



ADAPTATION FUND

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Adaptation Fund Board
Ethics and Finance Committee
2-3 April, 2013

**COMMUNICATION MATERIALS PREPARED
BY THE SECRETARIAT**

Background

1. At its 19th meeting in December 2012, the Adaptation Fund Board (the Board), after having discussed a paper presented by the secretariat on the strategic prospects of the Adaptation Fund (the Fund), requested the secretariat to:

(i) [Prepare] a ministerial brief on the strengths of the Adaptation Fund (and)

(ii) [Enable] Board members to act as champions of the Adaptation Fund by preparing materials which they could circulate and use as talking points

(Decision B.19/29)

2. Following the mandate under point (i) of the decision above, the secretariat presented a draft ministerial brief to the members of the fundraising task force and sought their inputs on it. This is intended to be an evolving document that concisely presents the strengths of the Fund and the emerging challenges due to the status of its resources. Following the receipt of comments by members of the task force, the ministerial brief was updated and a revised version is presented in Annex I.

3. Following the mandate under point (ii) of the decision above, the secretariat prepared an informative document that presents the progress of the Fund to date as well as the emerging challenges due to the status of its resources. This is also intended to be an evolving document but is more extensive and presents additional information on funded projects and programmes, status of resources, accreditation and key policies. This informative document is presented in Annex II.

ANNEX I: MINISTERIAL BRIEFING NOTE

MINISTERIAL BRIEFING NOTE: THE ADAPTATION FUND: SUCCESSES AND EMERGING CHALLENGES

The purpose of this note is to provide an update on the achievements of the Adaptation Fund in channeling finance to concrete climate change adaptation projects and programmes in developing countries. The Fund has pioneered a number of innovative practices that have demonstrated its effectiveness as a global financial mechanism dedicated to addressing climate change adaptation. In contrast to its successes, the primary source of revenue to the Fund – a global two per cent levy on carbon emission reductions (CERs) – has diminished due to a collapse of the carbon price on international markets. The Fund is now seeking an increase in bilateral contributions from countries in order to sustain its important work in addressing the adaptation needs of the most vulnerable countries and communities.

Key achievements of the Adaptation Fund

The Fund was created by the Parties to the Kyoto Protocol to finance concrete adaptation projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate change. Since becoming fully operational in 2010 the Fund has achieved:

- The approval of US\$ 178 million in grant funding for 27 adaptation projects and programmes in developing countries vulnerable to the adverse effects of climate change;
- The operationalization of direct access to climate finance, allowing national institutions – subject to meeting the strict fiduciary standards of the Fund – to become National Implementing Entities (NIE), hence taking on the implementation role normally undertaken by multilateral institutions;
- A clear focus on results-based management to track key indicators, including gender considerations, to measure the performance of approved projects and programmes;
- A top ranking among climate finance institutions assessed by the 2012 International Aid Transparency Initiative, recognizing the Fund's transparent decision-making procedures;
- The substantive involvement of civil society, including allowing comments on proposals under consideration, involvement at Board meetings and monitoring during project and programme implementation
- Engaging with the private sector to cooperate on innovative adaptation solutions, including partnering with a telecommunications carrier to expand an early warning system in Papua New Guinea and working with tourism operators in Mauritius and Jamaica to implement coastal adaptation measures.

Current situation of financial resources

To date, the Fund has received cumulative revenues of US\$ 324.83 million, of which US\$ 187.99 million was generated through sales of CERs and US\$ 134.50 received in bilateral contributions from developed countries. The Board has committed US\$ 178.76 million to projects, of which US\$ 150.13 million was awarded to projects and programmes implemented by Multilateral Implementing Entities (MIE) and US\$ 28.67 million to those implemented by NIEs.

To ensure that funds would be available for the groundbreaking direct access modality used by NIEs, the Board instituted a cap of 50 per cent of the Fund's funds that could be allocated to MIEs. The remaining 50 per cent is reserved for projects and programmes implemented by national and regional entities. In the 19th Board meeting on December 13-14, 2012, the cumulative value of MIE projects and programmes recommended for approval exceeded 50 per cent, and as a result, four recommended projects were placed in a pipeline, to be approved by the Board when funds become available. The funds available for new projects and programmes implemented by MIEs now amount to just US\$ 1.21 million and none of the projects in the pipeline can currently be funded.

