13 months (FY12, FY13).

The Secretariat recommends to the PPRC to consider the following elements – as stipulated below – and recommends the adoption by the AFB:

- i. Arrange one intersessional project review cycle annually, during an intersessional period of 24 weeks or more between two consecutive Board meetings
- ii. Decide on the types of proposals that could be considered during such an intersessional review cycle, such as either:
 - All proposals; or
 - All proposals that have been already previously discussed by the PPRC in a regular meeting; or
 - All proposals except the first submissions of fully-developed proposals; or
 - All proposals except the first submissions of project concepts and the first submissions of fully-developed proposals;
 - Request the secretariat to intersessionally review the types of proposals selected.

The AF NGO Network welcomes the decision of the Board to reduce its meeting from three to two meetings per year. This is a strong signal that the Board is attempting to ensure cost-effectiveness in its operation. However, it is important to ensure that the substance in the exchange between the members of the PPRC during the consideration of projects will not be affected by intersessional decisions. The options presented by the Secretariat in this document are a good basis to strike the balance between cost-effectiveness and a decision-making process.

In our view, the Board has good administrative procedures in place to allow it to take decisions intersessionally. However, there are some concerns that need to be addressed, when the Board will deliberate on this matter.

First, in our view, the differentiation between a concept and a fully developed proposal matters a lot. Concept proposals, regardless whether endorsed or not, are accompanied with recommendations for the development of the full proposal, while fully developed proposal are elaborated proposal seeking funding to start implementation of projects. This means, here the AF or the PPRC has not a big room to amend the proposal, as not to approve it and subsequently attached its remarks to its funding decisions, which need to be addressed by the IE in order to get funding.

Second, the AFB is the operating entity of the Adaptation Fund and is the supreme body of the fund, which is accountable and under the authority of the CMP. Along this line funding decisions are one of the main tasks of this body. On the other hand the accountability of the AFB to the COP is related to funding decisions and eligibility criteria. It is therefore very difficult for the Board to delegate such a core function to any of its Panel, Committee even the Secretariat.

Therefore, the AF should retain the funding decision of any proposal. This means that the AFB should approve at its regular meeting all fully developed proposals, as proposed in one of the options by the Secretariat in the document.

Further, the Board can of course take intersessional decisions on project concepts, by using the usual project review process and the option on intersessional decision proposed by the Secretariat. Here, the process should be shaped as to allow a meaningful transparent process and the inclusion of any stakeholders interested in any particular proposal.

In terms of a process for the intersessional review, first, it should be acknowledged that although new technology tools allow technically the participation of everybody, there is no guarantee that it ensures effective and in-depth consideration by all members. In-depth consideration requires additional work for the members at home, which some time is difficult to accomplish. Experience has shown that new technology systems, such as internet

access or conference calls, are not always granted in all countries. Since developing countries represent the majority of the Board as well as the Committee members, one should definitely weigh-in this fact. Furthermore, beyond the accessibility to get engaged in a review process, there is also no guarantee that Board members will dedicate sufficient time to carefully appraise the proposal. However, despite the impediments mentioned above, and given the need to have two meetings instead of three, the Board has to find a way to take intersessional decisions. This should however only be undertaken, as far as it will not affect the effective proceeding of its tasks.

Based on this comment, the AF should allow intersessional decisions for concept notes but not for fully developed proposals. With regard to small size proposals of up to USD 1 million, the Board could also allow funding decisions, as far as the process towards approval has been meaningful as described by the document.

With regard to the participation of CSOs, particularly in project areas, the AF Secretariat should revise its communication strategy, when it comes to the intersessional decisions.

4 Report of the fourteenth meeting of the Ethic and Finance Committee

According to its terms of reference, the EFC is responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit.

4.1 Option for an evaluation of the Fund

4.1.1 Review of the Adaptation Fund

According to the interim institutional arrangement of the AF, the interim Secretariat, which is the GEF and its interim Trustee, the World Bank, will be reviewed after three years.¹³

In 2010, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) decided to undertake the review of the Fund at its seventh session and every three years thereafter.¹⁴ At the request of the CMP, the Board commissioned a performance review of the interim secretariat and interim trustee¹⁵ that was finalized and submitted to the CMP for consideration in 2011. The initial review of the interim arrangements of the Fund was completed by the CMP in 2013 (Decision 4/CMP.8). The CMP decided to undertake the second review of the Fund in accordance with the terms of reference (ToRs) contained in the annex to Decision 2/CMP.9.

¹³ decision 1/CMP.3, paragraph 32

¹⁴ decision 6/CMP.6, paragraph 1

¹⁵ Review of the interim arrangements of the Adaptation Fund, Rouchdy 2011

Objective

The objective of the second review is to ensure the effectiveness, sustainability and adequacy of the operation of the Fund, with a view to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) adopting an appropriate decision on this matter at CMP

Scope

The scope of the second review of the Adaptation Fund will cover the progress made to date and lessons learned in the operationalization and implementation of the Fund, and will focus on, inter alia:

- (a) The provision of sustainable, predictable and adequate financial resources, including the potential diversification of revenue streams, to fund concrete adaptation projects and programmes that are country driven and based on the needs, views and priorities of eligible Parties;
- (b) Lessons learned from the application of the access modalities of the Adaptation Fund;
- (c) The institutional linkages and relations, as appropriate, between the Adaptation Fund and other institutions, in particular institutions under the Convention;
- (d) The institutional arrangements for the Adaptation Fund, in particular the arrangements with the interim secretariat and the interim trustee.

Box 1: Extract of the TORs for the second review of the Adaptation Fund (Decision 2/CMP.9)

It is expected that the overall evaluation of the Fund will inform this review, as well as the future positioning of the Fund. In the document, the Secretariat presents a range of studies undertaken by other actors on the AF's access modality, its governance structure as well as a comparative analysis with other funds. However, these studies are undertaken to meet the interest of institutions that carry them out. Nonetheless they can be a useful source of information that should inform the upcoming review.

