

The Adaptation Fund

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Agenda Item 7.b

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

The Adaptation Fund

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Agenda Item 9

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

Table of Contents

Introduction.....	4
Definitions of Adaptation Projects and Programmes.....	5
Operational and Financing Priorities.....	5
Project/ Programme Proposal Requirements	6
Financing Windows	6
Eligibility Criteria.....	6
Accreditation for Implementing Entities	9
Project Cycle	9
Where to send a Request for Funding.....	13
Annex I: Adaptation Fund relevant CMP decisions	14
Annex II: <i>The Strategic Policies and Guidelines</i> of the Adaptation Fund adopted by the CMP	15
Annex III: <i>The Fiduciary standard and management system</i> Approved by the Adaptation Fund Board	16
Annex IV: The Project and Programme Templates approved by the Adaptation Fund Board .	17

Introduction

1. The Kyoto Protocol (KP), in its Article 12.8, 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.”¹ This is the legal basis for the establishment of the Adaptation Fund.
2. At the seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), held in Marrakech, Morocco, from October 29 to November 10, 2001 (COP7), the Parties agreed to the establishment of the Adaptation Fund (the Fund).²
3. In Montreal, Canada in November 2005³ and Nairobi, Kenya in December 2006,⁴ the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), decided on specific approaches, principles and modalities to be applied for the operationalization of the Fund.
4. In Bali, Indonesia, in December 2007, the CMP 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 to the Adaptation Fund Board (the Secretariat), and the World Bank to serve as the trustee (the Trustee) of the Fund, both on an interim basis.
5. In particular, Decision 1/CMP.3, paragraph 5(b), lists among the functions of the Board to develop and decide on specific operational policies and guidelines, including programming guidance and administrative and financial management guidelines, in accordance with decision 5/CMP.2, and to report to the CMP.
6. In Poznan, Poland, in December 2008, through Decision 1/CMP.4, the Parties adopted:
 - (i) the Rules of Procedures of the Adaptation Fund Board;
 - (ii) the Memorandum of Understanding between the CMP and Council of the Global Environmental Facility regarding secretariat services to the Adaptation Fund Board, on an interim basis;
 - (iii) the terms and conditions of services to be provided by the International Bank for Reconstruction and Development (the World Bank) as trustee for the Adaptation Fund, on an interim basis; and
 - (iv) the strategic priorities, policies and guidelines of the Adaptation Fund.

¹ See FCCC/KP/*Kyoto Protocol*.

² See Decision 10/CP.7, “*Funding under the Kyoto Protocol*”.

³ See Decision 28/CMP.1, “*Initial guidance to an entity entrusted with the operation of the financial system of the Convention, for the operation of the Adaptation Fund*” in Annex I to this document.

⁴ See Decision 5/CMP.2, “*Adaptation Fund*”, in Annex I to this document.

⁵ See Decision 1/CMP.3, “*Adaptation Fund*”, in Annex I to this document.

7. In Decision 1/CMP.4, paragraph 11, the CMP decided that the Adaptation Fund Board be conferred such legal capacity as necessary for the discharge of its functions with regard to direct access by eligible Parties. Relevant decisions of the CMP in this regard are attached at the Annex I.

8. This document, in response to these decisions of the CMP, proposes operational policies and guidelines for eligible developing country Parties to access resources from the Fund. *The Operational Policies and Guidelines* are expected to evolve further based on the experience acquired through the operationalization of the Fund and subsequent decisions of the Board and reflecting future guidance from the Parties.

Definitions of Adaptation Projects and Programmes

9. The Adaptation Fund established under decision 10/CP.7 shall finance concrete adaptation projects and programmes.

10. A concrete adaptation project is defined as a project aimed at addressing the adverse impacts of and risks posed by climate change. Adaptation projects can be implemented at the community, national and transboundary level. Projects concern discrete activities with concrete outcomes that are more narrowly defined in scope, space and time.

11. An adaptation programme is a process, a plan or an approach to be adopted when the impacts of climate change cannot be addressed within the scope and domain of an individual project. The Board will provide further guidance on the adaptation programmes, its aims and objectives in the future on the basis of lessons learned.