The main source of revenue for the Fund – the sale of CERs accrued through the two per cent levy on Clean Development Mechanism projects – has drastically diminished due to changes in the carbon

market. The price of CERs, which had been relatively constant between 11 and 14 euros per ton between May 2009 and May 2011, dropped rapidly during the second half of 2011 and remained low through 2012, reaching under 0.5 euros per ton by the end of 2012. In light of the diminished revenue and the resultant uncertain funding situation the Board has established a fundraising task force and set a goal of raising US\$ 100 million through the end of 2013.

How Implementing Entities access Adaptation Fund Resources

In order to access the resources of the Fund, potential implementing entities are evaluated by independent experts of the Accreditation Panel for compliance with the Fund's strict fiduciary standards. There are currently 10 accredited MIEs and 15 accredited NIEs, of which one-third come from either Least Developed Countries (LDCs) or Small Island Developing States (SIDS). Once accredited, implementing entities can apply for funding of up to US\$ 10 million per country for concrete climate change adaptation projects or programmes.

Key policies of the Adaptation Fund

Ensuring ownership by the countries implementing projects and programmes through the formal endorsement by the Designated Authority of the country. Consultation with all relevant stakeholders, particularly local communities and vulnerable groups such as women, is a requirement for all projects and programmes approved by the Fund.

Transparency and accountability are ensured in all operations. Every proposal received by the secretariat is published on the Fund website before being reviewed and the Board publishes in its meeting reports a decision about every proposal it receives. All technical reviews by the secretariat are published online, whilst all Board meetings are open to observers and broadcast live online. The Board also conducts a regular dialogue with civil society in conjunction with Board meetings. The transparency of the Fund has been recognized internationally, evidenced by its ranking as the first among climate finance institutions in the 2012 Aid Transparency Index assessed by the International Aid Transparency Initiative and 17th out of 72 institutions overall¹.

Focus on results and cost-effectiveness. The Fund has tracked results both at the project and programme level and at the fund level since the portfolio became active in early 2011. Results cover eight broad areas of climate change adaptation, including tracking specific indicators related to gender considerations. The results-based management system of the Fund is based on annual reporting by the implementing entities to the Board through the secretariat. Through a performance-based disbursement system, funding is provided to a project or programme in annual tranches, which are released upon review and approval of the report of the preceding period. Each project and programme undergoes a final evaluation, and a mid-term review is required for projects and programmes with a duration of four years or more.

Swift accreditation and proposal review processes allow accreditation to be done in as little as three months in cases where applicants provide complete and satisfactory evidence. Similarly, for project reviews, a decision is made in nine weeks. Project proponents receive the results, and funding in the case of positive decisions, within three months.

An opportunity to channel finance to effective adaptation to climate change

The Fund has proven its effectiveness as a highly efficient and transparent framework for channeling adaptation finance to vulnerable communities. The Board is encouraging the continued engagement of countries in supporting the work of the Fund in fulfilling its mandate to finance concrete climate change adaptation projects and programmes in developing countries. For more information on the Fund please contact the Manager of the Adaptation Fund Board secretariat, Marcia Levaggi, at mlevaggi@adaptation-fund.org or +1 (202) 473-6390.

¹ <http://www.publishwhatyoufund.org/index/2012-index/>

**ANNEX II: INFORMATIVE DOCUMENT ON
PROGRESS OF THE ADAPTATION FUND**

PROGRESS OF THE ADAPTATION FUND

Summary

Since becoming fully operational in 2010, the Adaptation Fund Board (the Board) has illustrated that its novel features, crafted by the Parties to the Kyoto Protocol, and subsequently by the Board, are an effective framework for channeling funds for concrete adaptation projects in developing countries that are vulnerable to the adverse effects of climate change. These features include:

- Enabling direct access for accredited National Implementing Entities (NIEs);
- Ensuring country-drivenness and use of country systems in projects and programmes throughout the portfolio;
- Expedited decision-making using transparent procedures;
- Orientation toward results, performance measurement, and use of results-based management to track key indicators, including gender mainstreaming ;
- Involvement of civil society at various levels; and
- Avoiding duplication with other funding sources for adaptation.

The Adaptation Fund (the Fund) has made rapid progress in all of these areas, including accrediting 26 implementing entities, of which 15 are NIEs in Africa, Latin America and the Caribbean, and Asia, and approving grant funding to 27 projects and programmes and to four project formulation activities, in a total of 29 countries. Of those countries that have received funding, 10 are Least-Developed Countries (LDCs) and four are Small Island Developing States (SIDSs). So far five NIEs have received funding.