In the document on the governance and organization of the evaluation, the Secretariat presented the evaluation practice by the OECD, when it comes to the evaluation of international institutions. It is standard practice that during the evaluation, a quality control and assurance throughout the evaluation is assured. The quality control should be undertaken throughout peer-reviewers such as an advisory group set up for the evaluation sake, to ensure ownership and mutual accountability for evaluation results. A multi-stakeholder quality assurance panel to implement the selection process, which later could review the evaluation, constitutes a mechanism to increase ownership. This is one of the premises exemplified by the Adaptation Fund. This panel could further develop criteria for selecting the evaluation team from a group of possible institutions.¹⁶ In that regard, the overall options on how quality assurance can be ensured for the overall evaluation of the Fund include:

- Option A: Evaluation specialist from a donor or institution's independent evaluation office, adaptation specialist from a think-tank, development organization or academia, and evaluation and adaptation specialist from civil society supporting the Fund.
- Option B: Evaluation specialist from a donor or institution's independent evaluation office, adaptation specialist from a think-tank, development organization or academia and a Board member.

¹⁶ The AF clearly embodies the principle of ownership by developing countries, giving them a majority on its Board. This ensures that the countries most affected by climate change impacts can participate more fully in decision making, and remain assured that funds will be dispersed effectively and transparently. The fact that developing countries have direct access to Fund resources also enhances this sense of ownership" (p 1, IIED 2009)

The document attempts to outline main possible options for conducting an overall assessment for conducting an overall evaluation. These options are not meant to be a universal compilation of options available for the overall review of the Fund, but rather are the result of research reviews against best practices and international standards.

Basically, the results of the analysis and main options for evaluation are set after a preliminary evaluability assessment. An evaluability assessment is undertaken before the evaluation itself and helps to check whether the AF is evaluable, given its young history¹⁷.

For the review of the AF, its Secretariat has identified four main options, which are presented below with regard to the objective, scope and time frame, estimate scheduled and pros and cons of the evaluation. The cost of any of the evaluation options is entirely contingent upon the scope and nature of the evaluation activities, evaluation team member skills, methodology, and constraints of the analysis.

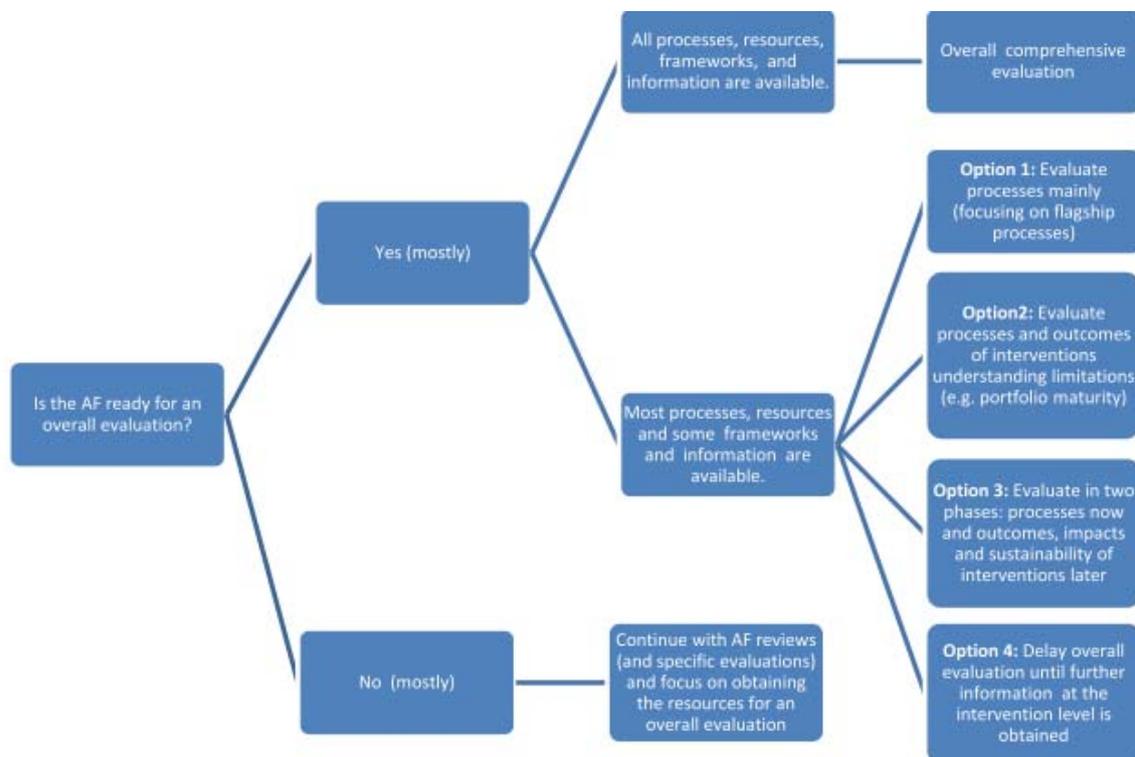


Figure 2: Decision with three main possible options (options 1 through 3)

Option 1: Process Evaluation

This option intends to assess the internal dynamics of the funding institution by giving due attention to the Fund flagship process such as accreditation process and access modality, transparency and governance.

The objective of this option is to look at "whether the operational design and logic of the Fund corresponds with the actual operations, what have been the results (outputs) of operations and what are the key lessons that can be drawn for the future operation of the Fund"¹⁸. This evaluation will cover the first four years of the Fund until the date of the

¹⁷ The Forest Carbon Partnership Facility (FCPF) was evaluated two years after its operationalization. The evaluations of the LDCF, SCCF and FCPF were limited by the lack of maturity of their portfolios. Analysis based on: DFID 2013, UN Women Fund 2009, OJJDP 2003

¹⁸ AFB/EFC.14/5 p.4

evaluation. The scope covers progress so far achieved in its business. Here, criteria will be drawn from OECD/DAC Evaluation criteria such as effectiveness, efficiency, relevance, impacts and sustainability.

