

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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INTRODUCTION

1. 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).¹
2. The Fund was established in accordance with Article 12.8 of the Kyoto 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. 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 from December 3 to 14, 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 (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. This document, in response to this mandate, proposes operational policies and guidelines for eligible developing country Parties to access resources from the Fund. As guidance from the Parties is still incomplete with respect to eligibility criteria, the draft provisional guidelines are expected to evolve further based on subsequent decisions of the Board, reflecting future guidance from the Parties.

OPERATIONAL PRINCIPLES

7. The Fund shall finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties on a full cost basis.
8. Consistent with decision 5/CMP.2, Parties will have access to funds either directly or through implementing entities or executing entities.

¹ See Decision 10/CP.7, “*Funding under the Kyoto Protocol*”

² See FCCC/KP/*Kyoto Protocol*.

³ See 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 Decision 5/CMP.2, “*Adaptation Fund.*”

⁵ See Decision 1/CMP.3, “*Adaptation Fund.*”

9. Consistent with decision 28/CMP.1, the operations of the Fund should be guided by: (i) a country driven approach; (ii) sound financial management and transparency; (iii) separation from other funding sources; and (iv) a learning-by-doing approach.

10. 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:

- (a) Access to the Fund shall be in a balanced equitable manner for eligible countries;
- (b) The Fund will be governed in an open and transparent manner;
- (c) The funding shall be on full adaptation cost basis for concrete projects and programmes to address the adverse effects of climate change;
- (d) The Fund shall be under the supervision and management of the Adaptation Fund Board and 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;
- (e) There shall be accountability to the Board in the management, operation and use of resources provided to the Fund.
- (f) The Board 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) Efficiency and effectiveness shall be ensured in management, operation, and governance of the Fund.

11. The *Operational Modalities* of the Fund shall be consistent with decision 5/CMP.2 and shall include the following:

- (a) Funding for eligible Parties will be available for national, regional and community level activities;
- (b) Access to funding shall use facilitative procedures including short and efficient project development cycles that have been approved by the Board;
- (c) Projects to be supported should be country driven and should clearly be 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 shall be available for concrete adaptation projects and programmes in eligible countries;

- (e) The Fund will have the ability to receive contributions from other sources of funding;
- (f) Projects should include in their design a mechanism to systematically feed back the lessons “learned by doing” to improve future operations.
- (g) Competency in adaptation and financial management;
- (h) Sound financial management, including the use of international fiduciary standards;
- (i) Clearly defined responsibilities for quality assurance, management and implementation; and
- (j) Independent monitoring, evaluation and financial audits.

12. The Operational Principles shall be consistent with the *Strategic Priorities, Policies and Guidelines* that the Board has cleared and the CMP has approved.

FINANCING WINDOWS

13. Parties may undertake adaptation activities under the following two categories of projects/programmes, based upon the nature, size and needs of the Party, and taking into account the need for equitable allocation of resources amongst eligible Parties:

- (a) Small-scale & community-based adaptation projects/programmes; and
- (b) Regular projects/programmes – to finance medium-size to large-scale adaptation investments;

14. Two kinds of programmes and relative modalities have been developed to meet these two kinds of needs in an expedited manner. (See sections, *programming framework* and *project cycle* below for more details).

ACTIVITIES TO BE FINANCED

15. Paragraphs 8(a to d) of Decision 5/CP.7 lists the activities to be undertaken through this Fund. These include:

- (a) Starting to implement adaptation activities promptly where sufficient information is available to warrant such activities, *inter alia*, in the areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management.
- (b) Improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early-warning systems, and in this context improving disease control and prevention;

- (c) Supporting capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning, in particular, for droughts and floods in areas prone to extreme weather events;
- (d) Strengthening existing and, where needed, establishing national and regional centres and information networks for rapid response to extreme weather events, utilizing information technology as much as possible.

