



ADAPTATION FUND

AFB/B.20/5
25 March 2013

Adaptation Fund Board
Twentieth Meeting
Bonn, Germany, 4-5 April 2013

Agenda item 9 a)

STRATEGIC PROSPECTS FOR THE ADAPTATION FUND

Background

1. This agenda item was introduced to the Adaptation Fund Board (the Board) agenda at the request of the outgoing 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 Adaptation Fund (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 (GCF).

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 GCF 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 Fund might operate as the adaptation arm or specialized window of the GCF. 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 Fund was established with the specific mandate to address adaptation. The 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. In accordance with Decision B.18/43, the secretariat prepared a document on the issue which was considered by the Board at its 19th meeting. Following a discussion, the Board decided to:

Establish a task force of Board members that works in conjunction with the secretariat on outreach, strategy, and other efforts to achieve the interim US \$100 million fundraising target by the end of 2013;

Appoint Ms. Ana Fornells de Frutos (Spain, Annex I Parties), Ms. Angela Churie-Kallhauge (Sweden, Western European and Others Group), Ms. Su-Lin Garbett-Shiels (United Kingdom, Annex I Parties), Mr. Jeffery Spooner (Jamaica, Latin America and Caribbean Countries), Mr. Mamadou Honadia (Burkina Faso, Least-Developed Countries), and Mr. Zaheer Fakir (South Africa, Africa) as members of the task force, in accordance with their expressions of interest;

Request the secretariat to update document AFB/B.19/5 with a synthesis of the discussions that had taken place during the 19th meeting of the Board on the strategic

prospects for the Adaptation Fund for the consideration of the Board at its 20th meeting, to be used for the formulation of the Adaptation Fund strategy, taking into account the following:

- i. Preparing a ministerial brief on the strengths of the Adaptation Fund;*
- ii. Enabling Board members to act as champions of the Adaptation Fund by preparing materials which they could circulate and use as talking points;*
- iii. Finding a spokesperson to act as an Ambassador for the Fund;*
- iv. Increasing Knowledge Management by contributing to current networks and by codifying and disseminating the work of the Adaptation Fund; and*
- v. Including the presence of Board members in discussions with donors on the margins of meetings.*

Request the Chair to submit a formal request to the UNFCCC secretariat for the Board to have its own seat at meetings held by the United Nations Framework Convention on Climate Change, including those of its Conference of the Parties, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and the Adaptation Committee.

(Decision B.19/29)

6. Following the mandate under point (c) of the decision above, the secretariat updated the paper annexed to this document, based on the comments made by Board members and alternates at the 19th Board meeting, decisions made by the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol at its eighth session (CMP8), and activities of the task force during the intersessional period, for consideration by the Board.

Recommendation

7. The Adaptation Fund Board may wish to consider the issues raised by the annex to this document and decide on a way forward.

Annex: Strategic Prospects for the Adaptation Fund

Background

1. The Adaptation Fund (the 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). Due to external circumstances, the Fund now finds itself at a critical juncture in its evolution.

2. The sharp fall in CER prices over the past twelve months, due to the lack of ambition for a second commitment period of the Kyoto Protocol; 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 relevant issues to take into account at this point in the Fund's evolution, are the following:

- The initial review of the Fund, concluded by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its eighth session (CMP8);
- The decision by CMP8 to initiate the second review of the Fund at the 38th session the Subsidiary Body for Implementation (SBI), with a view to the review being undertaken by CMP10 (2014);
- The CMP decision to extend the interim institutional arrangements of the secretariat until the completion of the second review of the Fund in 2014; and those of the trustee until June 2015;
- The progress toward the operationalization of the Green Climate Fund (GCF);
- The UNFCCC work programme on long-term finance (LTF);
- The work of the Standing Committee on Finance (SCF); in particular, on the rationalization of climate finance flows and the review of the financial mechanism of UNFCCC;
- The uncertainties surrounding the continuation of the Kyoto Protocol and the carbon markets and concerns raised about issues related to the sustainability, adequacy and predictability of funding from the Fund based on the current uncertainty on the prices of CERs and the continuation of the Fund during and beyond the second commitment period 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 strives to:

- Achieve an informed understanding of all the potential implications that the processes above may have on the 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 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 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? These are questions that have been pressing all Board members and others involved in supporting the work of the Fund.

6. Given the prioritization and prominence that the GCF has received from Parties to the UNFCCC, these questions may be framed in the following manner: What role can or should the 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?

7. There are growing calls from a variety of stakeholders for the Board to express its own views on the questions and issues posed above. Responding to these calls, the outgoing Chair 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

8. The CMP8 concluded its initial review of the Fund. It further decided “that the interim institutional arrangements of the trustee of the Adaptation Fund... will be extended until June 2015” and “to extend the interim institutional arrangements of the secretariat of the Adaptation Fund Board, as provided by decision 1/CMP.3, until the completion of the second review of the Adaptation Fund in 2014...” The CMP8 also requested “the Subsidiary Body for Implementation, at its thirty-eighth session, to initiate the second review of the Adaptation Fund in accordance with the terms of reference contained in the annex to decision 6/CMP.6, or as these guidelines may be subsequently amended, and to report back to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its ninth session, with a view to the review being undertaken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its tenth session.” Therefore, until at least December 2014, there would be no changes in the institutional arrangements for the Fund.

