



ADAPTATION FUND

AFB/B.8/7/Rev.1
October 29, 2009

Adaptation Fund Board
Eighth Meeting
Bonn, November 16-18, 2009

INITIAL FUNDING PRIORITIES

I. Note by the Secretariat

1. The present document has been prepared upon the request of the Board Chair in order to address issues related to initial funding priorities and allocation of funds which the Board may need to discuss prior to the consideration of project proposals.

II. Background information

2. The strategic priorities adopted by decision 1/CMP.4 state:

9. The operational principles and modalities that shall guide the provision of assistance by the Adaptation Fund to eligible Parties shall be consistent with decision 5/CMP.2, paragraphs 1 and 2.

10. Eligible Parties to receive funding from the Adaptation Fund are understood as developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems.¹

3. Further, the Board approved its Operational Policies and Guidelines whose paragraph 16 states:

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

(a) Level of vulnerability;

(b) Level of urgency and risks arising from delay;

(c) Ensuring access to the fund in a balanced and equitable manner;

(d) Lessons learned in project and programme design and implementation to be captured;

(e) Securing regional co-benefits to the extent possible, where applicable;

(f) Maximizing multi-sectoral or cross-sectoral benefits;

(g) Adaptive capacity to the adverse effects of climate change.

4. The Operational Policies and Guidelines also state that:

¹ The Operational Policies and Guidelines, paragraph 17, state that resource allocation decisions will be guided by paragraphs 9 and 10 of the Strategic Priorities Policies and Guidelines of the Adaptation Fund.

The Board may provide further guidance on financing priorities, including through the integration of information based on further research on the full costs of adaptation and on lessons learned².

5. Before considering project proposals the Board shall provide further guidance on financing priorities and resource allocations in order to adopt funding decisions. In particular, the Board may wish to discuss:

- (a) How and on which basis to prioritize among different projects according to categorizing features (i.e. vulnerability, regions, type of project, areas, etc) and the technical strength/validity of individual projects;

- (b) How to allocate funds to calls for proposals, as well as allocations for individual projects, taking into account the availability of resources at the Trust Fund. For example, whether to cap resources either per country or per region, whether to allow/request funding from other sources in addition to those from the Adaptation Fund, etc.

III. Recommendation

6. The Board may wish to consider the issues outlined in the present document and, based on the views expressed during the discussion, to request the secretariat to prepare a proposal on initial funding priorities and resources allocations for consideration at the ninth meeting.

Annex 1. Other Funds that Address Adaptation

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Paragraph 14.

Annex 1. Other Funds that Address Adaptation

Least Developed Countries Fund

Mandate of the Least Developed Countries Fund:

The Least Developed Countries Fund (LDCF) is a voluntary fund which was established under the United Nations Framework Convention on Climate Change (UNFCCC) at its seventh session in Marrakech in 2001. The Fund, which is managed by the Global Environment Facility (GEF), addresses the special needs of the Least Developed Countries (LDCs), which are especially vulnerable to the adverse impacts of climate change. This includes preparing and implementing National Adaptation Programmes of Action (NAPAs), which aim to identify “urgent and immediate needs” of each LDC according to specific guidelines provided by the Least Developed Countries Expert Group (LEG).

NAPA preparation:

The NAPA process involves two distinct phases. The first phase (which is almost completed) involves the funding of National Adaptation Programmes of Actions (NAPAs). Each LDC is eligible for an LDCF grant of around \$200,000 to prepare its NAPA. To date 48 of 50 LDCs have accessed the NAPA preparation grant, of which 43 NAPAs have now been successfully completed.

NAPA Implementation:

The second phase of the NAPA process involves the funding of the ‘urgent and immediate needs’ identified in the NAPAs. In accordance with COP guidance the LDCF follows an ‘equitable access principle’ for NAPA implementation funding. With current donor pledges to the LDCF of around \$190 million this ‘equitable access principle’ translates into a maximum availability of approximately \$5 million pr LDC. This amount is flexible, however, and will continuously change as new LDCF funds become available. NAPA implementation can take the form of projects implementing one or more of the NAPA priorities, or more cross-sectoral programmatic approaches for implementing the full NAPA. As of October 31, 2009, the LDCF has approved 34 NAPA implementation projects for funding, totaling around \$120 million.