In stark contrast with these advances, the main source of revenue for the Fund—the sale of certified emission reductions (CERs) accrued through the two percent levy on Clean Development Mechanism projects—has drastically diminished due to changes in the carbon market. The price of CERs, which had been relatively constant between 11 and 14 euros per ton between May 2009 and May 2011, dropped rapidly during the second half of 2011, and remained low through 2012, reaching under 0.5 euros per ton by the end of 2012. The diminished revenue and the uncertain funding situation endanger the future of the Fund.

Status of resources (as of 28 February 2013)

1. Cumulative Receipts	USD 324,834,702
2. Cumulative Cash Transfers	USD 72,336,944
3. Funds Held in Trust (3 = 1 - 2)	USD 252,497,759
4. Restricted Funds	USD 3,000,000
5. Funds held in Trust with no restrictions (5 = 3 - 4)	USD 249,497,759
6. Funding decisions pending cash transfers	USD 125,660,812
7. Funds available to support funding decisions (7 = 5 - 6)	USD 123,836,946

Approved projects²

• 3 implemented by NIEs	USD 28,551,678
• 4 project formulation grants for NIEs	USD 119,000
• 24 implemented by Multilateral Implementing Entities (MIEs)	USD 150,129,774
• Total	USD 178,800,452

Accreditation of Implementing Entities

- 15 NIEs
- 1 Regional Implementing Entity (RIE)
- 10 MIEs

In general, MIEs have tended to be quicker than NIEs in navigating the process of being accredited to receive funds. During the first 1.5 years the process was in place, from the beginning of 2010 to mid-2011, the Board was able to accredit eight MIEs and only four NIEs, as well as one RIE. Since then, the figures have shifted, with only two additional MIEs and 11 new NIEs having been accredited since July 2011. This trend is evident also in the pool of applications currently under review by Accreditation Panel, which includes two MIE applications, four RIE applications and ten NIE applications.

A popular misconception has been that NIE accreditation would be something relevant mostly to middle-income developing countries, and that institutions in LDCs and SIDSs would find it impossible to achieve accreditation. This assumption, however, has not held true. Both LDCs and SIDSs have completed the accreditation process, and one-third (five out of 15) of NIEs come from either LDC or SIDS.

The MIEs' head start in achieving accreditation, their generally developed systems of producing quality project proposals once accredited, and their ability to simultaneously submit proposals for a number of countries, has led to an increasing percentage of Fund resources being rapidly allocated to projects submitted by MIEs. To ensure that funds would be available for the ground-breaking direct access modality using NIEs, the Board instituted a cap of 50 percent of the Fund's project funds that could be allocated to MIEs. The remaining 50 percent would be reserved for projects implemented by national and regional agencies. In the 19th Board meeting on December 13-14, 2012, the cumulative value of MIE projects recommended for approval by the Board's Project and Programme Review Committee exceeded the set 50 per cent. As a result, four recommended projects could not be approved but were placed in a pipeline, to be approved by the Board when funds become available.³

² Please see Annex 3 for details on approved projects and programmes

³ Please see Annex 4 for details on projects and programmes placed in the pipeline

Key policies

Ensuring ownership by the countries implementing projects

At the project level, alignment with countries' adaptation and sustainable development strategies and policies is a key priority. This is ensured both through the formal endorsement by the Designated Authority of the country, and through specific project review criteria which require illustration of how the project is supportive of the country goals. At the local level, it is required that during project development, a proper consultation process involving all relevant stakeholders, particularly local communities and vulnerable groups such as women, is carried out and informs the project development; projects resulting in negative social, economic or environmental impacts are not funded. At the technical level, the focus is on using countries' own systems for impact assessment.

Swift accreditation and project review processes

Since the launch of the Fund, there has been an effort to keep the processes of accreditation and project review as swift as possible, and to avoid any unnecessary procedures, while simultaneously maintaining technical rigor. The accreditation can be attained in as little as three months, and there are cases where that has held true. In other cases it has taken longer, if the applicant entity does not have all the documentation and processes readily in place. Similarly, for project reviews, a decision is made in nine weeks. Project proponents receive the results--and funding, in the case of positive decisions--in less than three months⁴. Being able to keep these processes short is partly a result of the optimal allocation of duties among the Board and the bodies working for it, i.e. the Accreditation Panel, and the secretariat. The Board has, over time, placed a considerable amount of trust in these bodies, and typically follows their respective recommendations.

