

**ecbi** policy report

# Adaptation Fund under the KP:

Mature for concrete  
implementation of projects and  
direct access

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**About the authors:**

Germanwatch is an environment and development NGO which has been actively promoting North-South equity and the preservation of livelihoods since 1991. Its work focuses on the politics and economics of the North with their worldwide consequences.

The situation of marginalised people in the South is the starting point of the work. Climate change under the UNFCCC has developed to one of the core work areas of Germanwatch, both with regard to mitigation and adaptation.

Further work on the Adaptation Fund can be accessed at <http://www.germanwatch.org/klima/af.htm>

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## Acronyms

ADB	Asian Development Bank
AF	Adaptation Fund
AFB	Adaptation Fund Board
BAP	Bali Action Plan
CDM	Clean Development Activity
COP	Conference of the Parties
CSE	Centre de Suivi Écologique de Senegal
EFC	Ethics and Finance Committee
GEF:	Global Environment Facility
IFAD	International Fund for Agricultural Development
LDC	Least Developed Countries
MIE:	Multilateral Implementing Entities
NIE:	National Implementing Entities
ODA:	Official Development assistance
OECD:	Organisation for Economic Co-operation and Development
PPRC:	Project and Programme Review Committee
SBI	Subsidiary Body for Implementation
SBSTA	Subsidiary Body for Scientific and Technological Advice
UNDP:	United Nation Development Programme
UNEP:	United Nation Environment Programme
WB:	World Bank
WFP	World Food Programme

## Executive Summary

Both scientifically proven as well as painfully felt all around the world, climate change is happening now, and in many regards faster than IPCC AR4 indicated<sup>1</sup>. The associated impacts affect most intensely the poor of this world, which ironically have contributed the least to global warming. Adaptation to the consequences of climate change is essential for survival and indispensable to safeguard development progress in poverty reduction and the fight against hunger. Strengthening their ability to adapt to the impact of climate change is realised as a key factor for poor countries and most vulnerable people.

Thus, one of the important challenges of the post-2012 finance and adaptation regime under the Convention is not only to make sure that enough reliable financial means are provided for adaptation, but also that the means actually directly reach the people which need them most. The Adaptation Fund (AF) under the Kyoto Protocol is playing a key role here. This is due to its unique and innovative features, which consist of direct access to financial means and an equitable governance composition.

As its logo of a young tree symbolises, the AF is slowly growing and establishing itself as a “model for the future” in the international climate finance debate. The Adaptation Fund (AF) is a self-standing solidarity-fund established under the Kyoto Protocol in order to finance concrete adaptation projects in those most vulnerable countries which are Parties to the Protocol.

The successes and progress of the last years are indications of the quality of the work within the Adaptation Fund Board, the governance body of the Fund. Therefore the Fund has been attracting increasing attention. The accreditation of the first National Implementing Entity (NIE) “Le Centre de Suivie Écologique du Senegal“ which happened during the 9<sup>th</sup> meeting of the AFB in March 2010, is a historic milestone. It marks the first concrete realisation of the direct access approach in climate financing. Approval of the first projects during the last 10<sup>th</sup> meeting marks the beginning of the implementation phase. Success of this phase is dependent on many factors and actors, in particular within developing countries. Important is on the one hand how the AF deals with its guidelines and on the other hand how the implementing entities involve relevant stakeholders, both governmental and non-governmental, within the countries.

However, the Fund is also in a critical phase. It is confronted especially with two challenges. On the one hand it needs to fulfil expectations as „a model for the future“. In order to let actions speak it needs to adopt and finance as many projects as possible while ensuring they are of high quality. It needs to increase the number of National Implementing Entities as much as possible while at the same time ensuring that the fiduciary management standards are not weakened. Only then can the AF pave the way for broad acceptance of the direct access approach in the overall climate finance debate. Furthermore, it is confronted with the question how it will share its limited financial

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<sup>1</sup> See for instance the Mc Mullen P. C. et al., (October 2009): UNEP Climate Change Science Compendium 2009. p. iii.

resources among its eligible Parties in an equitable manner. By swift financing of good projects it should send out the right signals: On the one hand towards the wealthy nations to fulfil their financial promises ie. in form of the fast start financing and to show the hesitating developing countries, that the fast delivery of funding to those countries, which show explicitly early and interest.

The existing briefing paper tries to supply the delegates from Least Developing Countries (LDC) with a clear view on the Adaptation Fund by explaining its key features and the processes how to best access the resources of the Fund.

## Beginnings: launch and objectives of the Fund

The AF was specifically established in order to finance the full costs of country-driven concrete adaptation projects and programmes<sup>2</sup> in developing country Parties to the Protocol that are particularly vulnerable to the adverse effects of climate change. The first steps towards erecting the Fund were undertaken during COP7 held in Marrakesh (Morocco) in the year 2001 (Decision 10/CP.7 – Annex 2). However, due to controversial debates in the following years, only six years later at the third meeting of the Parties to the Kyoto Protocol in Bali (Indonesia) in 2007 the key institutional parameters were agreed and the Adaptation Fund Board set up (decision 1/CMP.3 – Annex 7)<sup>3</sup> In March 2008, the Adaptation Fund Board started its work and developed the required guidelines and rules.

The 4<sup>th</sup> meeting of the Kyoto Parties, CMP4 in Poznan in 2008, marked a milestone in the full operationalisation of the Fund through the adoption of key documents the AFB had developed, the "Strategic priorities, policies and guidelines", the "Rules of Procedure" and the necessary arrangements with the Global Environment Facility (GEF) which provides secretariat services to the AFB, and with the World Bank as Trustee.<sup>4</sup> There it was also agreed upon to provide the AFB with the legal capacity necessary for the discharge of its functions with regard to direct access. This should allow it to directly contract with third parties.

