



ADAPTATION FUND

AFB/B.19/5
13 November 2012

Adaptation Fund Board
Nineteenth Meeting
Bonn, Germany, 13-14 December 2012

STRATEGIC PROSPECTS FOR THE ADAPTATION FUND

Background

1. This agenda item was introduced to the Board agenda at the request of the former Board Chair. At its 18th meeting the Board initiated consideration of the matter. In introducing the agenda item, the Chair stated that the Board needed to start a strategic discussion of further steps that could be undertaken to consolidate the Fund, particularly taking into account the review of the secretariat and trustee, and the emerging institutional processes under the UNFCCC including the Standing Committee on Finance and the Green Climate Fund.

2. The current carbon market situation means that the Fund has to consider its resources as well as the role it will play once the Green Climate Fund is fully operational. The Chair described various potential scenarios, ranging from business as usual—where the two funds would operate independently of each other—to a scenario where both would cooperate or even integrate, in which case the Adaptation Fund might operate as the adaptation arm or specialized window of the Green Climate Fund. It was pointed out that the Fund would have to be flexible in determining how it would interact with an operationalized GCF.

3. At the meeting, the Board agreed that it was important to have a strategic discussion, while also keeping in mind that the Adaptation Fund was established with the specific mandate to address adaptation. The Adaptation Fund had been effectively fulfilling this mandate and was continuing to help developing countries, especially those most vulnerable to the effects of climate change. Several references were made regarding the need to find additional resources for the Fund to continue its work by soliciting additional funding from developed countries. It was also observed that securing donations from the private sector might prove difficult given that the private sector is profit-driven.

4. It was pointed out that it was important to keep the discussion within the remit of the Fund, which would entail considering the lessons learned, strategies for finding additional financing, how to achieve a better return on its investments, and how to make better use of the money in the Fund.

5. The Chair thanked the Board for its comments and said that it would be important to receive additional feedback so that the secretariat could prepare a paper on the issue for consideration by the Board at its 19th meeting.

6. The Adaptation Fund Board decided to request the secretariat to prepare a paper for a strategic discussion on objectives and further steps of the Fund for consideration of the Adaptation Fund Board at its 19th meeting.

(Decision B.18/43)

7. Following the mandate above, the secretariat prepared the paper annexed to this document, based on the comments made by the Board Chair and members at the last Board meeting, for consideration by the Board.

Recommendation

The Adaptation Fund Board may wish to consider the issues raised by the annexed paper and decide on a way forward.

Strategic Prospects for the Adaptation Fund

Background

1. The Adaptation Fund has been successfully pioneering a number of innovative practices, most notably the direct access modality and its financing through the monetization of Certified Emission Reductions (CERs) from the Clean Development Mechanism (CDM). Still, the Fund is now at a crucial point.

2. 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. 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.

3. Among the issues that are necessary to take into account at this point in the Fund's evolution, are the following:

- The initial review of the Adaptation Fund;
- The operationalization of the Green Climate Fund (GCF);
- The emergence within the UNFCCC process of a work programme on long-term finance and the establishment of the Standing Committee on Finance for the rationalization of climate finance flows,;
- The uncertainties surrounding the continuation of the Kyoto Protocol;
- The potential emergence of other market-based mechanisms for the generation of new and additional funding sources for climate change activities, particularly for adaptation.

4. Against this backdrop, it is important that the Board of the Adaptation Fund strives to:

- Achieve an informed understanding of all the potential implications that the processes above may have on the Adaptation Fund, particularly in relation to the risks and opportunities that they may bring about for the Fund.
- Build a shared vision within the Board on all issues where a clear and formal position by the Board becomes advisable or even necessary.
- Develop criteria and clear positions to support the Chair and the secretariat of the Board in their consultations with donors, fundraising, engagement in policy discussions to inform the negotiations under the UNFCCC, and also to enhance the consistency and coherence of the communication strategy of the Fund.

Building a Strategic Vision

5. How should the Adaptation Fund fit within the emerging institutional architecture of the financial mechanism of the UNFCCC? How can the Fund upscale its resources in order to effectively channel finance for adaptation and respond to the increasing demands of developing countries?

6. These are questions that have been pressing all Board members and others involved in supporting the work of the Fund.

7. Given the prioritization and prominence that the Green Climate Fund has received from Parties to the UNFCCC, these questions may be framed in the following manner:

8. What role can or should the Adaptation Fund play during and following the operationalization of the GCF? What can or should be the most appropriate institutional arrangements to ensure institutional coherence and synergy?