Operational and Financing Priorities

12. The overall goal of all adaptation projects and programmes financed under the Fund will be to support concrete adaptation activities that reduce adverse impacts of and risks posed by climate change facing communities, countries, and sectors. *The Fund will not finance business-as-usual projects that do not implement concrete actions to reduce the adverse impacts of climate change.*

13. Provision of funding under the Adaptation Fund will be based on, and in accordance with, the *Strategic Policies and Guidelines* adopted by the CMP, attached as Annex II.

14. Funding will be provided on full adaptation cost basis of projects and programmes to address the adverse effects of climate change.⁶ Full cost of adaptation means the costs of concrete adaptation activities to be implemented to address the adverse impacts of and risks posed by climate change.

15. In developing projects and programmes to be funded under the Fund, eligible Parties may wish to consider the guidance provided in 5/CP.7. Parties are also encouraged to consult

⁶ Decision 5/CMP.2, paragraph 1 (d).

information included in reports from the Intergovernmental Panel on Climate Change (IPCC) and information generated under the Nairobi Work Programme (NWP) on Impacts, Vulnerability and Adaptation to Climate Change.⁷

16. Decisions on the allocation of resources of the Board shall take into account the criteria outlined in the *Strategic Priorities and Guidelines of the Adaptation Fund*, adopted by the CMP, specifically:

- (i) level of vulnerability;
- (ii) level of urgency and risks arising from delay;
- (iii) ensuring access to the Fund in a balanced and equitable manner;
- (iv) lessons learned in project and programme design and implementation to be captured;
- (v) securing co-benefits to the extent possible, where applicable;
- (vi) maximizing multi-sectoral or cross-sectoral benefits; and
- (vii) adaptive capacity to adverse effects of climate change.

17. Resource allocation decisions will be guided by the paragraphs 8 and 10 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*.

18. The Board will review its procedures for allocating resources of the Adaptation Fund among eligible Parties at least every three years, and/or as instructed by the CMP, including an assessment of the amount of resources that can be allocated to regional activities.

Project/ Programme Proposal Requirements

19. To access Fund resources, a project will have to be in compliance with the eligibility criteria contained in paragraph 15 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund Board* and using the relevant templates.

Financing Windows

20. Parties may undertake adaptation activities under the following categories:

- (i) Small-size projects and programmes (proposals requesting up to \$1 million); and
- (ii) Projects and programmes (proposals requesting over \$1 million).

Eligibility Criteria

Country Eligibility

⁷ IPCC Assessment Report 4, see <http://www.ipcc.ch/ipccreports/assessments-reports.htm> and NWP see http://unfccc.int/adaptation/sbsta_agenda_item_adaptation/items/3633.php.

21. The Fund shall finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change.

22. Paragraph 10 of the Strategic Priorities and Guidelines of the Adaptation Fund provides the country eligibility criteria.

