

# The Adaptation Fund

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Agenda Item 6

## DRAFT STRATEGIC PRIORITIES, POLICIES AND GUIDELINES OF THE ADAPTATION FUND

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## **I. PREAMBLE/INTRODUCTION**

1. The purpose of the Adaptation Fund is to assist developing country Parties particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. The importance of the Fund was emphasized by the conclusions of the Intergovernmental Panel on Climate Change IPCC Fourth Assessment Report, which highlights the *unequivocal* signs of climate change impacts; more recent scientific reports have added still greater urgency to these conclusions.
2. The Adaptation Fund established in 2001 and operationalized in Bali in 2007 provides a new mechanism to address a global challenge with several highly innovative elements, including: (1) a governing Board with a significant majority of developing nations – unprecedented in the history of development financing; (2) the option to access resources directly from the Fund as an alternative to utilizing the services of a network of implementing entities; (3) a source of resources independent of donor contributions: two percent of the proceeds of Certified Emission Reductions (CERs) from the CDM; (Nevertheless, donor support and other forms of contributions to the AF may be needed given the high estimated cost of adaptation needs); and (4) an innovative, streamlined project cycle for project submissions and approval.
3. It is also worth noting the tremendous importance of this Fund as a key adaptation financing instrument recognized by the international community under the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol.
4. For these reasons, the Adaptation Fund Chair is pleased to circulate the draft document “Draft Strategic Priorities, Policies and Guidelines,” for the Board’s consideration and approval.

## **II. STRATEGIC AIM OF THE ADAPTATION FUND**

5. The ultimate objective of the AF is to provide international finance to help developing countries to undertake concrete adaptation projects/programmes consistent with their development needs, goals and strategies. The setting up of goals and strategies shall be led by developing countries themselves, as guided by and integrated in their development objectives and plans. Consequently, the principles and modalities of the Fund (see Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund AFB/B.3/8) were approved by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) to ensure that developing countries are in control of their adaptation processes and to minimize the transaction costs in providing financial support.
6. The AF should provide financial resources to developing countries for concrete adaptation activities in a way which strengthens adaptive capacity. Eligible parties will have to propose concrete adaptation projects and programmes that are consistent with national sustainable needs and current and projected adaptation challenges.
7. The core characteristics of the AF that will enable it to evolve towards a programmatic approach are: (i) flexibility in scope, modalities and activities and (ii) a strong ‘learning’ process

that will also build capacity of eligible countries to be able to address even more impacts of climate change.

8. The need for flexibility implies that the Adaptation Fund should be able to fund concrete projects and programmes, consistent with the decisions of the CMP. Flexibility means also a more expedited, transparent and simplified direct access, as requested by Parties. The need for a strong learning process means that (i) capacity building should be one of the components of all proposals; (ii) UNFCCC focal points and/or other key national authorities and adaptation practitioners should be encouraged to establish processes to document and report their experience and learning process; and (iii) the Adaptation Fund should create mechanisms that enable it to document lessons from the projects/programmes it supports.

### III. STRATEGIC PRIORITIES

9. This document will outline some basic principles founded on existing CMP guidance with respect to prioritization, without engaging in a detailed discussion of program priorities or funding needs.

10. The overall guidance will be based on:

- (i) *Decision 10/CP.7*, which states that an adaptation fund shall be established to finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol
- (ii) *Decision 5/CMP.2*, which states that [AF resources] will be used *to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change* to meet the costs of adaptation;
- (iii) *Decision 1/CMP.3* which states that *developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change* are eligible for AF assistance; and on
- (iv) *Decision 28/CMP.1* which in its chapeau, provides an initial definition of countries that are particularly vulnerable to the adverse effects of climate change as: *low lying and other small island countries; countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought or desertification; and developing countries with fragile mountain ecosystems.*

11. In addition, summarizing CMP guidance as well as several discussions held by the Board, it is suggested that the following general principles also be utilized to guide prioritization of project selection when resources are not sufficient to finance all projects submitted:

- (a) level of vulnerability (based on sound scientific evaluation);
- (b) level of urgency and risks of delay;
- (c) equitable and fair access;

(d) regional and sectoral distribution.

#### **IV. CONCLUSIONS**

12. Initial discussions about prioritization of resources have been initiated by the Board but will evolve consistent with any further guidance. Practical solutions to meet the demand for adaptation with initial limited financial resources will continuously be sought by the Board.

## ANNEX I

1. The following proposals have been received from individual Board members with respect to countries, sectors, and project cycle:<sup>1</sup>

A. *Country Eligibility and Prioritization*

2. According to Decision 1/CMP.3 paragraph 1, “developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change” are eligible for AF assistance (“Eligible Parties”).

3. The key question is how to implement the spirit of this paragraph, namely “that particularly vulnerable countries are able to access funding in relation to their specific vulnerabilities.