The evaluation under this option will last between five and six months and will have an approximate cost between USD 190,000 and 200,000. The advantage of this option is that its findings will likely be issued before the next CMP and therefore allows a decision thereon. It will swiftly inform the AF on its operation and could hence allow an adjustment of the AF operation if deemed as necessary. The disadvantage lies in the limited information. Given the early stage of implementation of AF funded projects, this option will only inform the decision making process and activities at the Fund level and will not be able to cover the interventions funded by the Fund.

Options 2: Limited Overall Evaluation

This option assumes the limited information available at the AF, given its young portfolio. It will hence cover process and performance evaluation of the internal dynamics of the funded entities as well as impacts of the projects where possible. It is divided into two phases. The main objective here is to assess the progress towards the Fund's objectives, the major achievements and lessons learnt from Fund operation and funded projects. It is guided by the question "whether the operational design and logic of the Fund corresponds with the actual operations, what have been the results (outputs) of the operations and what are the key lessons that can be drawn for the future operation of the Fund?"¹⁹.

The second phase includes a review of long-term results of the Fund by answering questions like: "Have anticipated results been realized?" or "What are the achievements of the Fund since it was established and what are the key lessons that can be drawn for the future?"²⁰

This evaluation will last between five to six months and will cost between US\$ 300,000 and 350,000. The advantage of this option is, like in the first option, that it could inform the second review of the Fund. In the first phase few resources are needed given the scope of the first phase evaluation. The information on the overall review of the fund will be available for the second review. In the second phase there is a potential of undertaking an in-depth and overall review, as few projects under implementation will be finalized in the time of the second review.

Again, the weakness lies in the scarce information available at least for the first phase. There is also a limited time to comprehensively undertake the first phase evaluation, if the findings have to be fed into the second review of the AF. In addition, there is a high transaction cost, due to the two separate procurement processes for the two phases.

Option 3: Delayed Overall Operation

When the Board decides to use this option, it should be aware of the delay and gaps between the first phase and the second phase, which is undertaken once the fund becomes mature. The core of the evaluation would cover the first four years of the Fund's operations, from 2010 until the launch of the evaluation. The evaluation should cover ongoing and completed processes and interventions. The evaluation should also examine briefly developments since the time the Fund was established to understand its evolution. The cost of this option is estimated between US\$ 320,000 and 350,000.

¹⁹ *ibid.* p.6

²⁰ *ibid.* 7

The strength of this option is that it allows to include long-term impacts of the Fund, as many projects will be evaluated and useful lessons can be drawn from. It enables a longer period to prepare the evaluation and to inform the evaluation through additional diverse sources of information.

The threat is that the information will not be available for the second review of the Fund. The delay will force the AF to postpone any adjustment of its policy as well as to position itself in a strategic manner as to better encounter the evolving financial mechanism.

Given the option outlined above, in our view, the main question will be to find out, which of the options is of added value for the Fund as well as how the expected outcomes could help the Fund to affirm and aver the role of the AF under the instrument of the financial mechanism of the Convention. The first review of the AF is just being finalized. Of course, one should understand the necessity to finalize the review of the AF at the same time as other operating entities of the financial mechanism, in order for the COP to make a decision that will in the longer term rationalize the financial mechanism.

Given the young history of the AF and particularly the lack – as of today – of completed projects funded by the AF, it is critical to design the evaluation process as to the impact or the delivery of its funded projects. The institutional arrangement of the AF has been thoroughly evaluated during the first evaluation of the Fund. The Second review should therefore go beyond.

In our view, there is a difference between the second review of the AF and its evaluation. The later is a good mean to inform the review, but not the single one. The AF NGO Network tends for the second option, which allows a two-phased review of the Fund. The first phase which addresses the process and performance evaluation of the internal dynamics of the funded entities as well as impacts of the projects where possible. This could be undertaken now and has the potential to even inform the review of the Fund. The second phase will be initiated as soon as some projects are completed and some projects have been mid-term evaluated.

We see the findings of the evaluation rather as a source of information for the Board and its Secretariat, rather than as a mean of information for the CMP. The advantage of this option is that it allows, during the second phase, to spend some time on the findings of the first evaluation, with the view of assessing to which extent the AF has been implementing the first recommendation in addition to the evaluation of the intervention financed by the Fund.

4.2 Multiple executing entities and implementing partners

4.2.1 The GEF Small Grant Programme

The GEF Small Grant Programme was established in 1992²¹ to develop community-led and community-owned strategies and technologies for reducing threats to the global environment – including adaptation to climate change – whilst addressing livelihood challenges. The "small grants" is allocated to a maximum of USD 50,000, although in practice the average grant amount is in the USD 20,000 to USD 25,000 range²². The idea was to allow communities to access to funding for the development of their capacity as

²¹ <https://sgp.undp.org/>

²² A "strategic projects" window has recently been added for grant-making up to a maximum of \$150,000 to allow for scaling up and to support initiatives that have to cover a large number of communities within a critical landscape or seascape

well as to serve as pilot activity such as the introduction of new methodology and technology in high risk areas.

Small grants allow vulnerable communities to access an appropriate level of funding as they develop their capacity, as well as allowing the programme to take measured risks in testing new methods and technologies and to innovate as needed.