Adaptation to climate change requires a large amount of money, mobilised capacities and strong governance structures. Some of the innovative features that are inherent to the Fund, and which have been developed by the Board in its recent work, promise to provide vulnerable developing countries with a more appropriate institution than it is the case with other existing institutions such as the GEF or the World Bank. The Fund can thus become a central institution for international cooperation in the field of adaptation.

## Direct Access to AF resources for eligible Parties

Part of the Bali decision was that developing countries will be able to access resources from the Adaptation Fund through direct access. The direct access approach allows developing countries a faster, less bureaucratic access to the Fund and thereby strengthen the ownership and responsibility of these countries. The way this approach works is relatively simple. The functions that are usually performed by the Multilateral Implementing Entities (MIE) such as UNDP or the World Bank within countries, namely to oversee the implementation of projects and the appropriate disbursement of financial resources, are now performed by National Implementing Entities. Developing countries

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<sup>2</sup> All meeting documents dating from the AFB in this briefing are available on the homepage of the Board: available at <http://www.adaptation-fund.org/>. According to the definition in the Operational Policies and Guidelines a concrete Adaptation Project is "a set of activities aimed at addressing the adverse impacts of and risks posed by climate change" while an Adaptation Programme is defined as "a process, a plan, or an approach for addressing climate change impacts that is broader than the scope of an individual project." See Adaptation Fund Board (AFB), 2009a: Operational Policies and Guideline for Parties to access to the resources of the Fund, p.4 par. 7-9, available at [http://www.adaptation-fund.org/system/files/AFB.Operational\\_Policies\\_and\\_Guidelines.pdf](http://www.adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf)

<sup>3</sup> Decision 1/CMP.3 FCCC/KP/CMP/2008/11/Add.2 Adaptation Fund (Bali, December 2007): It was decided that the operating entity of the Fund would be the Adaptation Fund Board, serviced by a Secretariat and a Trustee. Upon invitation by the Parties, the Global Environment Facility (GEF) provides Secretariat services to the Board, and the World Bank serves as Trustee of the Fund, both on an interim basis. FCCC/KP/CMP/2007/9/Add.1 p.3, available at [http://www.adaptation-fund.org/system/files/Decision\\_1-CMP.3.pdf](http://www.adaptation-fund.org/system/files/Decision_1-CMP.3.pdf)

<sup>4</sup> *Id.* at p.6 par.23

can nominate them to the AFB for accreditation. It provides developing countries with the opportunity to deal with their own business. How Parties can use direct access is explained more in detail later.

The direct access approach of the AFB is unique in international environmental governance. The only similar example is the Global Fund to Fight HIV/Aids, Tuberculosis and Malaria which the AFB took into account in its approach. As part of the 5<sup>th</sup> replenishment debate under the GEF, the GEF itself initially proposed to pilot direct access in a similar way as the AF is set up now<sup>5</sup>. However, almost nothing of this reform approach survived the 5<sup>th</sup> replenishment phase, so de facto there is no direct access possible under the GEF for countries who want to have adaptation projects funded.

### Innovative and equitable governance

The AF is supervised and managed by the AFB and its headquarters are in Bonn<sup>6</sup>. The composition of this Board pursues the principle of equitable and balanced representation of all parties (as enshrined in Art. 11.2 of the Convention), more than the governance composition in any other of the existing Funds<sup>7</sup>. The AFB works under the authority of, and is accountable to, the Meeting of the Parties to the Kyoto Protocol. In practice this means that the Board works quite autonomously, after the Conference of the Kyoto Parties (CMP) adopted key guidance documents<sup>8</sup>. The Board is composed of 16 members and their alternate members representing Parties, formally elected at a session of the CMP as follows: two represent each of the five UN regional groups, one represents Small Island Developing States (SIDS), one represents the Least Developed Countries (LDCs), two represent the Annex 1 (developed) countries and two represent the Non-Annex 1 (developing) countries. The Board Members are elected for two calendar years and may serve for a maximum of two consecutive terms. All decisions of the AFB are taken by consensus and the work within the AFB has shown that the general North-South divide which often characterises the UNFCCC negotiations is not representative for the AFB discussions. If a decision cannot be made by consensus then a two thirds majority of the present members is sufficient in order for the AFB to constitute a quorum. However, such a voting decision has not occurred yet. Thus, the developing country majority does not mean that it leads to a domination over the views of developed countries.

Currently, the Global Environment Facility (GEF) provides secretariat services to the AFB on an interim basis, which is significantly different to other Funds which are entirely managed by the GEF. In the AF case, the AFB instructs its secretariat to perform certain tasks. The World Bank serves as the AF's trustee, also on an interim basis according to Decision 1/CMP.3. These institutional arrangements were to be reviewed at CMP6 in Cancún. However, since the recent SBI 32 negotiations did not result in an agreement on the Terms of Reference for the review, it was postponed and will not

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<sup>5</sup> See: GEF, ( June 2009): Draft GEF policy, institutional, and governance reforms” prepared for Second Meeting for the Fifth Replenishment of the GEF Trust Fund; <http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.R.5.15.pdf>

<sup>6</sup>:The legal capacity will probably pass the German legislature process end of the year. Only then will the AFB be able to replace MoUs with Implementing Entities with a normal contract. See Report of the Adaptation Fund Board: FCCC/KP/CMP/2009/14, available at: <http://www.adaptation-fund.org/system/files/AFB%20report.pdf>.

