

## **Submission by Germanwatch on behalf AF NGO NETWORK International on the second review of the Adaptation Fund<sup>1</sup>**

Having closely been following the development of the Adaptation Fund (AF) since the inception of the Adaptation Fund Board (AFB), AF NGO NETWORK<sup>2</sup> International appreciates the opportunity to submit its views and recommendations on the review of the Adaptation Fund based on the terms of reference annexed to decision 2/CMP.9.

The Subsidiary Body on Implementation has been requested in Warsaw to consider the second review the Adaptation Fund at its fortieth session, with the goal to recommending a draft decision for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its tenth session.

### **Key areas of progress**

AF NGO NETWORK acknowledges that the AF has, since its operationalisation, been successfully thriving in piloting several innovative features; such as financing concrete adaptation projects and programmes in eligible vulnerable developing countries, direct access modality, auto-financing procedure through monetization of 2% levy of certified emission reduction (CER from the Clean Development Mechanism).

At the outset, we would like to emphasise that the innovative design features of the Adaptation Fund have been an inspiring source of information and experience for Parties and many stakeholders, as they seek to design new climate finance institutions. It is therefore helpful to consider the particular contribution that the Adaptation Fund has made in its global efforts to deliver climate finance. Six years after the operationalisation, and with the renegotiation of the post-2020 financial architecture, the moment is right to analyse and review the operations and achievement of the Fund as part of the overall financial mechanism under the Convention.

From CSO perspective, an unprecedented characteristic of the AF is its explicit emphasis on meeting the needs of the most vulnerable populations. This is materialised in its investment strategy and allocation framework. Although it is not a prescriptive conditionality imposed by developed countries, this strategic focus on all vulnerable communities and groups is not only enshrined in the policy and guidance of the Fund, but most importantly, is a key criterion for approval of any projects submitted to the Fund. Furthermore, the AF Board works with a significant level of transparency, and has established both informal and formal processes for engaging with stakeholders. In addition to its complaints mechanism and itself investigative power (OPG,

---

<sup>1</sup> For further questions on the submission , please contact Alpha Kaloga Lead Analyst of the AF NGO Network at [Kaloga@germanwatch.org](mailto:Kaloga@germanwatch.org)

<sup>2</sup> The AF NGO Network is an independent coalition of NGOs set up and coordinated by Germanwatch and other interested stakeholders following the development of the Adaptation Fund and its funded projects, in the interest of the most vulnerable communities.

para 38), the Board allows CSOs particularly from project countries to comment projects submitted to the Board for approval, thereby ensuring that the information provided by the project proponents reflect the reality on the ground. This effort has been rewarded by the International Aid Transparency Index, which ranked the AF as 17th of 72 institutions in 2012 and the first among climate funds. After 2012 IAT has not assessed climate finance institutions ever again.

Furthermore, the AF has adopted overall fund-wide environmental and social safeguards already inherent in the projects it funds. These safeguards will be applied not only throughout the implementation of projects, but also used as a requirement in addition to the fiduciary standards for accreditation of any new implementing entities. Accordingly, any entities receiving funds from the AF should identify and manage the environmental and social risks of their activities, by assessing potential environmental and social harms and then by identifying and implementing steps to avoid, minimize or mitigate those harms.

The direct access modality, which was for the first time in the international multilateral climate landscape being implemented by the AF, is, and has been catalytic by creating interest in developing countries to demonstrate they can meet international fiduciary, transparency and management standards. So far the AFB has accredited 16 National, 11 Multilateral and 4 Regional Implementing Entities (IE). Several accreditation applicants are in the pipeline seeking accreditation and have hence been upgrading their institutions as to master the accreditation process. Furthermore, it is worth mentioning that most of the AF's project and programmes have elements that seek to enhance and strengthen underlying policies, law, regulations, with the view of strengthening the adaptive capacity and understanding of climate effects in vulnerable countries. The recent adoption of the readiness activities of the Fund is a recognition by the Board of the 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<sup>3</sup>.