Transparency and accountability

All the project/programme proposals received are published on the website before being reviewed by the secretariat. Since there is no pre-screening of proposals, every proposal received is submitted to the Project and Programme Review Committee (PPRC) and subsequently to the Board for consideration. The Board always makes and publishes in its meeting reports a decision about every proposal submitted. Moreover, following a decision adopted at the 17th Board meeting, all the project reviews by the secretariat are published on the Fund website (www.adaptation-fund.org). In addition, all Board meetings are broadcast live online and are open to observers. The Board also conducts a regular dialogue with civil society in conjunction with the Adaptation Fund Board meetings. At its most recent civil society dialogue, the Board fielded real-time questions from the public via email, as well as its Facebook and Twitter feeds. For those wishing to comment on the activities of the Fund, the website includes a section for complaints regarding the Fund itself and its implementing entities, whose contact information is easily obtainable online. The transparency of the Fund has been recognized internationally, evidenced by its ranking as the first among climate finance institutions in the 2012 Aid Transparency Index assessed by the International Aid Transparency Initiative (IATI) and 17th out of 72 institutions overall⁵. As part of its ongoing efforts to release information in more accessible formats, the Fund recently deployed an interactive mapping portal on its website, giving users full access to data on the projects and programmes in the Fund's portfolio in an easy to understand, graphical format. Users can click on countries with approved projects or programmes, and analyze and sort data based on sectors, regions and

⁴ As proposals usually require subsequent submissions before meeting all review criteria, the total times for approval are longer but still short in international comparison: 12 months for projects submitted first as concepts and subsequently as full proposals, and nine months for projects submitted directly as full proposals.

⁵ <http://www.publishwhatyoufund.org/index/2012-index/>

implementing entities. The mapping tool displays the amount of funding approved and disbursed, at the project level and throughout the portfolio as a whole. An additional feature is the mapping of specific project sites through the use of geocoordinates. This feature lets users see where funds are being directed to address adaptation needs at the sub-national level. Finally, the tool allows users to download graphical outputs and spreadsheets of data to their own computer, which may be useful for those who wish to analyze it further. The development of this mapping tool is part of the Fund's efforts to further enhance transparency and is an important interactive addition to the Fund's website.

Focus on results and cost-effectiveness

The Fund has tracked results both at the project level and at the fund level since the project portfolio became active in early 2011. Fund level results cover eight broad areas of climate change adaptation, including tracking specific indicators related to gender considerations. The project-level results align with these areas. The Results-Based Management (RBM) system of the Fund is based on annual (in some cases semi-annual) reporting by the implementing entities to the Board through the secretariat. Funding is provided to a project in annual (or semi-annual) tranches, which are released upon approval of the report of the preceding period. Each project undergoes a final evaluation and in the case of projects with duration of more than four years, also a mid-term review.

In review of project and programme proposals, particular attention is paid to assessing the cost-effectiveness of the selected approach in yielding the planned climate change adaptation results. In addition, a thorough analysis is conducted on each proposal to ensure that the Fund project is not duplicating efforts already financed from other sources.

Accredited Implementing Entities

National Implementing Entities

- Argentina: Unidad para el Cambio Rural
- Belize: Protected Areas Conservation Trust
- Benin: Fonds national pour l'environnement
- Chile: International Cooperation Agency
- Costa Rica: Fundecooperación Para el Desarrollo Sostenible
- India: National Bank for Agriculture and Rural Development
- Jamaica: Planning Institute of Jamaica
- Jordan: Ministry of Planning and International Cooperation
- Kenya: National Environment Management Authority
- Mexico: Mexican Institute of Water Technology
- Morocco: Agency for Agricultural Development
- Rwanda: Ministry of Natural Resources
- Senegal: Centre de Suivi Ecologique
- South Africa: South African National Biodiversity Institute
- Uruguay: Agencia Nacional de Investigación e Innovación

Regional Implementing Entity

- Banque Ouest Africaine de Développement

Multilateral Implementing Entities

- African Development Bank (ADB)
- Asian Development Bank (AfDB)
- Inter-American Development Bank (IDB)
- International Fund for Agricultural Development (IFAD)
- United Nations Development Programme (UNDP)
- United Nations Educational, Scientific, and Cultural Organization (UNESCO)
- United Nations Environment Programme (UNEP)
- United Nations World Food Programme (WFP)
- The World Bank (International Bank for Reconstruction and Development)
- World Meteorological Organization (WMO)