The finding of the independent Evaluation Offices of the GEF recognizes in its recently released evaluation report that "non-grant" activities of management cost were calculated to have a range from 27 per cent (under the third phase of SGP) to 25 per cent (under the fourth phase of SGP) to 26 per cent (under the latest, fifth phase of SGP). Furthermore, a Technical Paper on the Management Costs of the Small Grants Programme, prepared under the overall evaluation of the SGP in 2008, found that during its third operational phase, the SGP's reported program management costs were about 25 per cent in FYs 2005 and 2006. After factoring in the project fees paid by the GEF to UNDP for hosting the Programme, this figure increased to 28 per cent. When dedicated project grants aimed at addressing programme management issues were included, the proportion rose to 31 per cent.

Nonetheless, the report underpins that "the level of management costs should be established on the basis of services rendered and cost-efficiency rather than on the basis of an arbitrary percentage."²³ This is due to the fact that non grant activities having a critical backing role, when it comes to ensure effectiveness of project and build the capacity of local actors towards resilient development. Hence, the report recommends not reducing the management cost, as this can negatively impact local actors adaptation endeavors and impede knowledge sharing and inter country capacity development.

To some up, the success and large scale of SGP Programme (US\$ 154,455,533 for the GEF fourth period) has lead to "economies of scale" in the administrative costs of the Programme, thereby curbing "non-grant" costs at around one-fourth of the total Programme budget. Hereby, it is noteworthy that the costs could be very high at country level during this initial phase, conditional on the number and size of grants provided annually within a country. Hence, management costs have ranged from 17 per cent to 50 per cent of total programme expenditures in some countries.

4.2.2 The Bangladesh Climate Change Resilience Fund (BCCRF) and its Community Climate Change Project (CCCP)

The BCCRF was created in 2010 as a Multi-Donor Trust Fund, by the government of Bangladesh and designated agencies with a support of the World Bank²⁴. The Fund is meant to channel over US\$ 188 million grant funds to millions of people to build their resilience to the effects of climate change. In this arrangement, the World Bank is in charge of management and oversight of monitoring and accounting and financial management. In addition, it ensures due diligence and coordination, support to grant processing. Grant up to US\$ 25 million are available to fund proposals submitted by government line ministries. Resources are also available, as sub-grants, to NGOs or CSOs through the "Community Climate Change Project" (CCCP), with the Palli Karma-Sahayak Foundation (PKSF) as the lead coordinating executive entity of the Fund.

²³ AFB/PPRC.14/14 p.4

²⁴ The fund was established with financial support from Denmark, European Union, Sweden and United Kingdom, subsequently followed by Switzerland, Australia and the United States.

The CCCP is in charge of capacity building of selected communities between US\$ 20,000 and US\$ 1 million in community-based climate change adaptation. Overall, administrative costs of the CCCP, including capacity building and knowledge management costs represent 16 per cent of the project budget. These costs do not include the overall, administrative costs of the CCCP, including capacity building and knowledge management costs, which often represent around 16 per cent of the project budget. These costs do not include the overall, administrative costs of the CCCP, including capacity building and knowledge management costs represent 16 per cent of the project budget. Also the overhead cost of the NGO executing projects nor the management fee by the World Bank for the overall management of BCCRF.

4.2.3 Examples of AF Project with small-grant component

In Cook Island, the AF is funding a project, which aims at strengthening the ability of all Cook Island communities, and the public sector, to make informed decisions and manage anticipated climate change driven pressures (including extreme events) in a proactive, integrated and strategic manner. This project foresees the AF foresees the establishment of a Small-Grant Programme to boost and extend the operation of the UNDP/GEF Small Grants Programme (SGP), with the goal of building capacity and enhancing the resilience of Pa Enea and their communities and enterprises through climate change adaptation and DRR. The execution costs and implementing entity fees for this programme represent 17.8 per cent of the total programme budget before the fees. These do not include costs incurred by the execution of the small grants, i.e. national administration and management of the SRIC SGP.

To sum up, the commonality of the project with multiple executive and implementation is that there were designed to promote access to adaptation finance at local level. It is acknowledged that in order to truly reach the local level not only in the implementation, but also to build resilience and enhance their capacity to plan required additional cost. The document also showcases that an average of one fourth of the requested total amount between 25 to 30% have been allocated to execution cost.. This increase is justified through funding of capacity building and related activities. Nonetheless, the high the programme budget, the cost-effective it should be.

The policy of the Board of allocating 18% of the overall budget of a project was based on the assumption of a single implementing entities and few executing entities. Hence, the document recommends the Board, that although it should maintain operational costs at the current limit set for the Fund, - 8.5 per cent cap on implementing entity fees and the 9.5 per cent cap on the execution costs-, however it should give due attention of the need to increase the capacity of the targeted people and institution as well as their M&E and knowledge management frameworks.

Poor, natural resource-dependent rural households will bear a disproportionate burden of adverse impacts of climate change²⁵. They are also the mechanisms that will translate the impact of future external interventions to facilitate adaptation to climate change. Undertaking adaptation action without building the capacity of the targeted communities or key stakeholders as to understand the adaptation intervention and its benefit, as well as how to adapt to the expected impacts of climate change is critical for resilience building and increasing the adaptive capacity. The paper has shown that capacity building and knowledge sharing are cost intensive and often therefore neglected or not meaningfully

²⁵ Kates, R. 2000. Cautionary tales: Adaptation and the global poor, *Climatic Change* 45 (2000) (1), pp. 5–17.
Mendelsohn, R., A. Basist, P. Kurukulasuriya, and A. Dinar. 2007. Climate and rural income.

undertaken. In our view, the Board should based on the experience of other funds design or clarify to which extent it is ready to bear cost implications which are associated with capacity building component of the projects. In our view, the AF should for the time being, decides case by case, where additional execution costs are justified against the reasoning of the project. Along this line the project proponent should communicate and detail explain already in the concept note any additional costs related to soft adaptation actions.