So far, the cumulative funding decisions made by the Adaptation Fund Board up to December 31, 2013 amount to USD 224.19 million. This amount of money is reserved to finance project and programme in 34 countries, out of which nine are NIEs countries. This means that funds available amounted to USD 170.9 million as of December 31, 2013. Since the start of the CER monetization program in May 2009, the Trustee has generated revenues of USDeq. 189.79 million through CER sales. As of December 31, 2013, the Trustee generated revenues of USDeq. 1.8 million from CER sales during calendar year 2013. As of December 31, 2013, cumulative donations to the Adaptation Fund amounted to USDeq. 205.53 million.<sup>4</sup> This shows that against the purpose of making the AF independent from donor contributions, the Fund has become highly dependent on the contribution of donor countries.

---

<sup>3</sup> See AFB/B.23/5: [Execution arrangements of the Readiness Programme](#) or AFB/B.22/6: [Options for a Programme to Support Readiness for Direct Access to Climate Finance for National and Regional Implementing Entities](#)

<sup>4</sup> AFB/EFC.14/.7: [Adaptation Fund Trust Fund: Financial Report Prepared by the Trustee \(As at 31 December 2013\)](#)

The current carbon market situation implies for the AF has to re-consider its source of finance and its role after the operationalisation of the Green Climate Fund. Discussion on strategic positioning of the Fund has been discussed at the Board level. However, the issue has not been enjoying the status it deserves, due to the perceived lack by some members of mandate by the CMP to do so. The Board should be hence encouraged to consider and explore ways how the AF will be placed in the overall climate finance architecture as well as sources of financing.

The sharp fall in CER prices over the past twelve months, due to the lack of ambition for extending the Kyoto Protocol into a second commitment period; the uncertainty about the Protocol's future; the global financial crisis; and the oversupply of CERs all pose significant challenges to the Fund, as well as potential opportunities to continue spearheading the provision of funding for adaptation. Once again, it is therefore appropriate for the Board to start considering different potential activities and options in order to seize the opportunities while ensuring full understanding and appropriate management of the underlying risks.

This financial situation has severely limited the ability of the Fund to continue its work. On the one side it has led to the country cap of 10 million for each eligible Parties. On the other hand, it has also forced the AF to introduce and maintain a 50% cap for projects and programmes submitted by MIEs. Projects are put in the pipeline awaiting that the AF received additional funds to finance them. The decision stipulates 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. Currently five projects are in the pipeline. Altogether nine have been placed in the pipeline, including WFP Indonesia in March 2014. Five have been released from the pipeline (Guatemala, Cuba, Seychelles, Uzbekistan and Myanmar) after the contribution by developed countries in Warsaw.

As consequence, the AF Board has set a fundraising target in March 2012 of US\$100 million with the goal of raising the money by the end of 2013. In Warsaw, the AF Surpasses \$100 Million Fundraising Target at COP19 by receiving strong support from international community particularly by members of EU. However, this injection of funding will enable the AF to finance projects likely until the end of this year. According to the Trustee, the new funding secured in Warsaw would only allow the fund to undertake its mandate for a very limited time. If current CER prices and estimated CER issuance levels remain unchanged, it is estimated that the Adaptation Fund would receive approx. USDeq. 15-30 million in additional CER proceeds to 2020. As result, the AFB's fund raising team of the AF has been institutionalised at the last board meeting, as an ongoing effort of the AF to mobilize fund. The new target for the end of this year is US\$ 80 million. Again, this target will also allow the AF to finance project by the end of 2015.

## **Second Review of the Adaptation Fund**

It is important to remind that the initial review was concluded in Doha in 2012<sup>5</sup>. At the same COP, a second review has been launched to be finalised at the upcoming COP

---

<sup>5</sup> Decision 4/CMP.8

20. It is therefore essential that the upcoming review builds on the previous and assesses the extent of how the recommendations by the CMP have been truly implemented. In doing so, it is important that the second review does not replicate work undertaken in frame of the initial review.

Moreover, it is important to point out that the evaluation of the AF is also scheduled for this year. It is of utmost importance that findings from this evaluation are fed in during the review. In our view, the evaluation is an irredeemable source of information for the second review.

AF NGO NETWORK supports the decision by the AF of undertaking a two-phased evaluation of the Fund. The first evaluation phase review will address all issues related to the AF since its operationalisation and impacts of its 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 funded projects are completed and some projects have been mid-term evaluated. SBI40 should therefore in its conclusion request the secretariat to make available the outcome of the evaluation of the AF as to allow their reflection in the second review of the Fund.