<sup>7</sup> Harmeling Sven, (Dec.2009): Germanwatch Discussion paper: The Adaptation Fund in the debate on the post-2012 financial architecture p.2.

<sup>8</sup> Almost all the documents proposed by the Board were accepted by the CMP largely unchanged.

happen before CMP 7 in 2011<sup>9</sup>.

### Innovative Financing Mechanism

The UN-AF is the first Fund which is supplied by an international income source which originates from an internationally agreed climate policy framework. It is quasi-autofinanced from the 2% share of proceeds on emission reductions issued under the Clean Development Mechanism.<sup>10</sup> The inaugural sale of Certified Emission Reductions (CERs) for the Adaptation Fund took place during the third week of May 2009. Since then, the World Bank, as Trustee, has conducted ongoing CER sales. Estimates on the income of the sale of the 2% CER share until the year 2012 lay around USD 404 Million.<sup>11</sup>

The revenue raised, however, will not be enough to cover the deficit in adaptation funding. Furthermore it is important to mention that since Copenhagen in the realm of the fast-start financing pledges some money has been accrued. Noteworthy in this respect is Spain's contribution of 45 Millions Euro to the AF. This laudable initiative was supported by Germany and Sweden by financial support in the amount of each 10 Million. While this is also only a drip in the ocean, these voluntary contributions signal the increasing trust into the work of the AF. Current estimates for adaptation in developing countries vary, but it can be assumed that this will cost a minimum of US \$50 billion each year<sup>12</sup>. There is a clear need for a major boost in adaptation funding. For the future debate it is important that the AF will receive funds from other sources than the CDM levy, such as government contributions or innovative finance mechanisms such as levies on air and maritime topics, assuming it continues to play a role in the future architecture<sup>13</sup>.

### Further special features:

Two further special features have been crystallized through the work of the AFB<sup>14</sup>.

i) Focusing on the **most vulnerable communities** or groups: Also adopted by all Kyoto Parties, a strategic priority and essential element of the AF rules is that *"in developing projects and programmes, special attention shall be given by eligible Parties to the particular needs of the most vulnerable communities"*<sup>15</sup> It is a kind of qualification in order to channel resources to serve those who are most in need, without jeopardising the undoubted principle that adaptation priorities need to be identified within the countries and not from outside.<sup>16</sup>

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<sup>9</sup> According to the Decision 1/CMP.3 par 32-33: The review of all matters relating to the AF as well as the institutional arrangements of the Fund should be executed in CMP 6. However the parties could not agree on the terms of reference ToR during SBI 32. It is expected that the ToR will be defined in Cancun in order for them to be executed during CMP7.

<sup>10</sup> Decision 17/CP.7: Modalities and Procedures for a Clean Development Mechanism (Marrakesh, October/November 2001) Annex 4, par.15

<sup>11</sup> The estimates are presented solely to provide the Adaptation Fund Board with a range of potential resources that could be available under different assumptions, and to assist the Board in its work program planning. CER Monetization Program: see WB (June 2010): Update on Carbon Markets: CERs Monetisation. Non- Paper of the Trustee on the CERs Monetisation for the 10th Meeting.

<sup>12</sup> See e.g. World Bank, (2009): The Costs to Developing Countries of Adapting to Climate Change New Methods and Estimates, available at: <http://siteresources.worldbank.org/INTCC/Resources/EACCExecutiveSummaryFinal.pdf>

<sup>13</sup> During the review of AF in SBI 32, the LDC have prepared a percentage for levy on air and transport in addition to the 2% CERs CDM activities which were provided for the fund. As the review was postponed until CMP 7 in 2011, there is the possibility to fully reflect on this suggestion, cope with reasonable exceptions and reach a text that is acceptable to all Parties

<sup>14</sup> Harmeling, (Dec 2009): p. 3

<sup>15</sup> AFB, 2009a:p.15, Annex 1, par 8.

<sup>16</sup> Germanwatch/Bread for the World, (Nov. 2008): Making the Adaptation Fund work for the most vulnerable, p.7.

ii) Additionally **a transparent working mode** has developed in time within the Board of the AF. All relevant documents are available to everyone prior and after the meeting of the AFB on the website. All interested observers are allowed to participate and even to sit in the meeting room of the AFB, except for very few closed sessions. While the Board previously had decided that all project and programme proposals submitted by Parties would be put on the AF website, it has now also installed the possibility to comment those project proposals prior to their adoption. It is expected from the NGO and CSO to take advantage of this innovative possibility and that the interests of those, which do not have the possibility to attend, are represented.

Besides this innovative features the AFB has established committees, panels and anything else that is necessary to deal with projects, programmes and entities in a good qualitative manner.

### Committees of the Adaptation Fund Board

The decision 1/CMP.3 Paragraph 5.g) explains, that one of the functions of the AF Board is to “*establish committees, panels or working groups .....to assist it in the performance of its functions*”<sup>17</sup>. Therefore the AFB has installed two committees during its sixth meeting of the AFB. Both committees consist of 16 members, so that every member of the board is in one of the two committees. The two committees are<sup>18</sup>:

#### i) the Ethics and Finance Committee (EFC)

The Ethics and Finance Committee is responsible for assisting the Board in ethical and financial questions, settling conflict of interest and reviewing account reports. Furthermore the EFC develops behaviour codes of conduct and rules of internal procedure, which protect the members of the AFB from external attacks.