4. Board members have suggested two ways of proceeding on this point:

- (i) Employing an initial ‘quick fix’<sup>2</sup> to ensure this issue is considered at present, and the setting up of a working group / commissioning of a study to help the Board refine its procedures for more effective targeting at the time of the review of its operations;
- (ii) Identifying a practical interpretation of the definition “particularly vulnerable,” by considering the vulnerable regions identified in the IPCC AR4 and/or the countries listed in Article 4.8 of the UNFCCC paragraphs (a) to (g).

**UNFCCC Article 4.8 paragraph (a) to (g)**

- (a) Small island countries;
- (b) Countries with low-lying coastal areas;
- (c) Countries with arid and semi-arid areas, forested areas and areas liable to forest decay;
- (d) Countries with areas prone to natural disasters;
- (e) Countries with areas liable to drought and desertification;
- (f) Countries with areas of high urban atmospheric pollution; and
- (g) Countries with areas with fragile ecosystems, including mountainous ecosystems.

5. As long as the AF resources are not sufficient to meet demand, several options have been proposed to the Board for its consideration by individual Board members on how to prioritize the allocation of resources:

<sup>1</sup> Inputs were provided by board representatives from Albania, France, Japan, Pakistan, South Africa, United Kingdom and Uruguay.

<sup>2</sup> Examples: maximum grant size / country based on expected AF resources, pipeline management on the basis of a call-for-proposal modality.

6. The number of the Eligible Parties will be limited by a narrow definition using above options.
7. All “developing country Parties to the Kyoto Protocol” will be defined as the Eligible Parties, and at the stage of proposal screening, the Fund will give priority to country Parties “that are particularly vulnerable” by using options above.
8. Allocate equally the estimated CER amount (USD 960 million during 2008-2012) among all Non Annex I Parties (=149 countries).
9. No country should obtain more than USD [XX figure to be agreed by the Board] million in total.
10. Establish differentiated quotas among Eligible Parties calculated through a set of indicators, to be agreed by the Board, which might include any mix of the following suggested by individual Board Members:
  - (a) Use of indicators which show the quantified damage of climate change.
  - (b) Use of indicators which show the quantified needs of adaptation (if any).
  - (c) Use of indicators which show the effectiveness of adaptation intervention (currently being developed at IGES [Japan] and the World Bank).
  - (d) Use of per capita GDP to indicate financial constraints.
11. An alternative practical option, illustrated in the Operations paper (see AFB/B.3/8), proposes to postpone the approval of projects until a significant number of proposals have been submitted to the Board, and select those that address adaptation in the most vulnerable countries, have the largest impact, and are fairly distributed among different regions and sectors.

*B. Systems/Sectors/Communities*

12. At the stage of proposal screening, systems, sectors and communities that are particularly vulnerable should be prioritized. Developing countries should prioritize their most vulnerable systems/sectors and communities, as guided by IPCC-AR4 and their own analyses. Several systems and sectors are identified in the IPCC AR4 as “especially affected by climate change” (e.g. tundra, mangrove forests, coral reefs, agriculture in low-latitude regions).
13. The Board might wish to consider whether it would be appropriate, at this stage, to recommend that developing countries base this prioritisation on national adaptation strategies;<sup>3</sup> however, if this were to be considered, it should be done in a way which promotes strategic decision-making to ensure maximum impact rather than as a ‘condition’ on accessing resources.

*C. Project Cycle & Approval (project/programme approval process)*

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<sup>3</sup> Examples: NAPA’s, climate-resilient Poverty Reduction Strategies and National Development Plans

14. Approval for project/programme proposals can be given only within the amount of monetized CER kept in the AF account at the time of project/programme approval. Such constraints affecting the project/programme approval process should be fully understood by project/programme applicants to avoid confusion.

15. In case the total cost of qualified project/programme proposals exceeds the available monetized CER amount, the AFB may decide to select one among the following options (proposed by individual Board members):

- (i) LDCs & SIDS should obtain up to pre-determined assistance volume, and if there are funds still remaining, proposals from “non-LDCs & SIDS” should be considered (LDCs & SIDS to be given first priority, and proposals from other Parties to considered later).
- (ii) “1 country 1 project” rule, and LDCs & SIDS should be given priority.
- (iii) “1 country 1 project” rule, and projects which include prioritized system/sector should be given priority.
- (iv) Qualified project proposals that are not chosen due to resource shortages should be carried over to the next project review process and should be given priority.
- (v) Small projects should not be blocked access to the AF. On the other hand, should there be a project cost ceiling for a single project? If so, how much, or how much percentage of each country’s quota?

*D. 5-year plan of CER monetization*

16. The Board must also determine the rate at which it wishes to monetize CERs in order to provide the revenue stream necessary to finance projects in the coming years.

- (a) Resource availability of the AF needs to be predictable, and the volume of projects to be approved (CERs to be monetized) for each year during 2009-2012 should be discussed by the AFB.
- (b) The Board should decide whether to design the 5-year monetization plan to fund the same amount in each year or a different amount, as well as whether a process should be established for monetizing CERs on an extraordinary basis to take into account, for example, an exceptionally worthy but unusually expensive project/programme or to respond to unforeseen circumstances.
- (c) The Board should decide how many CERs should be monetized as initial in-cash monetization for project financing.