ELIGIBILITY CRITERIA

16. To date CMP guidance on specific eligibility criteria for the AF has yet to be fully developed. In the interim, the Board will engage in a preliminary discussion on eligibility criteria, with a view to making a recommendation to the CMP. This is consistent with the functions assigned to the Board.⁶

Country Eligibility

17. Several decisions from the COP and CMP⁷ state that the Fund shall finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol [and] that are particularly vulnerable to the adverse effects of climate change.

18. To date, the CMP has not adopted an explicit definition of developing countries. Pending more specific guidance from the CMP, developing countries may be defined as non Annex I Countries or Countries that are eligible CDM host countries (this is because the Adaptation Fund is being replenished from the 2% levy from the CDM proceeds). Within this definition of developing countries, emphasis will be on countries that are particularly vulnerable to climate change. These may include:

- (a) LDCs, SIDS or other low income or low middle income country; and
- (b) Countries particularly vulnerable to climate change impacts as defined by the IPCC Fourth Assessment Report or other relevant studies.

19. [Once country eligibility has been approved, a minimum/maximum allocation in USD per eligible host country should be agreed by the Board.]

Implementing and Executing Entities

20. Parties, represented by legal entities of their choice,⁸ shall submit requests directly to the Board for funding for concrete adaptation projects/programmes. These legal entities will either be “*implementing entities*” or “*executing entities*.”

⁶ See Decision 1/CMP.3, “*Adaptation Fund*,” paragraphs 5(a), (b), and (d).

⁷ Decisions 10/CP.7, 28/CMP.1, 5/CMP.2, and 1/CMP.3,

⁸ Legal entities can be in-country, national, regional or multilateral institutions.

21. Implementing entities are those legal entities recognized *ex-ante* by the Board as meeting minimum international fiduciary and other standards established by the Board and assessed by an independent review body.⁹

22. Executing entities are entities that are not *ex-ante* recognized by the Board, and therefore, either will be subject to performance management and supervisory systems and standards established by the Board,¹⁰ or may choose to work through implementing entities and will be subject to due diligence procedures of the implementing entities.

Due Diligence Systems for Implementing and Executing Entities

23. To facilitate access through implementing and executing entities, two types of due diligence mechanisms are proposed as follows:

- (a) Performance Management and Supervisory System: To facilitate direct access through executing entities, it is proposed that the Board establish a mechanism, accountable to the Board, to review and supervise the performance of executing entities. For example, at the Global Fund to Fight AIDS, Malaria and Tuberculosis, Local Fund Agents located in countries or in the region, selected through a competitive bidding process, provide to the Fund a range of independent program performance and supervisory services to monitor grant recipients. These include: (i) upstream review to assess the potential grant recipient's capacity to implement the grant; (ii) site visits to monitor implementation performance and verify results; (iii) inputs for decisions regarding continuation of grant; (iv) review at grant closure; and (v) ad-hoc assignments, including investigations related to suspected misuse of funds.
- (b) Independent Body to Review Fiduciary Standards: To facilitate access through implementing entities, it is proposed that the Board establish a mechanism, accountable to the Board, to review potential entities and determine their eligibility for accreditation by the Board. The mechanism could be an independent consultant, accountable to the Board, that reviews potential implementing entities against fiduciary and other standards established by the Board. This mechanism has to be independent of performance management and supervisory system described above and its determination on eligibility should be binding.

⁹ See proposed standards in AFB/B.4/6, *Operationalization of Access to the Adaptation Fund*.

¹⁰ For example, at the Global Fund to Fight AIDS, Malaria and Tuberculosis, Local Fund Agents located in countries or in the region, selected through a competitive bidding process, provide to the Fund a range of independent program performance and supervisory services to monitor grant recipients. These include: (i) upstream review to assess the potential grant recipient's capacity to implement the grant; (ii) site visits to monitor implementation performance and verify results; (iii) inputs for decisions regarding continuation of grant; (iv) review at grant closure; and (v) ad-hoc assignments, including investigations related to suspected misuse of funds.