#### ii) the Project and Programme Review Committee (PPRC)

The Project and Programme Review Committee supports the AFB in its responsibilities regarding Projects/Programmes according to the Operational Policies and Guidelines for Parties to access resources from the Adaptation Fund. It reviews these and forwards its recommendations to the Board.

Both committees have met a day prior to the tenth meeting of the AFB for the first time (14th June 2010). The meeting took place under exclusion of the public and will probably continue to take place behind closed doors. In the discussion in this respect the main argument was made, that within these committees it is often spoken about sensitive topics regarding NIE and MIE, which simply do not belong into public. The protection of the participants as well as the name of the AFB were given priority over the transparency required by the NGOs. It is also seen as common practice that such meetings of committees take place behind closed doors. As members of both committees are also in the overall AFB and must report on important decisions of the informal meetings a degree of transparency remains.

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<sup>17</sup> Decision 1/CMP/3 p.4

<sup>18</sup> Adaptation Fund Board (AFB), 2009b: Adaptation Fund Board Committee, pp. 1-3, available at: [http://www.adaptation-fund.org/system/files/AFB.B.6.6\\_Adaptation\\_Fund\\_Board\\_Committees.pdf](http://www.adaptation-fund.org/system/files/AFB.B.6.6_Adaptation_Fund_Board_Committees.pdf)

The PPRC has brought about important questions in its report and at the same time has identified gaps in the Operational Policies and Guidelines. Via this project proposal it has suggested the introduction of a standard management fee for NIE as well as MIE.<sup>19</sup> Furthermore it also became apparent, that according to the provision “*full adaptation cost*” also standard project formulation costs need to be added. These are necessary in order to encourage e.g. NIE to suggest more complicated projects, which require a cost intensive feasibility and conception assessment<sup>20</sup>.

### Accessing Resources from the Adaptation Fund:

One of the more serious problems with adaptation funding (currently through the Least Developed Countries Fund and the Special Climate Change Fund) is that vulnerable countries have had great difficulties in accessing the funds. Policies for accessing funds from the Adaptation Fund intend to provide a simplified access, and the reality will have to show if this objective can be achieved.

So how can eligible Parties access the resources of the Fund? What should a country pay attention to in order to increase its success possibilities both in accreditation of its Implementing Entities as in the approval of its project proposals? The AFB has adopted two important documents, in which all important questions in this respect are regulated, the Operational Policies and Guidelines for Parties to access resources from the Fund (OPG) approved by CMP5 in Copenhagen, and the Strategic Priorities, Policies and Guidelines.

The OPG is the key document with regard to how Parties can apply for fund with adaptation projects and programmes, how the project cycle works, what the accreditation of National Implementing Entities requires etc.<sup>21</sup> while the Strategic Priorities point out “*the basis upon which the operational policies and guidelines shall be developed to enable eligible Parties to access resources from the Adaptation Fund*”<sup>22</sup>. It explicitly does not describe technical standards for the kind of adaptation measure financed for the developing countries. But it puts emphasis that financing projects/programmes by the AF seeks to strengthen inter alia, “*national sustainable development strategies, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments where they exist*”<sup>23</sup>.

Worthwhile mentioning are also the eligibility criteria of the Fund: “*Eligible Parties to receive funding from the Adaptation Fund are understood as developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification,*

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<sup>19</sup> Around 10% the overall project costs are the average management fees charged by the implementing entities. What is remarkable, however, is that the size of the fees vary significantly. UNDP charges 10%, the World Bank requests 11.1%, and the only National Implementing Entity CSE only requests 5.4%. See Adaptation Fund Board (AFB), 2010a: par.4. Report: the secretariat initial screening/ Technical Review of Project and Programme Proposals, p.4 available at: [http://www.adaptation-fund.org/system/files/AFB.PPRC\\_1.11.Rev\\_1%20Report%20by%20the%20secretariat%20on%20project%20review.final\\_.pdf](http://www.adaptation-fund.org/system/files/AFB.PPRC_1.11.Rev_1%20Report%20by%20the%20secretariat%20on%20project%20review.final_.pdf).

<sup>20</sup> The Board has agreed during the last 10<sup>th</sup> meeting to provide the single accredited NIE “CSE” from Senegal resource for the Project formulation cost.

<sup>21</sup> AFB, 2009a: p.4., para 12 “*The overall goal of all adaptation projects and programmes financed under the Fund will be to support concrete adaptation activities that reduce the adverse effects of climate change facing communities, countries, and sectors*”

<sup>22</sup> Adaptation Fund Board (AFB), 2009c: Draft Strategic Priorities, Policies and Guidelines of the Adaptation Fund p.21

<sup>23</sup> AFB, 2009a: par 6

and developing countries with fragile mountainous ecosystems<sup>24</sup>. The eligible Parties which fall under this definition should thereby include the political and scientific findings into their plans.

Decisions on the allocation of means of the Adaptation Fund include the following criteria:

- (a) *Level of vulnerability;*
- (b) *Level of urgency and risks arising from delay;*
- (c) *Ensuring access to the fund in a balanced and equitable manner;*
- (d) *Lessons learned in project and programme design and implementation to be captured;*
- (e) *Securing regional co-benefits to the extent possible, where applicable;*
- (f) *Maximizing multi-sectoral or cross-sectoral benefits;* (g) *Adaptive capacity to the adverse effects of climate change.*

Since the above definition of eligible countries has not yet been applied to specific countries, all 149 developing country Parties to the Kyoto Protocol are eligible for the Fund<sup>25</sup>. Nevertheless, the AFB has considered how to set priorities and initial funding priorities, being aware that resources are scarce and will not suffice to provide all eligible Parties with a substantial amount of resources, and taking into account the fact that the adaptive capacity and the vulnerability of developing countries differ significantly.