This part is divided along the ToRs for the second review and strives to share views on how the SBI will undertake the review as to meet its objectives.<sup>6</sup> 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 CMP10.

### **Effectiveness**

With regard to effectiveness, several elements could be summed up here for the assessment of the extent, through which the AF has been fulfilling its mandate in an effective manner. We will rather focus on the scale of its operation, the enabling environments that the AF portfolio has been providing, as well as the catalytic outcomes of its intervention, innovative nature and national ownership.

**Supporting activities at different scale:** The Fund's operation in developing countries is spread at different scales. All approved projects of the AF contain national and sub-national elements. However, it is generally acknowledged that adaptation is very localised. The question here to be answered is to which extent the AF has been encouraging at project level the greater engagement with sub-national and community level stakeholders to ensure effective project design and implementation.

**Enabling environments:** In order to achieve its goal of increasing adaptive capacity and reducing vulnerability, it is important that AF-funded projects promote policy, regulatory and governance frameworks that will foster fundamental institutional and individual change, as well as send a strong signal to other donors to support and sustain AF activities, by financing additional projects in the project areas. It will be important, as part of the effectiveness assessment, to consider how AF projects or accreditation has been impacting the focus on policy, regulation and capacity. Equally, it will also be important to see to which extent the AF process in recipient countries

---

<sup>6</sup> Annex to the decision on the second review of the Adaptation Fund; Decision 2/CMP.9

has helped to address some overarching financial barriers to adaptation investments. Along this line, it will also be interesting to see how the capacity building work of the AF, e.g. from the Accreditation Panel, accreditation workshops as well as project implementation have led to a game change in developing countries.

**Catalytic outcomes:** This refers to the extent the AF has enabled other donors to invest in adaptation projects in the same areas as well as the replicability of its intervention. In addition, it will be important to also look at how the AF activities have enabled the deployment of new adaptation technology, such as those related to disaster risk management or enhanced food security. Also crucial is to look at the level of awareness raised in regard to climate change and the need to adapt in recipient countries. Last but not the least, this part should also gauge how the accreditation of NIEs has motivated other institutions within developing countries to upgrade their policies as to meet international standards.

**National ownership, sustainability and innovation:** the centrality of ownership to long-term effectiveness is well acknowledged in the development and climate finance community. Although all adaptation projects must document how they build on existing development and climate challenges, it will be interesting to see how the AF projects interact with other adaptation funding in the targeted projects areas towards achieving a single country strategy. Ownership has also to do with the level of involvement of local actors, as mentioned above. Furthermore, the effectiveness assessment cannot be undertaken without looking at how the AF has been implementing its access modality as to ensure great devolution of work and allow more engagement with the beneficiary.

### **Sustainability**

Sustainability at the project level has been covered by the issues related to effectiveness. Here, sustainability will be referred to 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.

Given the collapse of the carbon market, the Adaptation Fund has become more dependent from voluntary contributions by developed countries. At the last meeting, of the AFB, the Trustee indicated that for the first time, voluntary contributions have overtaken resources generated through the monetization of CERs. It seems unlikely that the AF will reach its new fundraising target of USD 80 million by the end of this year, given the climate finance agenda this year and the need to capitalise the GCF. Hence, the review should come up with proposals and recommendations that the CMP can explore, with the view of scaling-up and sustaining AF resources.

Several options are possible, ranging from a formal and regular replenishment process to the extension of the levy of the share of proceeds, as well as linking up the Fund with other emission trading schemes.

From the outset, it is important to highlight that any new market mechanism to be adopted under the Convention should allocate an appropriate levy to the Adaptation Fund. This is important in order to ensure that the AF keeps its innovative funding



mechanism. This is an important element to ensure predictability of Adaptation Fund resources. Given the uncertainty of the Kyoto Protocol and its market mechanisms, as well as the low price of carbon and related market uncertainties, it is important to have clarity how the Fund will be financed in the future;

- Future measures and decisions under the CMP and the Convention should be used to provide higher levels of financial sustainability for the Adaptation Fund.
- The decision of Doha to extend the levy to AAUs and ERUs has revealed not being able to generate a significant amount of money.
- Consideration of a set of measures to stabilize the price of CERs including through dealing with the level of ambition; or using the such as CDM stabilization fund
- Application of a 2% levy on emission trading schemes in Annex B countries
- Exploration of voluntary levies being applied to national and regional emission trading schemes, such as the EU-ETS, Australia, New Zealand, Japan etc. as to allow an allocation of certain levy to the AF.