Special features of the Least Developed Countries Fund:

The LDCF applies several special procedures which are designed to further streamline the project cycle and facilitate swift access to NAPA implementation funding for LDCs. Key differences between the LDCF project cycle and the GEF project cycle includes:

- ⇒ *The application of the Additional Cost principle:* The concept of additional costs has been applied to determine the level of LDCF funding. Eligible adaptation funding is defined in the context of development, and is not based on generating global benefits as defined for conventional operations in GEF focal areas.
- ⇒ *Allowance for Full-cost Funding:* In those rare cases where no baseline of activities can be identified, the LDCF will pay the full-costs of the adaptation project, provided that it targets an urgent and immediate need as defined in the NAPA.
- ⇒ *Expedited Project Cycle:* All project reviews and approvals are undertaken on a rolling basis. Full projects, defined as projects requesting more than \$2m of LDCF funding are

approved by the LDCF/SCCF Council on a “no objection” basis. Only in cases where four Council members object to a project will it need to be submitted to a Council meeting for discussion (this has, however, to date never occurred).

- ⇒ *Increased limit for CEO Approval:* Under LDCF approval procedures, the CEO is authorized to approve projects of up to \$2m in size, notifying Council of such approval on a “no objection” basis. This represents a significant increase in CEO commitment authority, which is normally limited to \$1m for projects within the GEF Trust Fund.
- ⇒ *Flexible co-financing concept:* Co-financing may include utilization of existing resources in the form of bilateral grants, IDA loans, or other in-cash and in-kind contributions. These co-financing contributions may also include existing government budget lines of the relevant sector. There is no requirement to raise new funding to access LDCF resources.

Special Climate Change Fund

Mandate of the Special Climate Change Fund:

The Special Climate Change Fund (SCCF) is a voluntary fund which was established under the UN Framework Convention on Climate Change (UNFCCC) in 2001 to finance activities, programs and measures relating to climate change that are complementary to those funded by the resources allocated to the climate change focal area of the GEF and by bilateral and multilateral funding.

The SCCF has four different windows:

- a) Adaptation
- b) Transfer of technologies
- c) Energy, transport, industry, agriculture, forestry, and waste management
- d) Activities to assist developing countries whose economies are highly dependent on income generated from the production, processing, and export or on consumption of fossil fuels and associated energy-intensive products in diversifying their economies

As the Fund was created to support all of the above funding windows, donors must earmark their contribution to a particular funding window when making contributions to the SCCF. The Parties to the Climate Convention identified adaptation to climate change as the top priority of the SCCF. The SCCF serves as a catalyst to leverage additional resources from bilateral and other multilateral sources.

With respect to adaptation, the SCCF supports developing countries, particularly the most vulnerable to the impacts of climate change, to become climate resilient by promoting both immediate and longer-term adaptation measures in development policies, plans, programs, projects and actions. This is done through reducing their vulnerability, increasing their adaptive capacity at all levels, and promote transfer and adoption of adaptation technology.

Adaptation activities funded under the SCCF are based on National Communications (NCs), National Adaptation Programmes of Action (NAPAs), in the case of Least Developed Countries (LDCs), and relevant local, national and regional studies.

Climate Convention guidance identified, among others, the following priority areas for adaptation activities under the SCCF:

- Water resources management
- Land management
- Agriculture
- Health
- Infrastructure development
- Fragile ecosystems (including mountain ecosystems)
- Integrated coastal zone management

The SCCF supports capacity building for preventive measures, planning, preparedness and management of disasters relating to climate change and variability, including contingency planning for droughts and floods in areas prone to extreme weather events.

Activities funded under the SCCF also include improving the monitoring of diseases and vectors affected by climate change, improving disease control and prevention, forecasting and early warning systems, and strengthening and establishing national and regional centers and information networks for rapid response to extreme weather events. The SCCF further considers appropriate technological options in addressing the impact of response measures, consistent with national priorities and indigenous resources.

Current Status of SCCF funding for adaptation:

As of October 31, 2009 \$105 million have been pledged to the SCCF adaptation programme by donors – of which around \$95 million have been paid out (a few pledges are scheduled for delivery in 2010). The current number of approved projects in the SCCF adaptation programme is 22, totaling \$91.69 million. All available SCCF adaptation resources have been programmed, but the pipeline will be reopened for new project submissions as soon as additional resources become available.

As of October 31, 2009, \$18 million have been pledged to the technology transfer programme under the SCCF. These funds are being programmed as part of the SCCF work programme to be presented to the LDCF/SCCF Council at the Council meeting in November, 2009.

As of October 31, 2009, no pledges have been made for windows (c) and (d) under the SCCF.

Special features of the Special Climate Change Fund:

The SCCF generally follows the expedited GEF project cycle, but applies a few special features which sets it apart from the conventional GEF operations:

- ⇒ *The application of the Additional Cost principle:* The concept of additional costs has been applied to determine the level of SCCF funding. Eligible adaptation funding is defined in the context of development, and is not based on generating global benefits as defined for conventional operations in GEF focal areas.