Herefore the Secretary has prepared a document outlining different approach for “initial funding priorities”. This document considers different options, ie a uniform cap per country among all eligible Parties or variable caps taking into account the specific circumstances of certain groups, countries and projects<sup>26</sup>. The problem is on the one hand that there is the difficulty of scarce resources. And on the other hand the AF should not only finance small projects, but also larger-scale programmes. The discussion within the Board regarding the funding priorities has not yet resulted in further clarification.

It remains to find out how the AFB will deal with this challenge in order to transform its innovative features like the direct access into financing concrete adaptation projects.

### Working towards direct access to funding

There are many definitions of direct access<sup>27</sup>. The AFB approach can best be described as a “simplified finance modality”. Accordingly eligible Countries which seek financial resources from the AF have several options. They can nominate national institutions, which then are accredited by the UN-AF as National Implementing Entities (NIE). The countries also have the possibility to use the services of so called multilateral Implementing Entities (MIE) as the World Bank or UNDP<sup>28</sup>. Furthermore a group of Parties may also nominate regional and sub-regional Entities e.g. ECOWAS as implementing entities in lieu of NIE<sup>29</sup>.

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<sup>24</sup> United Nations Climate Change Convention on Climate change UNFCCC (1992): Convention: preamble paragraph 19. This definition builds on the one contained in the Convention: preamble paragraph 19.

<sup>25</sup> Kaloga and Harmeling, 2010a: p. 4.

<sup>26</sup> *Id.* at p. 4-6

<sup>27</sup> Caritas and CISDE (Juin 2010): Discussion Paper: Business as Usual, Direct access: Giving power back to the poor?

<sup>28</sup> Several Multilateral Implementing Entities have now been accredited by the Board and thus can be used by the Parties. A group of Parties may also nominate regional and sub-regional entities as implementing entities in lieu of NIE.

<sup>29</sup> In this case all countries of the region must endorse the regional organisation as its designated authority.

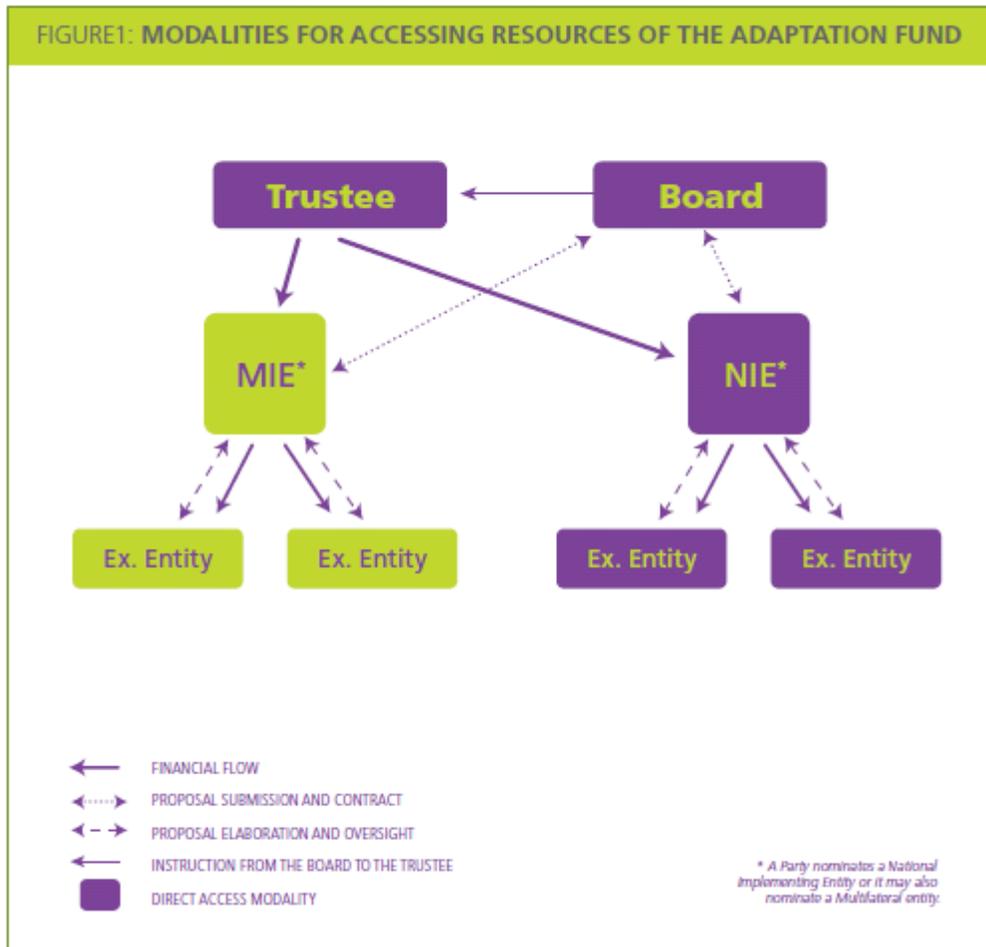


Figure 1: Modalities for accessing resources from the AF, incl. direct access  
 Source: Adaptation Fund 2009: Accessing Resources from the Adaptation Fund: the Handbook.

