

The Adaptation Fund

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DRAFT PROVISIONAL OPERATIONAL POLICIES AND GUIDELINES FOR PARTIES TO ACCESS RESOURCES FROM THE ADAPTATION FUND

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Background

1. At the seventh session of the Conference of the Parties to the United Nations Convention on Climate Change (UNFCCC) serving as the meeting of the Parties to the Kyoto Protocol, held in Marrakech, Morocco, from October 29 to November 10, 2001, (COP7), the Parties agreed to the establishment of the Adaptation Fund (the Fund).¹
2. The Fund was established in accordance with Article 12.8 of the Kyoto Protocol (“Protocol”), which states that “*The Conference of the Parties serving as the meeting of the Parties to this Protocol shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation*”.²”
3. During the Conferences of the Parties serving as the first and second Meetings of the Parties to the Kyoto Protocol, held in Montreal, Canada in November 2005 (CMP1)³ and Nairobi, Kenya in December 2006 (CMP2)⁴ the COP/MOP decided on specific approaches, principles and modalities to be applied for the operationalization of the Fund.
4. At the Conference of the Parties serving as the third Meeting of the Parties to the Kyoto Protocol, held in Bali, Indonesia from December 3 to 14, 2007, Parties decided that the operating entity of the Fund would be the Adaptation Fund Board (the Board), serviced by a Secretariat and a Trustee.⁵ Parties invited the Global Environment Facility to provide secretariat services (the Secretariat) to the Board, and the World Bank to serve as the trustee (the Trustee) of the Fund, both on an interim basis.
5. This document is a preliminary step towards the operationalization of the Adaptation Fund. It proposes provisional operational guidelines for eligible Parties to access resources from the Fund. As guidance from the Parties is incomplete with respect to eligibility criteria and project cycle, the draft provisional guidelines are expected to evolve further based on the decisions of the Board, reflecting future guidance from the Parties.

Operational Principles

6. The Adaptation Fund shall operate under the authority and guidance of and be accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, which shall decide on its overall policies. The following operational Principles of the Fund shall be consistent with Decision 5/CMP.2 of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and shall maintain sufficient flexibility to respond to evolving guidance from the Parties:

¹ See FCCC/CP/2001/13/Add.1; Decision 10/CP.7 “*Funding under the Kyoto Protocol*.”

² See FCCC/KP/ *Kyoto Protocol*.

³ See FCCC/KP/CMP/2005/Add.4; Decision 28/CMP.1 “*Initial guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Adaptation Fund*.”

⁴ See FCCC/KP/CMP/2006/10/Add.1; Decision 5/CMP.2 “*Adaptation Fund*.”

⁵ See FCCC/SBI/2007/L.30; Decision 1/CMP.3 “*Adaptation Fund*.”

- (a) A share of the proceeds from certified project activities will be used to cover administrative expenses, as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
- (b) The Fund will provide access in a balanced and equitable manner for eligible countries;
- (c) The Fund will be governed in an open and transparent manner;
- (d) The Fund will provide financing on full adaptation cost basis of projects and programmes to address the adverse effects of climate change;
- (e) The Fund will be accountable in management, operation, and use of resources provided to it;
- (f) The Fund will ensure that there is no duplication with other sources of funding for adaptation in the use of the resources from the Fund; and
- (g) The Fund will ensure efficiency and effectiveness in its management, operation, and governance.

Operational Modalities

7. The Operational Modalities of the Fund shall be consistent with Decision 5/CMP.2 of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and shall maintain sufficient flexibility to respond to evolving guidance from the Protocol. As well, the Operational Modalities of the Fund shall ensure that:

- (a) Funding for eligible Parties will be available for national, regional and community level activities;
- (b) Procedures for accessing funds will be streamlined, including short and efficient project development and approval cycles and expedited processing of eligible activities;
- (c) Projects will be country driven and based on needs, views and priorities of eligible Parties, taking into account, inter alia, national sustainable development strategies, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments, where they exist;
- (d) Funding will be available for concrete adaptation projects and programmes in eligible countries;
- (e) Project proposals will demonstrate ability to receive contributions from other sources of funding;
- (f) Implementing and executing entities will demonstrate competency in adaptation and financial management, including adherence to international fiduciary standards;

- (g) The project cycle will establish clearly defined responsibilities for quality assurance, management and implementation;
- (h) The project cycle will provide for independent monitoring, evaluation and financial audits; and
- (i) Operations of the Fund will be based on learning by doing.

Eligibility

8. In accordance with decision 28/CMP.1, all developing country Parties that are Parties to the Protocol are eligible for assistance from the Fund. Pending more specific guidance from the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, the Secretariat proposes that a Party shall be eligible to receive assistance from the Fund if it is eligible to borrow from the World Bank (IBRD and/or IDA) or if it is an eligible recipient of UNDP technical assistance.