PROGRAMMING FRAMEWORK

Definitions of Adaptation Projects and Programmes and Full Costs of Adaptation

24. Climate change affects all core sectors of development and people's basic needs, such as access to food, water resources for drinking or irrigation purposes, public health, basic infrastructure, and the natural resources on which livelihoods depend. Consequently, a concrete *adaptation project* is defined as a project aimed at addressing the adverse impacts of climate change. Adaptation projects can be implemented at the community, national, regional and [global] level.

25. An *adaptation programme* is a process, a plan or an approach to be adopted when the issue of climate change impacts cannot be addressed within the scope and domain of an individual project. The aim of adaptation programmes will therefore be to achieve higher level strategic objectives, usually by (national) governments, and will involve a range of institutional strengthening as well as concrete activities, whereas projects concern discrete activities with concrete outcomes that are more narrowly defined in scope, space and time.

26. 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 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*.

27. The Fund will finance the *full costs of adaptation*, defined as the costs of concrete activities to be implemented to address the adverse impacts of climate change.

28. However, in the limited, significant experience of the management of the portfolios of the Strategic Pilot on Adaptation, the Least Developed Countries Fund and the Special Climate Change Fund,¹¹ initial lessons have been learned on how to identify concrete adaptation measures and their costs, as opposed to business as usual development activities, with some initial positive results. Projects and programmes submitted under the Fund may build upon this initial experience and at the same time projects and programmes may create new and more innovative methods for determining adaptation activities and costs.

29. Due to lack of CMP guidance, and experience on specific adaptation programmes on the ground, the Board proposes to adopt a flexible approach, allowing Parties to submit programmes under the Fund to be reviewed on an *ad hoc* basis, taking into account general principles, modalities, sectors and activities that are applicable to both projects and programmes.

Project and Programme Selection Criteria

30. To access Fund resources, projects and programmes will have to be in compliance with the eligibility criteria selected by the Board, which may include:

¹¹ In some of these projects, the optional use of a sliding scale – which proposes an approximate percentage of adaptation costs to be added to the costs of the business as usual development costs – was considered a useful tool to save money and time.

- (a) Country eligibility;
- (b) Executing entity (which may include government agencies) eligibility (if direct access modality is adopted);
- (c) Implementing entity eligibility (if implementing entity is chosen);
- (d) Country ownership – the project/programme must be endorsed by the country UNFCCC focal point and must demonstrate consistency with the:
 - (i) The country’s development priorities, as outlined in the development strategies, including sectoral development and sub-national development strategies and action plans;
 - (ii) Vulnerability and adaptation priorities outlined in the national communications to the UNFCCC, technology needs assessment reports and national adaptation plans of action or any other relevant documents. Addressing vulnerability.
- (e) Scientific grounding – the project/programme strategy is based on a scientific justification of climate risk and vulnerability;¹²
- (f) Conformity and consistency with the objectives, strategic priorities, policies, guidelines, and procedures of the Fund;
- (g) Conformity and consistency with scope, activities and type of eligible projects;
- (h) Inclusion of description of project components and concrete adaptation measures to be financed and assessment of full costs of adaptation;
- (i) Viability of the project, sustainability (ecological and financial), impact on structural change;
- (j) Cost-effectiveness and positive benefit-cost ratio;
- (k) Compliance with environmental and social safeguards;
- (l) Stakeholder involvement (national, bilateral and multilateral, including civil society);
- (m) Adoption of transparency policy and full disclosure of project documentation;
- (n) Coordination with other financial actors and agencies working in the same areas, as needed to avoid duplication and lack of consistency; and

¹² The Board might want to consider creating a panel of experts to provide the Board with objective and scientific analyses of the projects.

- (o) Inclusion of a results-framework that includes a monitoring and evaluation framework containing clear indicators for measuring project impact and sustainability, and demonstrates potential for replication and scale-up.