The 18% of the overall cost for management and execution fees should not be revised, but should be seen in a flexible manner, when the proponent gives clear and satisfactory information of the need to increase this amount.

4.3 Core Indicator Methodologies

The AF' Strategic Results Frameworks²⁶, which has been approved for the first time in 2010 has been shaped around the overall objective to reduce vulnerability and increase adaptive capacity to respond to the impacts of climate change, including variability at local and national levels. At the fund level, the underlying framework includes seven key and associated outputs to facilitate aggregation and present Fund level results that contribute to the overall goal and objectives of the Fund.

This framework has since then, been amended as result of the notification by the Secretariat that there are not comparable across projects. It was found that the comparison of indicators is tricky even among two projects with the same outcomes. Hence, there was an imminent need to adjust indicators under each of the seven key outcomes and their associated outputs to better aggregate these indicators across projects. This means for example, figures should be reported in absolute terms instead of relative terms. Even with the revisions of the outcome and output indicators, the diverse nature of the Fund's projects, which cover multiple sectors and a range of activities on the ground, makes it challenging to provide aggregated quantitative results across the portfolio. To increase transparency and demonstrate value for money, the Board has adopted two impact-level results to track: a) Increased adaptive capacity of communities to respond to the impacts of climate change, and b) increased ecosystem resilience in response to climate change induced stress.

Impact	Indicator
<i>Increased adaptive capacity of communities to respond to the impacts of climate change</i>	Number of beneficiaries (direct and indirect)
	Number of Early warning systems
	Assets produced, developed, improved, or strengthened
	Increased income, or avoided decrease in income
<i>Increased ecosystem resilience in response to climate change-induced stresses</i>	Natural habitats protected or rehabilitated

Table 3 Adaptation Fund Core indicators

In updating the framework, the Secretariat pursues two key objectives. On the one hand, it tried to further define the process of developing a methodology for a set of core indicators. On the other hand, it also started including experience of direct access in the Fund overall results framework.

²⁶ Decision B.10/13

The document for consideration for this meeting contains two annexes:

- Methodologies for Reporting Adaptation Fund core impact indicators,
- list of reporting AF core impacts indicators.

Annex I is the most detailed part and contains new elements. It provides methodologies for project proponents for measuring and reporting these core indicators, and includes such considerations as rationale, technical definitions, methodologies for measuring, reporting format, baseline, time period, and data sources. Annex II provides tables for reporting on each of the indicators²⁷.

The document emphasizes that the indicators have been designed as not to constitute an additional burden for the IEs, as many of the indicators are tracked at project level. However, for new project, it will be requested that the IEs provide indicative targets for each of the five key indicators at the project level. The indicators have to be submitted in the first project performance report to allow the setting of baseline.

Basically, for each of the indicators, there is a same reporting requirement and format. The information should be communicated at a) project approval stage; b) at the first year of implementation (in order to confirm the data on the ground); c) and at the project completion stage.

4.3.1 Number of Beneficiaries

This indicator seeks to measure the number of people who have received an input of support from the project as a proxy for increasing adaptive capacity to respond to the impact of climate change. Support is understood as direct response of the project to help beneficiaries to deal with the impact of climate change. Accordingly, 'People Supported' should relate to population or households identified by the project in question with a direct relationship to it. There are two dimensions of support identified:

- Targeted support is defined, in the case when people (or households) are identified by the project as receiving direct support, can be counted individually and are aware they are receiving support in some sort.
- Intensity of the support is understood as the level of support/effort provided per person, on a continuum but broad levels

In term of methodology for measuring, the identified indicators are expressed in absolute numbers of beneficiaries disaggregated by category of reporting (direct/indirect) and gender reported at the project level. A distinction between direct and indirect beneficiaries should be reported separately.

4.3.2 Early Warning Systems

The objective of an early warning system²⁸ is to empower exposed individuals and communities by hazards to respond in sufficient time and in appropriate manners in order to reduce the possibility of personal injury, loss of life and livelihoods, damage to physical assets and the environment. It is made up of four critical components:

²⁷ AFB/EFC.14/6 p.3

²⁸This Guidance builds on the rationale and definition of an 'early warning system' as articulated in "Global Survey of Early Warning Systems: An assessment of capacities, gaps and opportunities towards building a comprehensive global early warning system for all natural hazards" (2006). A report prepared at the request of the Secretary-General of the United Nations. Available at <http://www.unisdr.org/2006/ppew/info-resources/ewc3/Global-Survey-of-Early-Warning-Systems.pdf>

- Risk knowledge, which is generated after a systematic assessment of the risks. The rationale of this assessment is to help motivate people, prioritize early warning system needs and guide preparations for response and disaster prevention activities;
- Monitoring and warning service: this assumes that early warning systems should be developed based on a sound scientific basis for predicting and forecasting and must reliably continually operate;
- Dissemination and communication: A warning system is as useful as the targeted people are aware of the mechanism and functioning of the alert developed. So all means of communication tools should be used, as appropriate
- Response capability: This is related to the systematic education and preparedness of people at risk, as to ensure efficient reaction of the beneficiary, when the event occurs

In term of methodology for measuring, the indicator is expressed by an absolute number of a proper category of EWS and hazard targeted, geographical coverage, and number of municipalities. These parameters should be reported at the project level.

4.3.3 Assets Produced, Developed, Improved, or Strengthened²⁹

To assess the extent to which a project intervention(s) has reached its intended results or objective to respond to climate change variability through improving, developing, or strengthening asset(s). There are two types of assets:

- Development sector services: This type of support is meant to help beneficiaries or targeted areas to increase resilience and adapt to climate change. It can contain a range set of indicators; support the reform of coastal management laws; control the spread of infectious diseases; increased capacity of extension services.
- Physical Infrastructure: This is meant to increase resilience and adapt to climate change includes for example the following: roads, hotels, houses, causeways, airports, hospitals, etc.