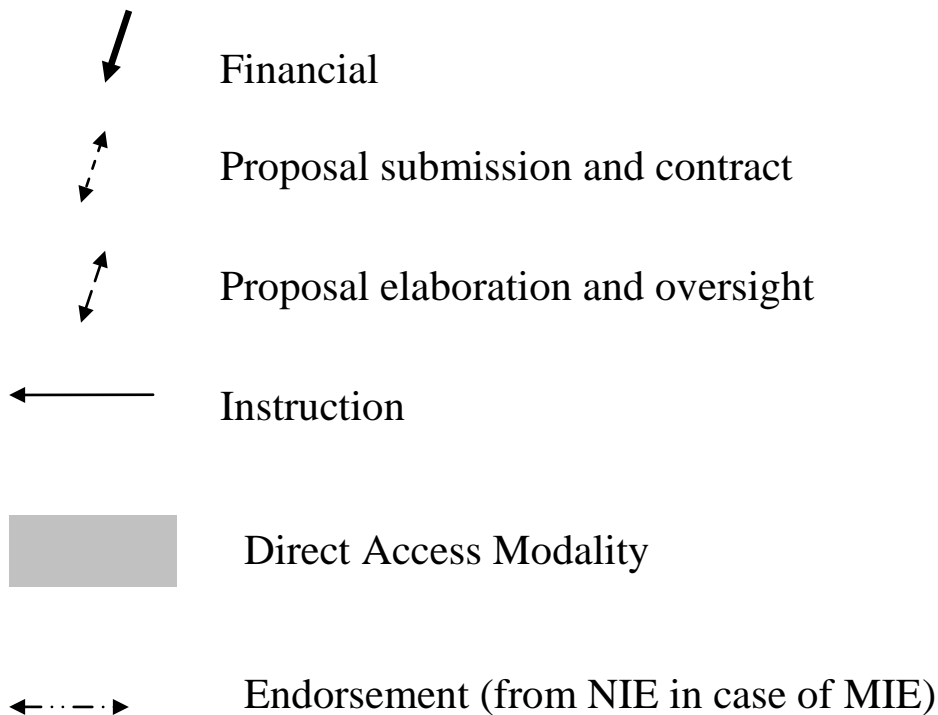
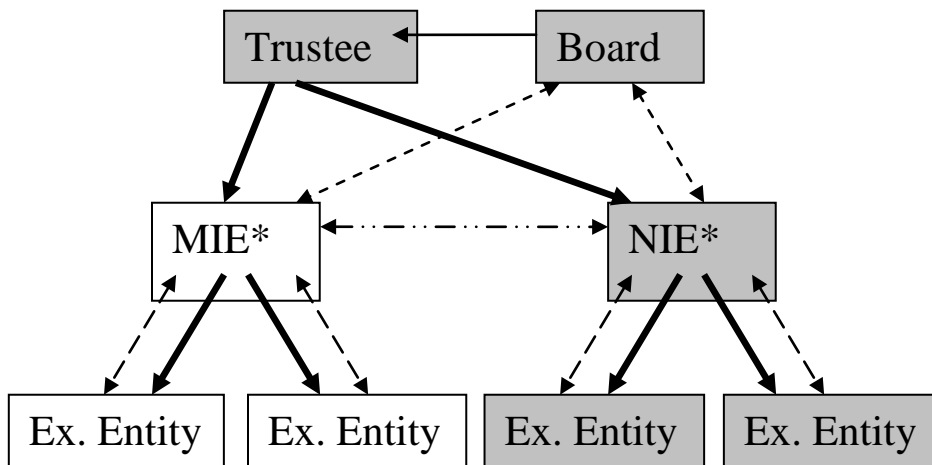
23. A cap in resource allocation per eligible host country, project and programme will be agreed by the Board based on a periodic assessment of the overall status of resources in the Adaptation Fund and with a view to ensuring equitable distribution.

Implementing and Executing Entities

24. Parties can submit proposals for concrete adaptation projects and programmes directly to the Board for funding.

25. Eligible Parties who seek financial resources from the Adaptation Fund may submit proposals *either* directly through their nominated National Implementing Entity (NIE)⁸ *or* using the services of Multilateral Implementing Entities (MIE), according to the figure below.

⁸ May include Ministries.



* A Party nominates either a Multilateral or National Implementing Entity.

26. National Implementing Entities (NIE) are those legal entities nominated by Parties that are recognized by the Board as meeting the fiduciary standards established by the Board. The NIEs will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities.

27. Parties may also nominate regional and subregional entities as implementing entities, and thereby provisions of paragraph 26 will apply.

28. Multilateral Implementing Entities (MIE) are those Multilateral Institutions and Regional Banks that meet the fiduciary standards provided by the Board. The MIEs, chosen by Eligible Parties to submit proposals to the Board, will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities.

29. In the case of regional (ie: multi-country) projects and programmes, the proposal submitted to the Board should be endorsed by all participating Parties.

30. Executing Entities are organizations that execute adaptation projects and programmes supported by the Fund under the oversight of Implementing Entities.

Accreditation for Implementing Entities

31. The Board will invite Parties to nominate a NIE. National Implementing Entities will need to meet criteria of fiduciary standards established by the Board.