Country Coordination Mechanism

9. It is recommended that Parties eligible to access resources from the Fund establish country coordination mechanisms under the auspices of their respective UNFCCC national focal points. Proposals for funding by the Adaptation Fund shall be endorsed by the respective UNFCCC national focal points.

Access

10. Parties can choose to develop and implement projects with assistance from the Fund through two pathways: (i) direct access with an in-country executing entity that meets agreed due diligence standards for financial management; or (ii) through a Board-recognized implementing entity.

- (a) Direct Access. Parties can nominate a qualified in-country executing entity to develop proposals and implement projects with assistance from the Fund. Such executing entities will be subject to the due diligence standards to be established by the Board,⁶ including meeting international fiduciary standards; and
- (b) Access through an Implementing Entity. Parties can work with agencies recognized by the Board as implementing entities⁷ to develop proposals and implement projects with assistance from the Fund.

⁶ As an alternative arrangement, executing entities may work in partnership with implementing entities and be subject to the due diligence procedures of the implementing entities.

⁷ In initiating Fund operations, the Board will invite agencies to submit their qualification for functioning as implementing entities of the Fund. Such entities should adhere to the fiduciary standards to be proposed by the Trustee and established by the Board. The Board shall, from time to time, review the performance and composition of implementing entities.

Procedures to Access Financing

11. A streamlined approach is proposed for the Adaptation Fund project cycle, whereby the Board maintains approval authority for project proposals requesting more than \$2 million, and the Head of the Secretariat, under delegated authority, approves project proposals requesting up to \$2 million, as well as proposals for project preparation grants.

12. The Head of the Secretariat, under delegated authority, and in cooperation with the eligible Parties and executing and implementing entities, shall oversee the due-diligence of all proposals submitted for Board approval.

Step 1. Review and clearance of Project Concepts by the Head of Secretariat

13. On behalf of eligible Parties, implementing or executing entities can submit brief project concepts on a rolling basis, after endorsement by the UNFCCC national focal point,⁸ to the Secretariat. The Secretariat will review the concept against project review criteria (to be established)⁹ and qualified concepts will be cleared for further development. The Secretariat will complete a technical review of each submission in ten working days. All concepts cleared by the Head of the Secretariat will be posted on the Adaptation Fund website. Resources, to be disbursed by the Trustee, may be approved by the Head of the Secretariat for project preparation for those concepts that have been cleared for further preparation. Following the clearance of a concept, the Secretariat will notify the Trustee.

Step 2. Review and Approval of Project Proposals by the Board

14. When concepts have developed into project proposals, implementing or executing entities, on behalf of the Parties, can submit the proposals to the Secretariat. The Secretariat will review the proposal against project review criteria,¹⁰ and qualified proposals will be forwarded as a work program package by the Head of the Secretariat to the Board for review and approval at a Board meeting or as an intersessional work program for decision by mail.

15. When project proposals are approved by the Board, the Secretariat then notifies the Party concerned and the implementing or executing entity (ies) involved, and posts the approved projects on the website. The project is then to be implemented in accordance with the approval and implementation procedures of the implementing and/or executing entities. Following the approval of a project proposal, the Secretariat will notify the Trustee.

⁸ In the interests of streamlining, UNFCCC national focal points need to endorse projects only at the concept stage, though the focal points could reserve the right to again endorse fully prepared project proposals.

⁹ The project review criteria will include, inter-alia, country eligibility, consistency with adaptation fund programs and objectives, estimated cost of the project, and milestones and agreements for further project preparation.

¹⁰ Review criteria for clearance prior to approval will include, inter-alia, assessment of likelihood of delivery of outcomes, cost-effectiveness of project elements, compliance with applicable operational policies and procedures, as well as monitoring and evaluation norms and standards, and reporting on project preparation grant, if used.

Streamlined Procedures for Smaller Projects

16. It is proposed that streamlined procedures be developed for small projects, requesting up to \$2 million from the Adaptation Fund, whereby the approval of projects under Step 2 would be delegated to the Head of the Secretariat.

Disbursement

17. Disbursement of resources to the implementing and executing entities for project implementation will be undertaken in accordance with financial procedure agreements to be established between the entities and the Trustee.

Monitoring and Evaluation

18. Unless otherwise determined by the Board, all projects under implementation will submit annual project status reports to the Secretariat at the completion of each fiscal year. On the basis of these reports, the Secretariat will present an annual monitoring report covering portfolio performance to the Board.

19. Unless determined otherwise by the Board, all projects that complete implementation will be subject to terminal evaluation by an independent evaluator. Terminal evaluation reports will be submitted to the Secretariat for review and reporting to the Board in the context of the annual monitoring report.

Recommendation

20. Based on the feedback received from the Adaptation Fund Board on the draft provisional operational policies and guidelines proposed in this document, the Secretariat will prepare draft operational policies and guidelines for review and approval at the next meeting.