In term of methodology for measuring, there are two ways to report changes in asset, through quantitative or qualitative reporting. While the quantitative reporting uses absolute metric such as number of infrastructure that has changed as result of the project, for qualitative reporting it is difficult to assign number in qualitative reporting. Rather qualitative reporting summarizes extent to which all technical, environmental, social, and financial/economic aspects of asset have improved by ranking the scale (1-5).

4.3.4 Increased income, or avoided decrease in income

These indicators presumes how people obtain their income and have access to and use assets to make a living, are a key part of understanding project beneficiary characteristics. Here due attention is given to sources of income. Projects should identify how income sources for households generated under climate change scenario are a measure of how targeted individual livelihoods (specifically income sources and income in general) are strengthened in relation to climate change impacts and variability. Income sources are the sources of income (agribusinesses, fisheries, etc.) of the households.

²⁹ The Methodology for this indicator builds on the Adaptation Fund “Results Framework and Baseline Guidance” document available on the AF website <https://www.adaptation-fund.org/sites/default/files/Results Framework and Baseline Guidance final compressed.pdf>

In term of methodology for measuring, the definition of following parameters is critical for this indicator. These are; a) total number of households in the area; b) Number of targeted households and c) Numbers, types and levels of targeted income sources in project area. Some authors defend that “diversified households are sufficiently flexible to change activities in their household organization, and they may use other sources of income to underwrite their responses to forecasts.

4.4 Financial issues

4.4.1 Adaptation Fund Trust Fund: Financial report prepared by the Trustee:

Since the start of the monetization of CERs, which is supposed to be the main funding channel of the Fund, the Trustee has generated revenues of USDeq. 189.79 million through CER sales. The Trustee generated revenues of USDeq. 1.8 million from CER sales during the calendar year 2013, with an average price during the quarter amounting to EUR 0.49. As of 31 December 2013, cumulative donations to the Adaptation Fund amounted to USDeq. 205.53 million.

In term of investment income, as of 31 December 2013, the Adaptation Fund Trust Fund had earned cumulative investment income of approximately USD 2.76 million on the undisbursed balance of the Trust Fund.

Cumulative net funding decisions (approvals by the AF Board) to end-December 2013 amounted to USD 224.19 million. As of 31 December 2013, approved amounts (committed by the Trustee) pending transfers to recipients totalled USD 133.73 million, representing an increase of USD 12.01 million since September 30, 2013.

As of 31 Dec. 2013, the Trustee has transferred a total of USD 90.46 million including USD 69.53 million related to projects and programs. Funds held in the Trust Fund amounted to US-Deq. 307.63 million. Funds available to support AF Board funding decisions amounted to USD 170.9 million. This represents an increase of USDeq. 35.37 million compared to the prior reporting period as a result of CER proceeds and donations received exceeding the volume of transfers in respect of funding decisions made by the AF Board.

Under current CER market conditions, the estimates of potential resources available for the AF for the period up to end-2020 (estimated as at Dec. 31, 2013) range from approx. USD 201-215 million. An average of independent analysts’ estimates of CER issuance from 2013 to 2020 is used, resulting in a new issuance estimate of approx. 2.4 billion CERs.

	As of December 31, 2013 (a)	As of September 30, 2013 (b)	Change since last report (a) - (b)
1. Cumulative Receipts	398.09	342.53	55.56
a. Cash receipts from CER proceeds	189.79	188.61	1.18
b. Cash receipts from Donors and Other Sources	205.53	151.32	54.21
c. Investment Income earned on undisbursed balances	2.76	2.60	0.16
2. Cumulative Cash Transfers	90.46	82.29	8.17
a. Projects and Programmes	69.53	61.40	8.13
b. Operational Expense	20.93	20.89	0.04
3. Funds Held in Trust with no Restrictions (3 = 1 - 2)	307.63	260.24	47.38
4. Operational Reserve	3.00	3.00	-
5. Funding Decisions Pending Cash Transfer	133.73	121.72	12.01
6. Funds available to support AF Board funding decisions (6 = 3 - 4 - 5)	170.90	135.52	35.37

Table 5: Funds available in USD millions

5 Remaining issues from AFB 22

5.1 Execution arrangements of the Readiness Programme

Discussion on this matter started after the first call for proposals by the AFB to developing countries. Background to this issue is the growing cognition by the AF Board that there is an obvious need for a range of capacity enhancement measures, ranging from support in the identification of potential NIEs within a country to strengthening the appraisal, design, implementation, and monitoring of adaptation projects and programmes undertaken by NIEs and RIEs. After a series of discussions on this agenda item since AFB 21, Board members at AFB 22 to:

- Approve Phase I of the Readiness Programme, on the basis that it would follow performance-based funding principles³⁰;
- Take note of the options provided by the Secretariat on readiness
- Earmark US\$ 467,000 for readiness activities from the AFB secretariat for the readiness and request the Trustee to reserve US\$ 500,000 for future activities.

At this meeting, it is expected that the Board approves (a) the execution arrangements, criteria/eligibility criteria to allocate the funds to the accredited implementing entities for specific activities, and timeline of activities under the Readiness Programme, and to (b) request the secretariat to proceed with the implementation of the programme in accordance with the approved criteria.

5.1.1 Outline of Programme activities, including execution arrangements and selection/eligibility criteria for the beneficiaries and partners

Component 1: Increased capacity of national regional entities to meet the Fund's fiduciary standards and comply with the environmental and social policy of the Fund

Output 1.1: Increased effective NIE or RIE applications received

With regard to increased effective NIE and RIE applications received, a range of activities are planned to allow and encourage NIE and RIE candidates to apply and assist applicants to meet the Fund's fiduciary standards by:

- a) Updating online toolkit and by taking stock of utility and areas of improvement as to integrate lessons learnt and make changes associated with the approval of the Fund's environmental and social policy.
- b) Developing technical case studies for use by applicant entities
- c) Organising regional workshops in coordination with the Accreditation Panel (AP) and other experts if deemed as necessary. This part will be conducted in cooperation with existing initiatives that support accreditation of NIEs in developing countries

This activity will be implemented by the AFB secretariat. For the workshop, it is expected that the AFB signs a Memorandum of Understanding with those institutions being provid-

³⁰ AFB/B.22/6

ing assistance to developing countries, with the goal of co-sharing the costs of the workshops.