32. In case the nominated NIE does not meet the criteria, an eligible Party may nominate another entity to access funding from the Fund, provided that it meets the criteria established by the Board, or it can review the capacity of the same entity for receiving funding at a later stage.

33. The Board will invite potential MIEs to express interest in serving the Adaptation Fund as a MIE, as defined in paragraph 28. MIEs will need to meet the criteria established by the Board.

(The remainder of this section will need redrafting following the report on the fiduciary standards commissioned from the Secretariat. This report will need to include consideration of capacity building to NIEs that do not meet the management standards of the AFB.)

Project Cycle

34. The project cycle of the Adaptation Fund for any size of projects and programmes starts by project submission to the Secretariat by the NIE/MIE chosen by the government of the recipient country/ies, initial screening, project review and approval.

35. The Board will invite each Party to designate an Adaptation Fund focal point, and the Secretariat will maintain an updated list of them at the website of the Fund. Proposals need to be endorsed by the Party's AF focal point.

Review and Approval of Small-size Projects and Programmes

36. In order to expedite the process of approving projects and reduce unnecessary bureaucracy, it is proposed that small-size projects and programmes undergo a single approval process by the Board. The proposed project cycle steps are as follows:

(a) The project or programme proponent submits a proposal document based on a template to be approved by the Board. Proposals will be submitted to the Board through the Secretariat four times per year.

(b) The Secretariat will screen all proposals for consistency and provide a technical summary. It will then forward them to the Projects and Programmes Review Committee for review, based on the criteria approved by the Board. Screening will be conducted as soon as possible, and within fifteen (15) working days.

(c) The Project and Programmes Review Committee will review the proposals and give its recommendation to the Board for a decision four weeks before the next Meeting. The Board can approve or reject a proposal with a clear explanation.

(d) All proposals approved by the Board will be posted on the Adaptation Fund website.

Review and Approval of Regular Projects and Programmes

37. Regular adaptation projects and programmes are those that request project funding exceeding \$1 million from the Fund. It is proposed that these proposals undergo either a single or double⁹ approval process. To reduce the time needed to get a project or programme funded, if a proponent prefers to submit a full-fledged project or programme proposal at once, a proponent is allowed to do so. The proposed project cycle steps are as follows:

(a) The project or programme proponent submits a concept or a full-fledged project or programme proposal document based on a template approved by the Board. Proposals can be submitted to the Board through the Secretariat four times per year.

(b) The Secretariat will screen all proposals for consistency and forward them to the Projects and Programmes Review Committee for review based on the criteria approved by the Board. Screening will be conducted within fifteen (15) working days by the Secretariat. Reviewing will be conducted by the Committee. The Committee can/will use services of independent adaptation experts to provide input into the review process.

(c) The Secretariat will forward all reviewed project and programme proposals to the Board for decision-making four weeks before the next Meeting. The Board can approve or reject a proposal with clear explanation. Funding will only be reserved for a project or programme after the approval of a full-fledged project or programme document.

(d) All proposals approved by the Board will be posted on the Adaptation Fund website.

Disbursement

38. The Secretariat will draft contracts, Memoranda of Understanding and/or other necessary agreements with implementing entities and provide these agreements for signature by the Chair

⁹ A short project proposal followed by a full-fledged project document.

or any other Member designated to sign these documents. The Board may, at its discretion, review any of the proposed agreements. A template approved by the Board will be used to make agreements.

39. The Trustee will disburse funds on the written instruction of the Board, signed by the Chair and the Vice-Chair, or any other Board Member designated by the Chair and the Vice-Chair, and report to the Board on the disbursement of funds.

40. The Board will ensure a separation of functions between the review and verification of disbursement requests, and the issuance of instructions to the Trustee to disburse.

41. The Board may instruct the Trustee to disburse funds for programmes in tranches based in time specific milestones, and may require a progress review from the Implementing Entity prior to each tranche disbursement.

Monitoring, Evaluation and Reviews

42. All projects and programmes under implementation will submit annual status reports to the Secretariat at the completion of each fiscal year. The status reports will be based on a documentation template approved by the Board.