9. There are growing calls from a variety of stakeholders for the Board of the Adaptation Fund to express its own views on the questions and issues posed above.

10. Responding to these calls, the Chair of the Board started an initial exchange of views among Board members on possible ways to address these issues and move forward in building a strategic vision for the Fund.

Potential Scenarios for Consideration

11. As a way to encourage the discussion, the following scenarios can be identified in the context of the conclusion of the initial review of the Adaptation Fund, expected to be finalized in December 2012 at CMP8, and the further operationalization of the GCF:

(a) Status quo	The AF continues its current interim arrangements with the Global Environment Facility and the World Bank and its lines of accountability and reporting under the authority and guidance by the CMP. The funds (AF and GCF) are functionally independent from one another.
(b) Enhanced interim arrangements	The AF enhances its own institutional arrangements following its initial review by the Parties to the Kyoto Protocol, building on the recommendations and conclusions stemming from the performance reviews of its secretariat and trustee. The funds are functionally independent from one another.
(c) New institutional arrangements and operational linkage with the GCF	Assuming Parties to the CMP agree to certain changes to the Fund's institutional arrangements formal relationship with the GCF could be possible, but probably limited at the operational level.
(d) Institutional integration	Another scenario may include a greater degree of integration with the GCF. Based on a range of views, different options could include the Adaptation Fund serving as: the "Adaptation Window" of the GCF; a specialized instrument or window of the GCF; or a dedicated mechanism based on innovative sources (building on the experience of the CER-monetization process), etc.

Next Steps

12. Building on the scenarios above, it is important that key lessons learned, experience and expertise, knowledge, systems, as well as tested processes and procedures from the Adaptation Fund are retained in any scenario in order to ensure that the Fund continues to present the opportunity for channeling adaptation finance to those who need it most.

Participation in finance-related meetings by the Board Chair and secretariat

13. The Chair represented the Board at the first meeting of the Standing Committee on Finance, held in Bangkok on 6-8 September 2012 following the UNFCCC sessions. He was admitted as observer of Working Group 1. This working group was intended to: a) improve coherence and coordination in the delivery of climate change finance; and b) rationalize the financial mechanism. Observers were allowed to participate in discussions and provide inputs considered relevant by the Committee's Chair and Vice-Chair. The Board Chair used the opportunity to provide inputs on the experience of the Fund and remained at the Committee's disposal for further information. He was invited to attend the next sessions and to continue participating in the working groups.

14. On 21 September 2012 the secretariat delivered a webinar presentation during the second round of web-based seminars scheduled as part of the workshops on long-term finance. The secretariat presented the lessons learned from the Adaptation Fund and participated in the ensuing discussion. The presentation is available on the UNFCCC and Adaptation Fund websites:http://unfccc.int/files/cooperation_support/financial_mechanism/long-term_finance/application/pdf/af_lessons_learned_for_ltf_final.pdf

15. The secretariat also attended the second workshop on long-term finance (Cape Town, South Africa, 1-3 October 2012) and the second meeting of the Standing Committee on Finance (Cape Town, South Africa, 4-6 October 2012). At the finance workshop, the secretariat participated in the breakout groups and shared the Fund's experience with direct access. During the Standing Committee meeting the secretariat participated in the working group that gathered inputs for the organization of a forum on finance and contributed to the group discussion. The possibility of participation in the forum by the Fund was mentioned.

16. Most recently, the Chair attended the second Green Climate Fund Board meeting (Songdo, Republic of Korea, 18-20 October 2012), as an observer. He interacted with GCF Board members and other stakeholders and offered to continue providing information that may be relevant in the design of the new fund.

17. It is the view of the Chair that meetings like those mentioned above provide a good opportunity for the Fund to showcase its experience, with a focus on the Fund's primary strengths:

- Direct access modality
- Streamlined and efficient project cycle
- Possibility to accommodate innovative funding sources
- Result-based project implementation and disbursement
- Enhanced transparency

18. Broad dissemination of the activities and achievements of the Fund will help to maintain its relevance in the context of the climate change finance architecture. For this reason the Chair strongly encourages the participation of the incoming Chair, Board members or the secretariat in meetings related to finance, in UNFCCC negotiations on the Adaptation Fund review, the Board report to the CMP and in any other discussion where the experience of the Fund may be relevant. In that regard, and in order to increase the Fund's visibility, the Board could start by securing observer status in order to obtain seats at the COP, as the GCF interim secretariat has done, and the CMP.