Some criteria have been set for the identification of the initiatives - supporting readiness - with whom to collaborate. Under these criteria there are: a) cost-effectiveness e.g. capacity to share burden and cost, b) country ownership: the programme is not predefining or prejudging on any specific type of NIE candidate and the ability to enter into contract with the Trustee.

Output 1.2: Improved cooperation with multilateral and bilateral organizations currently providing accreditation support to national or regional institutions

A readiness seminar will be convened by the AF Secretariat, which will assemble multilateral and bilateral organizations already supporting NIE/RIE candidates to get accredited, including already accredited NIEs with tangible achievements with the Fund. A training guidance will be shared with the participants, based on the guidance of the AP and the AFB secretariat. The attending of training will also be given the chance to present their work. One of the deliverables of this workshop will be the sample ToRs for expert consultants to use in providing technical and institutional assistance to the accreditation applicants.

In term of execution arrangements, it is important to mention that the participants of these trainings are expected to cover their own travel costs. The AFB Secretariat will seek to bring together participants that are either already providing support or are planning to provide support to developing countries in terms of readiness to climate finance.

Output 1.3: Increased South-South cooperation through accredited NIE support to countries

For the readiness programme of the AF, eligible accredited implementing entities will apply for grants to assist countries in (i) identifying potential NIE candidates and/or (ii) preparing an application for NIE candidates to be submitted to the Accreditation Panel and/or (iii) continuous support during the application process. It is expected that that peer support will effectively help build national capacity and sustainability.

The grant will be implemented by selected implementing entities, based on assessment by the Secretariat on effectiveness and efficiency of the proposal submitted by the selected implementing entities. The Secretariat will then sent its recommendation to the PPRC and then to the AFB for approval of funding. Noteworthy, the Secretariat is in charge of the overall monitoring of the readiness programme.

Eligible for this output are eligible entities with tangible achievements with the Fund. This includes entities: a) that have been successfully accredited by the Board as a NIE or RIE, and b) that have experience in participating in, or organizing support to other NIE candidates, and/or c) that have already submitted a successful proposal or are currently implementing an Adaptation Fund project or programme.

Component 2: Increased capacity of accredited national and regional organizations to undertake appraisals of and assess risks within adaptation projects/programmes

Output 2.1: Quality adaptation project and programme proposals are submitted to the Board by NIEs/RIEs

It is planned that the AF organize two seminars for all accredited NIEs and RIEs. The goal of these seminars is for NIE and RIE representatives to familiarize themselves with the Fund's procedures, operational policies and guidelines, including guidelines for prepar-

ing project performance reports, the project proposal preparation and environmental and social risk management and the project/programme delay policy and the guidelines for project final evaluations. A possibility of organizing webinars will also be explored.

This activity will be undertaken by the Secretariat with support of the consultant on environmental and social safeguards. The cost of the participation of the attendees, who are mostly accredited NIEs will be covered by the Secretariat. RIEs and MIEs will cover their own travel costs.

Output 2.2: Accredited NIEs and RIEs are able to assess and manage environmental and social risks within projects/programmes

In addition to the training, targeted technical support will be available for NIEs, which expressed the need, in order to enable that their policy complies with Fund policies and standards. Entities could access up to USD 20,000. The range of support to be provided is the following:

- Development of procedures, manual(s) for screening projects for environmental and social risks;
- Development of procedures, manual(s) and guidelines for undertaking project environmental and social risk assessment and for formulating risk management plans;
- Development of a policy/avenues for public disclosure and consultation;
- Development of transparent and effective mechanisms for receiving and resolving complaints about environmental and social harms caused by projects/programs during the course of implementation of AF supported projects/programs; and
- Training of select entity staff to carry out the underlined tasks above based on procedures, manuals/guidelines/mechanisms developed by consultants

In term of process, a call for request for assistance will be initiated by the AFB Secretariat, based on a template for request for assistance in complying with the Fund's Environmental and Social Policy. This request will be subject of an assessment by the Secretariat or consultant assisting the AFB Secretariat or the consultants. And based on its findings, recommendation will be submitted to the AFB for approval. In this output, the NIE will be responsible in recruiting NIEs to help them to comply with the AF policy.

Cost-effectiveness and geographical coverage will guide the work in this output. The document provided by the Secretariat to support this output will be published in English, French and Spanish. All accredited NIEs and MIEs are eligible for this output, however a response on the request for assistance will be guided by the finding of capacity needs and gap assessments.

Component 3: Improved knowledge, knowledge sharing, and skills for accessing adaptation finance

Output 3.1: The AF Finance Readiness knowledge exchange becomes a major source for acquisition and sharing of knowledge, experience and tools by NIEs and RIEs to enable their efficient access to adaptation finance

The knowledge exchange will play the major role in disseminating knowledge and tools to enable access to adaptation finance. All documents, materials, toolkit, etc. will be disclosed and disseminated accordingly. Here the Secretariat, based on cost analysis, will determine the best constellation and the cooperation modality to promote materials

from the readiness activities. In doing so, an increased awareness of the AF direct access approach will be promoted through media coverage.