In order to be accredited, these Implementing Entities (IE) need to prove, that they fulfil the accreditation standards.<sup>30</sup>

- i. **Financial management and integrity:** e.g. the ability to provide accurate and regular recording of transactions and balances, audited periodically by an independent firm or organization, etc....
- ii. **Institutional capacity:** e.g. the capacity to undertake monitoring and evaluation as well as the ability to identify, develop and appraise project, etc...
- iii. **Transparency, self-investigative powers:** the competence to deal with financial mismanagement and others forms of malpractice

Once Parties have identified a domestic institution which in their view fulfils these standards, they can nominate it to the AFB. For this process an Accreditation Panel (AP) was installed. The AP consists of two Board members and three Experts of the area.

<sup>30</sup> Adaptation Fund Board (AFB), 2009d: Report on Fiduciary Standards for Implementing Entities, para 32 available at: [http://adaptation-fund.org/images/AFB.B.6.4\\_Fiduciary\\_Standards.pdf](http://adaptation-fund.org/images/AFB.B.6.4_Fiduciary_Standards.pdf)

### Accreditation Process

1. **Step 0:** The government appoints a Designated Authority (DA). DA must endorse the nomination of a potential NIE and the project and programme proposals.
2. **Step 1:** Submit application with DA endorsement at the secretariat level
  - a. Description of how the organization meets the specific required capabilities
  - b. Attachment of supporting documentation,
    - i. If the application package is complete the secretariat forward it to the Accreditation Panel
3. **Step 2:** The AP reviews Application.
4. **Step 3:** AP can request additional information/clarification from organization.
  - a. Might suggest to Board that an on-site visit and /or observation of an organization is required
  - b. Might suggest that technical support needs to be provided to an applicant to improve its capacity in order to attain accreditation
5. **Step 4:** AP makes recommendation to AFB.
6. **Step 5:** AFB makes final decision on accreditation of entity.

Still it seems to be difficult for the developing countries to accredit their own institutions. Until today six MIEs have been accredited. the World Bank (WB), United Nation Development Programme (UNDP), United Nations Environment Programme (UNEP), World Food Programme (WFP), the Asian Development Bank (ADB) and the International Fund for Agricultural Development (IFAD). There is only one accredited NIE so far, the “Centre de Suivi écologique de Senegal (CSE)”. The latter decision showed that there are institutions in developing countries which can comply with the necessary fiduciary standards that were set by the Board as safeguards to allow direct access. The fact that an institution from a francophone African country has managed this first in an English-biased process is additionally remarkable. However, the relation of six MIE to one NIE is a signal to the Board that additional, accompanying measures may be required to deal with the obvious capacity constraints in developing countries and to facilitate the accreditation of further NIEs. This is of overall significance for the legitimacy and the role of the AF. If the direct access approach fails because developing countries do not show enough interest in it this would severely undermine the objective of making direct access the rule in the future rather than the rare exception.

As seen in the accreditation process, it seems not to be a straight-forward task to identify appropriately qualified NIE in developing countries. While there seem to be further expression of interests from countries who want to nominate NIEs, the countries have not yet managed to provide the necessary information to the AP. Therefore it is crucial to assist developing countries in establishing these necessary National Implementing Entities. The AFB has started to address this difficult task through developing a „Work programme to promote the accreditation process of NIE”. The aim is to assess modalities for providing technical support to NIE applicants. Therefore in the near future several regional workshops are planned as well as a field visit in the countries whose accreditation failed due to small institutional disabilities. It is worthwhile mentioning the readiness of some multilateral institutions such as WB, UNDP, and UNEP to strengthen national capacity in developing countries with a view to facilitate their applications for NIE accreditation to the Fund. However, there is also a potential conflict of interest

situation in this constellation, since the multilaterals would be expected to assist developing countries to become independent of them. Thus, there is good reason why for example bilateral development organisations could take up the role of this capacity building since they will not perform the tasks of implementing entities under the Fund.

### Applying for funding

To access AF resources, every project/programme proposal for funding must be submitted to the Secretariat by a designated authority that will endorse on behalf of the national government the projects and programmes proposed by the implementing entities<sup>31</sup>. Furthermore “every project/programme for funding will have to be in compliance with the eligibility criteria”<sup>32</sup>.

The project cycle in order to achieve access to the resources of the fund is relatively clear, as can be seen in the graph below.