PROJECT CYCLE

31. The proposed options for the project cycle reflect the two main types of project/programmes proposed for the Fund:

- (a) Small-scale & community-based project/programmes (up to [\$300,000][\$1million]); and
- (b) Regular projects/programmes (grants greater than [\$300,000][\$1million]).

32. Small-scale projects/programmes will be reviewed and approved on a rolling batch process by [a Board committee][the Board].[The Board Committee will report on its approvals at each Board meeting]. Regular projects will be reviewed and approved by the Board at its meetings.

33. Project proponents can propose projects following any of these three modalities:

- (a) If the project proponent is a legal entity and accredited *ex-ante* by the Board as an “implementing entity”¹³ of the Fund, it may submit proposals directly to the Fund through the Adaptation Fund Secretariat; or
- (b) If the project proponent is a legal entity but not accredited *ex-ante* by the Board, it may take on the role of “executing entity” and submit proposals directly to the Fund through the Adaptation Fund Secretariat, and be subject to the performance management and supervisory system established by the Fund for executing entities;
- (c) Whether a project proponent is a legal entity or not, it may choose to work with an accredited implementing entity and be subject to due-diligence procedures of the implementing entity and submit proposals to the Fund through the implementing entity.

Review and Approval of Small-scale and Community-based Projects/Programmes (up to a max of [\$300,000] [\$1million])

34. It is proposed that small-scale and community based projects undergo a single approval process. The proposed steps in the approval part of the project cycle are as follows:

¹³ Implementing entities accredited by the Adaptation Fund Board are those entities that are assessed by the Board as meeting the minimum fiduciary standards established by the Board. They could be (i) entities invited by the Board to submit their qualifications, including demonstration of capacity to meet minimum fiduciary standards, for assessment and accreditation by the Board; or (ii) entities, nominated by Parties, to submit their qualifications, including demonstration of capacity to meet minimum fiduciary standards, for assessment and accreditation by the Board.

Step 1. Project Proposal Development and Submission to Secretariat

35. The project proponent, taking any one of the pathways described in paragraph 33, may submit a proposal. The project documentation will be based on a template to be approved by the Board. Project proposals need to be endorsed by the Party's UNFCCC focal point. Proposals may be submitted to the Secretariat on a rolling basis.

Step 2. Proposal Review by Performance Management and Supervisory System (only for proposals submitted by executing entities)

36. If the proposal is received at the Secretariat through an executing entity, the Secretariat will forward the proposal to the performance management and supervisory system established by the Board for a review of the entity's capabilities.

Step 3. Proposal Review by Secretariat

37. All proposals, whether received from an implementing or an executing entity, will be reviewed by the Secretariat¹⁴ based on criteria for small-size proposals to be approved by the Board. The Secretariat, will then forward proposals to the [Board's Small Scale Project Review Committee][Board] with technical comments and "approve/do not approve/revise" recommendations.

38. The Secretariat will forward proposals as a batch on a rolling basis when the Secretariat has collected proposals whose total grant requests exceed [\$3][\$10] million.

Step 4. Proposal Approval by [Board Committee][Board]

39. The [Board Committee][Board] will review the proposals and approve those proposals that it deems to meet the criteria of the Fund [through a decision by mail]. [The Board Committee will report to the Adaptation Fund Board at its next meeting]. Should an objection to the Secretariat's recommendations be raised by at least [___ members of the Committee][___ members of the Board], the referenced projects will be brought to the attention of the full Board at its next meeting for review.

Review and Approval of Regular Projects/Programmes

40. Regular adaptation projects/programmes are those that request grants exceeding [\$300,000][\$1million] from the Fund. It is proposed that these proposals undergo a double approval process (the first one for a project concept and the second one when the concept has developed into a full-fledged project proposal) as follows:

Step 1. Project Concept Development and Submission to the Secretariat

41. The project proponent, taking any one of the pathways described in paragraph 33, may submit a concept. The project concept documentation will be based on a template to be approved

¹⁴ After review by the performance management and supervisory system if it is received through a project proponent acting as an executing entity.

by the Board. Project concepts need to be endorsed by the Party's UNFCCC focal point. Concepts may be submitted to the Secretariat on a rolling basis.