9. Notwithstanding the situation above, the progress in the operationalization of the GCF and its potential interaction with the Fund may trigger some discussion within the Board. In considering these issues, the following scenarios could be taken into account:

(a) Status quo	The Fund continues its current interim arrangements with the Global Environment Facility (GEF) and the World Bank, and its lines of accountability and reporting under the authority and guidance by the CMP. The Fund and the GCF are functionally independent from one another.
(b) Operational linkage between Fund and the GCF	Given the legal capacity of the Board, the GCF could conclude agreements with it, limited to certain operational aspects. This modality would allow the GCF to channel some of its operations (and resources) through the Fund (e.g. direct access, concrete adaptation projects). These agreements do not imply any change in the institutional arrangements for the Fund, and could be concluded regardless of them.
(c) Institutional integration	Different degrees of integration between the Fund and the GCF could be envisaged. Possible options may include the 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

10. 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 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

11. Participation of Board members and the secretariat in UNFCCC meetings related to finance and the GCF Board meetings 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

12. 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.

13. Meetings of the UNFCCC Standing Committee on Finance (SCF). Following participation of the Board Chair in the 1st meeting on 6-8 September 2012 in Bangkok, and of the secretariat in the 2nd meeting on 4-6 October 2012 in Cape Town, the secretariat participated as an observer in the 3rd meeting of the SCF on 8-10 March 2013 in Bonn, Germany. The third meeting marked a change in the work of the SCF by switching to a more operational and concrete mode. The meeting concentrated on three themes: 1) COP-GCF arrangements, 2) Forum of the SCF, and 3) Fifth review of the financial mechanism, with most

of the work being done in parallel breakout groups which, like the plenary, were open to observers. The work of the breakout group (1) on COP-GCF relations started with two views very far apart, and converged slowly. The main outcome is a letter from the SC co-chairs to the GCF co-chairs, outlining areas of coordination. The breakout group (2) worked based on the plan that the first forum would take place just before Carbon Expo 2013 in Barcelona, on May (27-) 28, 2013. The purpose of the forum, as decided by the COP, is to promote communication and continued exchange of information among bodies and entities dealing with climate change finance in order to promote linkages and coherence. The forum will have ca. 100 participants and will be open to everybody but will focus on presenting different actors in climate finance, and case studies on both adaptation and mitigation. A small task force will work on the forum plan, and agree on the list of invitees and resource people. The breakout group (3) discussed, among other issues, whether and how new developments outside the UNFCCC Financial Mechanism, such as the Adaptation Fund, should be considered in the 5th review of the mechanism. Some were of the view that considering the initial review of the Fund, as mandated by the COP, would be sufficient, while others stated that more interactive exchanges would be beneficial. The SCF concluded that guidelines prepared for the previous 4th review would be generally adequate as a starting point, together with the additional guidance from COP18, but that care should be taken that the guidelines are followed more precisely than at the time of the previous review. The SCF agreed to provisionally finalize the guidelines by its 4th meeting. The specific ways in which the Fund will be looked at by the review remain open, and the best way to ensure appropriate consideration would be to continue interaction with the nominated core group of the SCF.

14. As per Decision 19/29, paragraph (d), the Outgoing Chair sent a letter to the COP18 / CMP8 Bureau President requesting the Board be granted observer's status and a seat at UNFCCC and KP meetings. As of the date of issuance of this document, the UNFCCC secretariat informed that the application is under review.

Work of the fundraising task-force

15. The task force established by Decision 19/29 held a teleconference on 20 March 2013, coordinated by the Board Chair. The members agreed to appoint Mr. Zaheer Fakir (South Africa, African group) as task force Coordinator. The members also discussed a number of proposals identified:

(a) Event in partnership with the Swedish Embassy and held at Sweden House (in Washington DC) on 22 May 2013. This event will involve the World Resources Institute (WRI) which has been active on adaptation issues. The purpose of the event will be to share lessons learned from the Fund, to raise awareness among donors of its successes and urgent need for donations or other funding contributions. UNDP will also be present in the event, to share experiences on capacity building for national financial entities and introduce the projects currently in the pipeline.

(b) Secretariat's engagement with the Rockefeller Foundation with a view to collaborating on fundraising initiatives. The secretariat may be participating in a webinar with an audience that includes philanthropic donors which will raise awareness of the Fund among that donor sector. Due to its web-based nature, this does not imply any cost above the secretariat's time. Participation and presentation by the secretariat in the

annual conference of the American Evaluators' Association (AEA), in partnership with organizations working on adaptation issues, including the World Bank Pilot Programme on Climate Resilience (PPCR), US Environmental Protection Agency (EPA), USAID and Rockefeller Foundation grantee SEA Change.

(c) Secretariat's engagement with Connect4Climate (C4C), a campaign platform with a large social media following, whose current sponsors include the World Bank, the GEF and the Italian Ministry of Environment. C4C primarily raises awareness of climate change issues through global competitions, high profile events and their online presence. C4C has expressed interest in having the Fund become part of the partnership. The secretariat has requested concrete information from C4C on what the partnership could offer to the Fund in terms of outreach, awareness raising and fundraising.

(d) The draft ministerial briefing contained in document AFB/EFC.11/Inf.2.

19. Because of lack of time, the following item emerging from the 19th Board meeting could not be discussed during the teleconference:

(a) Enable Board members to act as champions of the Fund (secretariat preparing materials to circulate and use as talking points);

(b) Find a spokesperson to act as an Ambassador for the Fund;

(c) Increase Knowledge Management by contributing to current networks and by codifying and disseminating the work of the Fund; and

(d) Include the presence of Board members in discussions with donors on the margins of meetings.

20. The task force will meet in the margins of the 20th Board meeting to continue discussing the issues above and report back to the Board.