Considering and formalising a replenishment process to be undertaken each two years and in conjunction with the biennial submissions by developed countries Decision 3/CP.19

•

### **International Air Passenger Adaptation Levy<sup>7</sup>**

The levy is to benefit the Adaptation Fund and is to be universal in the sense of covering all international air travel and collected by airlines at the point of ticket sale. Being international and dependent only on the evolution of the air travel demand - and not on bilateral replenishment - the funds raised will truly be new and additional, as well as significantly more predictable than traditional funding mechanisms.

The calculations of the near-term revenue estimates of \$8bn to \$10bn are based on a travel class differentiation in line with the French solidarity levy, as well as IATA figures and estimates for current international passenger numbers (760m) and annual demand forecasts (5.1% p.a.). The calculations also assume 93% coverage of all international scheduled air traffic i.e. reflecting International Air Transport Association (IATA) membership – and 99% collection efficiency.

The carbon footprint of all UN-wide meetings should be offset and allocated to the Adaptation Fund.

### **The institutional linkages and relations, as appropriate, between the Adaptation Fund and other institutions, in particular institutions under the Convention**

Though the AF is an instrument of the financial mechanism of the Convention, it is not an operating entity of the financial mechanism such as the GEF and GCF. The Adaptation Fund Board is the operating entity of the Adaptation Fund. This singularity seems to be the main impediment of the AF to enable the AF to seize all opportunities and draw attention of all parties (KP and non-KP) and places the AF to some extent at the margin in the spectrum of the financial mechanism.

---

<sup>7</sup> See proposal by Maldives on behalf of LDC Group

In the last years, this situation has become obvious, as some Parties have been engaged in the discussion on how to relocate the AF and define its place vis-à-vis other instruments of the financial mechanism.

In terms of interlinking the AF with the other operating, several options are possible:

- a) The COP in conjunction with the CMP relocates the AF under the Convention. In the best case, the CMP can trigger the process as result of the review of the AF. This option requires a set of decisions by both the COP and CMP and will last some years until it could become effective. The threat lies in this option is that is driving by a strong political will, e.g. how will not-Kyoto Parties react, in the case that
- b) The Standing Committee on Finance, in its function of enhancing coherence of the finance mechanism, could propose the best way to deal with adaptation within the overall climate finance architecture and recommend how the AF could cohabite with other funds
- c) The third option: retaining the AF under the KP, but as a window of the GCF. The GCF Board is the body authorized to add, modify or remove additional windows (Para. 39 of the GCF Governing Instrument). This option has the potential to be easily implementable, if there is a clear division of labour between the AF and the GCF. In this case, the GCF could focus on a large-scale programmatic approach with strong transformational potential towards resilience building. The AF could implement small-scale and urgent isolated projects that address the imminent adaptation needs of developing countries and further And pilot innovative approaches/modalities. The assumption here is that in order to achieve resilience, the first step is to address immediate and urgent needs that are the fundament of a long-term programmatic approach. This constellation would be in line with the Governing Instrument of the GCF and the Operation Policies and Guidelines of the AF. In doing so, a decision by the COP is needed, requesting the GCF Board to amend its structure with regard to the addition of AF as to become the "adaptation window", window or direct-access preparatory window of the GCF.

Institutional arrangement: CMP10 will need to make a decision on the institutional arrangements with the GEF providing secretariat service and the World Bank acting as Trustee. The mandate of the GEF as secretariat expires upon completion of the 2nd review and the mandate of the WB as trustee in June 2015 (decision 4/CMP.8). In our view, both institutional arrangements should be kept on interim basis and extended until the overall evaluation of the Adaptation Fund is completed. Based on the findings and recommendations of the final evaluation of the funds, Parties should consider again the institutional arrangement with the Trustee and the Secretariat.