Step 2. Concept Review by Performance Management and Supervisory System (for concepts submitted by executing entities)

42. If the concept is submitted to the Secretariat through an executing entity, then the Secretariat will forward the proposal to the performance management and supervisory system established by the Board for a review of the entity's capabilities.

Step 3. Concept Review by Secretariat and Clearance by [Secretariat] [Board/Board Committee]

43. All concepts, whether received through an implementing entity or an executing entity, will be reviewed by the Secretariat. The Secretariat will review the concept¹⁵ based on criteria for concept review of regular projects approved by the Board. *[There are two options for clearing the concept for entry into the Adaptation Fund pipeline: (i) the [Board] [Board Committee] clears the concept; or (ii) the Head of the Secretariat clears the concept under delegated authority from the Board].*

44. [The Secretariat will forward all concepts received to the [Board][Board Committee], with one of the following three recommendations for each concept: (i) clear the concept for entry into the Adaptation Fund project pipeline for further development; or (ii) reject the concept; or (iii) return the concept to the proponent, with comments for re-submission. The Secretariat shall forward all concepts to the [Board] [Board Committee] on a regular basis whenever the aggregate value of the grants requested exceed [\$20 million] [\$10 million]].

45. [The Head of the Secretariat under delegated authority from the Board to clear project concepts may undertake any of the following three actions: (i) clear the proposal for entry into the Adaptation Fund project pipeline for further development; or (ii) reject the proposal; or (iii) return the concept to the proponent, with comments for re-submission. The Secretariat shall report to the Board at its meetings on all concepts received with regard to the three decisions listed above].

46. Once the concept is cleared, the executing/implementing entity will undertake further project preparation, with a view to present a fully developed proposal within [10 months][20 months].

Step 4. Full Project Proposal Review by the Secretariat.

47. Once the concept has been developed into a fully costed proposal, the executing/implementing entity will submit the proposal documentation (based on a template to be developed by the Secretariat in consultation with the Board) on a rolling basis to the

¹⁵ After review by the performance management and supervisory system, if it is received through a project proponent acting as an executing entity.

Secretariat. The Secretariat will review the proposal,¹⁶ based on criteria for review of regular proposals to be approved by the Board, and will forward it to the Board with technical comments and “approve/do not approve/revise” recommendations. Project proposals shall be collected in a batch and forwarded to the Board as a work program 4 weeks prior to each meeting of the Board.

Step 5. Proposal Review and Approval by the Board.

48. At its meeting, the Board shall review the work program, including the recommendations of the Secretariat, and may approve: (i) the entire work program; or (ii) specific projects in a work program.

Disbursement

49. If the Fund is endowed with a legal personality, the Fund will enter into agreements with the implementing and executing entities directly, and the Trustee will transfer funds to the entities in response to written directions from the Adaptation Fund Board.¹⁷

50. The Trustee will enter into financial procedures agreements with implementing entities, until further notice.¹⁸

Monitoring and Evaluation

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

52. All projects that complete implementation will be subject to terminal evaluation by an independent evaluator. Terminal evaluation reports will be submitted to the Secretariat by the end of the fiscal year during which the project completed implementation.

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

¹⁶ After review by the performance management and supervisory system, if it is received through a project proponent acting as an executing entity.

¹⁷ If the Fund is endowed with a legal personality, similar to the Global Fund model, the Trustee functions are limited to financial transactions at the express direction of another legal entity with contractual capacity and programmatic responsibility.

¹⁸ If the Fund is not endowed with a legal personality, similar to the GEF model, oversight and fiduciary responsibility rests with the implementing entities.