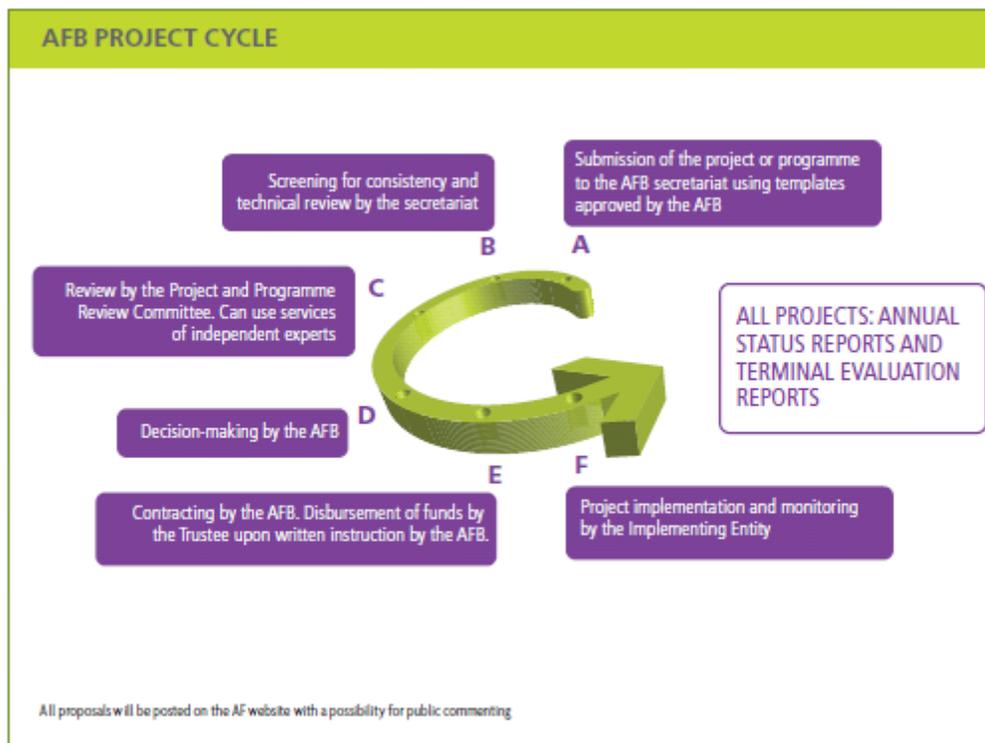


Figure 2: Project Cycle of the Adaptation Fund

Source: Adaptation Fund 2009: Accessing Resources from the Adaptation Fund: the Handbook.

Project proposals can only be submitted through the aforementioned accredited agencies. Their accreditation decision was supported by a stringent analysis of the fiduciary standards of the organization, carried out by the AP. The Approval and Operations Procedures consist of two approval processes under the Adaptation Fund Project Cycle:

<sup>31</sup> Proposals to be endorsed by a National Designated Authority. As of today of today, 22 Countries: Algeria, Argentina, Colombia, Cyprus, Egypt, Guinea-Bissau, Honduras, India, Jamaica, Madagascar, Mauritania, Mauritius, Nicaragua, Pakistan, Philippines, Samoa, Senegal, Solomon Islands, Sri Lanka, Turkmenistan, Uruguay, Viet Nam.

<sup>32</sup> Adaptation Fund Board AFB, 2009c: Annex Ipar 15 I.

- a. *one-step approval process or single process*, which may be used for small-size projects or regular projects<sup>33</sup>, with proposals that are already fully-prepared<sup>34</sup>. The Approval process includes the following steps as described below in the project cycle.
- b. and *two-step approval process*: which may be used for regular projects, if it is so decided by the proponent Party:
  - i. project concept approval which is used for the first step of the two-step approval process -only for regular projects that have not been fully developed
  - ii. final project document approval. Each of these steps is subject to the same approval process as the single approval process (see Graph 2)

The rationale for choosing such process is for a country to receive feedback or guidance from the AFB upstream before a project has been fully prepared. The review criteria are applicable to both the small-size projects and regular projects under the single-approval process. For regular projects using the two-step approval process, only the first four criteria (a) till (d) (see graphic above) will be applied, when reviewing the 1st step for a regular project concept.

The first call for project and programme proposals to eligible Parties in March this year marked a crucial point in the development of the AFB. Several proposals were submitted since then. In addition to the proposal of the only accredited NIE, CSE from Senegal, seven projects submitted through accredited MIE – one through the World Bank and one through UNDP – until the 10<sup>th</sup> meeting<sup>35</sup>. Among the eight submitted projects four were accepted and the consideration of the other four were referred to next session, due to insufficient information<sup>36</sup>.

Generally one could summarise as follows:

- i. the submitted projects cover a range of climate risks, from glacier lake outburst floods to droughts and floods and sea-level rise;
- ii. six out of the eight projects would be based in coastal regions, addressing sea-level rise and other coastal climate risks;
- iii. developing countries from all world regions are among the first proponents;
- iv. the way that certain aspects are addressed, in particular the need to pay particular attention to the **needs of the most vulnerable communities and to meaningfully consult stakeholders**, vary significantly, with some projects performing better and some weaker (the majority of projects);
- v. **this situation also indicates the need for clearer guidelines to ensure an effective involvement of affected stakeholders at all relevant stages;**
- vi. except for the project submitted by Senegal which includes to involve NGOs, all

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<sup>33</sup> The Categories of projects under the Adaptation Fund are: i) Small-Sized projects and programmes : defined as project proposals requesting up to \$1.0 million, and ii) Regular-Sized projects and programmes : project proposals requesting more than \$1.0 million. See AFB 2009a: p. 22

<sup>34</sup> A fully developed project is one that has been appraised for technical and implementation feasibility and is ready for financial closure prior to implementation. A brief project concept is approved in the first step followed by the review and approval of a fully-developed project/document in the second-step. A two-step process, while time consuming minimizes the risk that a proponent does not invest time and energy in fully developing a project or program document that fails to meet the criteria of the Fund. Funding will only be reserved for a project after the approval of a fully-developed project document in the second step.

<sup>35</sup> For more information. See Kaloga and Harmeling 2010 b: Germanwatch Briefing on the 10th meeting of the Adaptation Fund Board. These Countries are: Mauritania, Mauritius, Solomon Islands, Turkmenistan, Nicaragua, Pakistan, Egypt from MIE, and one from NIE.

<sup>36</sup> These Projects are from : Turkmenistan, Egypt and Mauritania and Pakistan.

other projects exclusively rely on government agencies (mostly environment ministries) as executing entities.