The readiness programme as outlined in the document for consideration at this meeting covers more or less most of the concern by the CSOs. However, the document fails to give a breakdown of the costs for readiness request. In our view, in terms of process, it will be important that the AF contacts all eligible country focal points to inform them about the initiative and encourage them to submit a request for specific support as it best serves the country goal. Here, not only due attention should be given to the geographical distribution of the support, but also to help those countries that have expressed the need to tackle the direct access modality, but will not be able without support to accredit their institutions. The accreditation of NIEs should be the focus of readiness. In term of process, the AF needs to take stock of the ongoing effort to facilitate NIE with the AF. Most of the support providers are engaged with some countries, since a while, but without success. Here, the AF should play a key role in catalysing, facilitating and assisting those countries that have been undergoing a support programme.

With regard to the role of CSOs, it is important that the AF Secretariat tries by the extent possible to share the lesson gained and inform them about the ongoing support. CSOs could play a key role in terms of knowledge management and awareness-raising. In doing so as far as possible, the training should be webcasted or recorded for public use. In addition, as environmental and social safeguards have become key policies of the Fund, it is important to engage CSOs throughout the process as to ensure - beyond accreditation - compliance with AF policies.

5.2 Options to fund the pipeline

The discussion on options to fund the pipeline was initiated as the AF set the 50% cap for MIE projects. However, although there was an agreement among all Board members of the importance of this cap, some members expressed the view that the MIE cap prevents the AF to fulfil its mandate, which is to finance concrete adaptation projects. Furthermore, those members were of the view that the cap actually prevents the AF to receive additional funding, as the remaining resources are earmarked for NIEs, which are putting off the submission of projects.

The document prepared by the Secretariat does not provide a specific recommendation. The options outlined are intended to assist the Board in its discussion on how to fund the pipeline and subsequently make a decision thereon. It outlines a range of options, based on input provided by Board member intersessionally.

Option 1: “An Efficient Fund”

In this option, the 50% cap will be lifted. Project and programmes submitted to the Fund will be approved following the usual practice in line with the current availability of funds for those projects and programmes. This means that the resources held in the Trust Fund will be channelled to proposals regardless of who is submitting the proposal. After the resources are exhausted, a pipeline for all access modalities will be set.

In doing so, it will allow the clearance of the pipeline and finance all projects following a "first-comes-first-serves" principle. The cons of this option are for instance, the danger that the AF resources will be exhausted swiftly, and does not prevent the Fund from setting a new pipeline.

Option 2: “Safeguarding Direct Access”

This option suggests financing all proposals by MIEs in the pipeline as of this meeting. In addition, the new project submitted by the World Food Programme will be also financed, should the Fund approve it at this meeting.

This option enables the clearance of the pipeline and does not prevent the Fund to earmark funding for accredited NIEs and the one for consideration for accreditation for this meeting. The dilemma here is the likely assumption that there will be more NIEs and RIEs accredited in the course of this year. In this case there will be no guarantee for funding for future NIEs and RIEs.

Option 3: “Adaptive Management of the Fund’s Resources”

Option 3.1: Modify the percentage of cumulative resources of the Fund to be set aside for NIEs and review on an annual basis

Under this option the cap could be increased from 50 to 70 or 75% of cumulative resources for MIEs. This will be reviewed annually based on the NIEs project submission. In the case that this cap is reached a new cap will be set up.

This will allow a funding of proposal by MIEs in the pipeline and beyond and has the potential to reserve some fundings for NIEs that will be reviewed based on the submission flow by NIEs. This option is bound with some additional works such as the assessment and monitoring of the pipeline.

Option 3.2: Enhancing predictability of MIE funding through the development of a work programme for MIE submissions

This option is the same as option 3.1 with the additional burden of MIE submissions on annual basis. Here the Secretariat, provided that the AF lifts the cap, will make each year a call of proposal to MIEs to be submitted by the end of the targeted fiscal year.

The advantage of this option is that it allows through the call of submission for proposals a better management of the proposal by MIEs and provides more predictability to them. The other side of the coin is that this approach may trigger a high number of submissions by MIEs that could exceed the 50% cap.

In all the options presented above, the clearance of the pipeline does not prevent the Board, to set a new pipeline soon after the initial clearance. The document also includes an option for a temporary suspension of MIE submissions:

- The total amount of all projects by MIEs in the pipeline should not exceed US\$ 50 million
- The amount of funding for accredited NIEs is reaching an amount, at which a pipeline for NIE will be set.
- The number of accredited NIEs has reached a certain level which, combined with an estimate of potential submissions by NIEs and actual availability of funds, would trigger the closure of the pipeline for MIEs by the Board;
- Unmet fundraising target in a given year, which would trigger the prioritization of NIE funding over MIEs.

This discussion on this matter particularly demonstrates the need for the Board to set up a new fundraising target for 2014, as it would support the work programming exercise. The Fund should introduce a biennial fundraising campaign, which should be connected to the

biennial report of Annex II countries on their long-term finance. Another option will be to initiate a replenishment process of the AF, open to all parties that are in the position to provide resource to the AF. This replenishment process should be supported by an ongoing fundraising strategy

The AF has been praised and attracted the interest of stakeholders, also in the GCF, because of its direct access modality. Of course, the AF should strive to strike the balance between the mandate of financing concrete adaptation project in vulnerable countries and the need to promote direct access as an alternative to the classic way of financing projects. Introducing a "first-comes-first-serves" principle would mean transforming the AF to a MIE Fund such as the GEF. This will not do justice to accredited NIEs that have struggled and initiated new processes to advance their institution to be accredited as NIEs and submit tangible and concrete implementable projects.

In our view, option 2 ("Safeguarding Direct Access") seems to be the most reasonable option. On the one side, donors who contributed to the AF hope that all projects in the pipeline will be at least cleared. So financing the four remaining MIE project in the pipeline will be in line with this purpose. After this meeting a new pipeline for MIE projects should be set up, which will be financed, once substantial resources have been pledged.

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