43. All projects and programmes that complete implementation will be subject to terminal evaluation by an independent evaluator. Terminal evaluation reports will be submitted to the Board after a reasonable time after the project termination.

44. The Secretariat will prepare an Annual Monitoring Report, based on status reports and terminal evaluation reports, for review and approval by the Board.

45. The Adaptation Fund Board reserves the right to carry out independent reviews or evaluations of the projects and programmes as and when deemed necessary. The costs for such activities will be covered by the Adaptation Fund.

Strategic Oversight and Monitoring

46. The Board is responsible for strategic oversight of projects and programmes implemented with funds from the Adaptation Fund. Regular project and programme reports will be required from NIEs and MIEs. The Projects and Programmes Review Committee, with support of the Secretariat, will monitor the AF portfolio of projects and programmes, through reviewing project and programme reports.

47. This project cycle will be kept under review by the Board.

Procurement

48. The procurements by the IEs or any of their attached organization shall be performed in accordance with generally accepted procurement principles, good procurement practices and the

procurement regulations as applicable in a given jurisdiction. IEs shall observe the highest ethical standards during the procurement and execution of the concrete adaptation projects.

49. The project proposal submitted to the Board shall contain adequate and effective means to punish and prevent illegal or corrupt practices. The IEs should promptly inform the Board of any instances of corruption of any kind.

Project Cancellations, Terminations and Suspensions

50. At any stage of the project cycle, either at its discretion or following an independent review-evaluation, the Project and Programmes Review Committee may recommend to the Board to cancel, terminate or suspend a project for several reasons, notably:

- (i) financial irregularities in the implementation of the project, and
- (ii) material breach, and poor implementation performance leading to a conclusion that the project can no longer meet its objectives.

51. The Board may also consider cancelling, terminating or suspending the accreditation of an IE if it had made false statement or provided intentionally incomplete information to the Board both at the time of accreditation to the Board or in submitting a project or programme proposal.

52. Before the Board makes its final decision whether to cancel, terminate or suspend a project, a programme or an IE accreditation, the IE concerned will be given a fair chance to present its views to the Board.

53. IEs may also initiate termination or suspension of projects and programmes subject to the approval of the Board.

54. The Secretariat will report to the Board on an annual basis on all approved projects and programmes that were cancelled, terminated or suspended during the preceding year.

Reservations

55. The Board reserves the right to reclaim all or parts of the financial resources allocated for the implementation of a project or programme, or cancel projects or programmes later found not to be satisfactorily accounted for. The IE shall be given a fair chance to consult and present its point of view before the Board.

Dispute Settlement

56. In case of a dispute as to the interpretation, application or implementation of the project/programme, the IE shall first approach the Secretariat with a written request seeking clarification. In case the issue is not resolved to the satisfaction of the IE, the case may be put before the Board at its next meeting, to which a representative of the IE could also be invited.

57. Subject to development on the legal status of the Board, the Board will draw more comprehensive dispute settlement provisions.

Management Fees

58. Every project proposal submitted to the Secretariat shall state the management fee requested by the Implementing Entity. The reasonability of the fee will be reviewed case by case.

Where to send a Request for Funding

59. All requests shall be sent to:

The Adaptation Fund Board Secretariat
c/o Global Environment Facility Secretariat
1818 H Street, NW
MSN G6-602
Washington, DC, 20433
USA
Tel: +1 202 473 0508
Fax: +1 202 522 3240/5
Email: secretariat@adaptation-fund.org
Contact: Marcia Levaggi (mlevaggi@thegef.org, Tel: +1 202 473-6390)

60. Acknowledgment of the receipt shall be sent to the proposing IEs with copies of the acknowledgement letter to all Members and Alternates of the Board within a week of the receipt of the request for support.

61. All project proposals submitted will be posted on the website of the Adaptation Fund Board.

Annex I: Adaptation Fund relevant CMP decisions

Annex II: *The Strategic Priorities, Policies and Guidelines of the Adaptation Fund adopted by the CMP*

Annex III: *The Fiduciary standard and management system* Approved by the Adaptation Fund Board

Annex IV: The Project and Programme Templates approved by the Adaptation Fund Board