### Engaging civil society

It is important to distinguish between the implementing entities which have the role to oversee project implementation, and the executing entities which are envisaged to carry out the projects on the ground. The latter ones of course need to have good experience with development and adaptation projects, and often civil society and local community organisations have best knowledge of what the vulnerable people's concrete problems are in areas impacted by climate change. Thus, their inclusion is important to comply with the Fund's strategic priority to give particular attention to the special needs of the most vulnerable communities (see above). There is also an increasing exchange on the international level on community-based adaptation.<sup>37</sup> Thus, an implementing entity should also have the capacity to subcontract with non-governmental stakeholders. Also it is advisable to include experienced NGOs in the identification of priority projects.

From the perspective of civil society, it is important to highlight that their role and importance of their engagement becomes more crucial now, when countries are starting to identify and design concrete projects and programmes and propose them to the Adaptation Fund. There are entry points in the AFB rules which allow for active civil society engagement, but so far only few NGOs have taken up this matter within developing countries, also because of capacity constraints. However, civil society should be seen as a potential partner for governments to optimise project identification and implementation.

Each link in the chain of social organizations e.g. CSO, NGO, is essential. Social organizations allow the implementation of many projects which would not take place without their cooperation because of their closeness to the affected parties, a greater acceptance than some of the government agencies and their commitment. It is expected of the NIE to closely cooperate with these. They also should supply the executing entities with the needed information, if available, to identify those people most vulnerable and their needs. In result, the interest of the most vulnerable people should be reflected. On the other hand a strong engagement of the civil society is expected. They should continuously contact the accredited Implementing Entities within countries in order to raise awareness on good adaptation options and the needs of the most vulnerable communities. On the international level, the AFB provides the public the opportunity to publicly comment on the projects submitted prior to their adoption. This allows to for example point to critical aspects in a project proposal, e.g. if adverse effects on vulnerable communities must be expected. Of course, it can also be used to support well-designed projects. In addition the NGO must take advantage of commenting on projects, in order to explain concern or experience.

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<sup>37</sup> A number of international conferences on CBA have taken place, a Global Initiative for Community-based adaptation (GICBA) was launched earlier this year, see also [www.cba-exchange.org](http://www.cba-exchange.org)

## The future Fund: assessing the outlook

The AF with its innovative feature is established and now fully operational. Now it has the possibility to show all how its features can manage the adaptation challenge. 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 established committees, panels and anything else that is necessary to deal with Projects, Programs and entities in a good qualitative manner. The first project concepts have now been approved and the first payments for implementation will take place this year. The accusation that the Fund is too polarised in order to function well is proving itself as unsubstantiated<sup>38</sup>.

In order to ensure that results are being met and the implementation is being monitored, the AFB currently develops a „result based framework“, which contains high-level goals, information and objectives, appropriate indicators and targets, all essential for monitoring progress towards results and utilisation of resources. The measurable, verifiable and quantifiable results should help the Board to steer the AF in the right direction, as well as provide the Parties with guidance for successful implementation of projects and programmes.

We have seen in this paper, that the faulty accreditation of NIE is a challenge for the AFB. This requires a strong and ambitious communication strategy, which uses each regional as well as international meeting, in order to explain how one can access the resources of the Fund rapidly.

The NGOs and CSOs should be given the opportunity to demonstrate their maturity in terms as executing entities, what has happened with the first project proposal submitted by the Senegal NIE. This is part of a larger learning process in which it is very important that it is assured sufficient experimentation and heterogeneity in projects and executing entities because the challenge of adaptation is relatively new and we need to build an array of best practices to be scaled up quickly and widespread to other countries.

To reach out to the most vulnerable communities, it's crucial to engage those organisations that already are embedded in the most difficult conditions, which are often linked to poverty, social exclusion, geographical marginality.

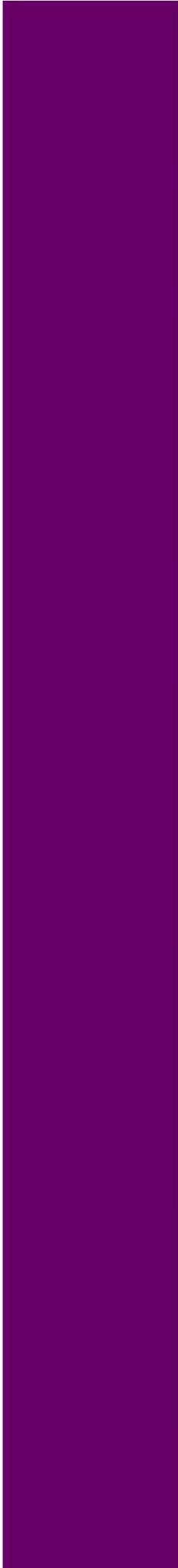
On the international level, engaging for additional funds to be channelled to the AF remains an important task. First developed countries have now pledged voluntary contributions to the AF which is a signal of the growing trust.<sup>39</sup> However, what is really needed is the implementation of innovative sources which can generate resources additional and independent from developed countries' national budgets, such as levies or emission allowance auctioning for aviation and maritime transport, as the LDCs have started to ask for. Furthermore, the progress of the AF should also be highlighted in the context of the debate about a new Fund under the Convention, where the AF could potentially become a window.<sup>40</sup>

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<sup>38</sup> Such criticism may be strategically motivated by developed countries who may feel that it is not in their interest to develop alternative approaches to the current World Bank/GEF architecture for delivering climate change funding.

<sup>39</sup> Spain: 45 million Euro; Germany: 10 million Euro; Sweden: 10 million Euro

<sup>40</sup> Of course, this is not an easy debate which needs to take into account the two-track reality (KP and LCA) and other aspects. Nevertheless, a strong future for the AF should be advocated for progressively.



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