Schedule of Receipts and Cash Transfers as of December 30, 2012⁶

Schedule of Receipts and Cash Transfers (in USD eq. millions)			
1. Cumulative Receipts			324.48
a. Cash receipts from CER proceeds a/		187.99	
b. Cash receipts from Donors and Other Sources		134.50	
Finland b/	0.07		
Germany	13.88		
Japan b/	0.01		
Monaco	0.01		
Norway b/	0.09		
Spain	57.06		
Sweden	44.19		
Switzerland b/	0.08		
Switzerland	3.19		
United Kingdom	15.92		
Others	0.00		
c. Investment Income earned on undisbursed balances of AF Funds		1.99	
2. Cumulative Cash Transfers			67.92
a. Projects and Programs		50.37	
b. Operational Expense c/		17.55	
3. Funds held in Trust (3 = 1 - 2)			261.56
a/ Includes cash receipts from CER proceeds pending foreign exchange conversion.			
b/ Donation corresponds to the Donor's pro-rata share of the balance in the Administrative Trust Fund			
c/ Represents administrative budgets, return of unused amounts to the AF Trust Fund, and reimbursements to Administrative Trust Fund donors.			

⁶ The figures are provided by the World Bank as the trustee of the Adaptation Fund, and are updated on a monthly basis at <http://fiftrustee.worldbank.org/index.php?type=fund&ft=af>.

Projects, programmes and formulation grants approved for funding from the Adaptation Fund, as of December 14, 2012

Projects, programmes and formulation grants approved for funding from the Adaptation Fund			
Country	Project title	Agency	Budget
<i>Implemented by National Implementing Entities (NIE)</i>			
Jamaica	Enhancing the Resilience of the Agricultural Sector and Coastal Areas to Protect Livelihoods and Improve Food Security (including project formulation grant)	PIOJ	9,995,000
Senegal	Adaptation to Coastal Erosion in Vulnerable Areas	CSE	8,619,000
Uruguay	Helping Small Farmers Adapt to Climate Change (including project formulation grant)	ANII	9,997,678
Argentina	Enhancing the Adaptive Capacity and Increasing Resilience of Small-size Agriculture Producers of the Northeast of Argentina (project formulation grant)	UCAR	30,000
Benin	Adaptation of Cotonou Lagoon ecosystems and human communities to sea level rise and extreme weather events impacts (project formulation grant)	FNE	29,000
Total, NIE			28,670,678
<i>Implemented by Multilateral Implementing Entities (MIE)</i>			
Argentina	Increasing Climate Resilience and Enhancing Sustainable Land Management in the Southwest of the Buenos Aires Province	The World Bank	4,296,817
Cambodia	Enhancing Climate Resilience of Rural Communities Living in Protected Areas of Cambodia	UNEP	4,954,273
Colombia	Reducing Risk and Vulnerability to Climate Change in the Region of La Depression Momposina in Colombia	UNDP	8,518,307
Cook Islands	Strengthening the Resilience of our Islands and our Communities to Climate Change	UNDP	5,381,600
Djibouti	Developing Agro-Pastoral Shade Gardens as an Adaptation Strategy for Poor Rural Communities in Djibouti	UNDP	4,658,556
Ecuador	Enhancing resilience of communities to the adverse effects of climate change on food security, in Pichincha Province and the Jubones River basin	WFP	7,449,468
Egypt	Building Resilient Food Security Systems to Benefit the Southern Egypt Region	WFP	6,904,318
Eritrea	Climate Change Adaptation Programme In Water and Agriculture In Anseba Region, Eritrea	UNDP	6,520,850
Georgia	Developing Climate Resilient Flood and Flash Flood Management Practices to Protect Vulnerable Communities of Georgia	UNDP	5,316,500
Honduras	Addressing Climate Change Risks on Water Resources in Honduras: Increased Systemic Resilience and Reduced Vulnerability of the Urban Poor	UNDP	5,620,300

Lebanon	Climate Smart Agriculture: Enhancing Adaptive Capacity of the Rural Communities in Lebanon	IFAD	7,860,825
Madagascar	Madagascar: Promoting Climate Resilience in the Rice Sector	UNEP	5,104,925
Maldives	Increasing climate resilience through an Integrated Water Resource Management Programme in HA. Ihavandhoo, ADh. Mahibadhoo and GDh. Gadhdhoo Island	UNDP	8,989,225
Mauritania	Enhancing Resilience of Communities to the Adverse Effects of Climate Change on Food Security in Mauritania	WFP	7,803,605
Mauritius	Climate Change Adaptation Programme in the Coastal Zone of Mauritius	UNDP	9,119,240
Mongolia	Ecosystem Based Adaptation Approach to Maintaining Water Security in Critical Water Catchments in Mongolia	UNDP	5,500,000
Nicaragua	Reduction of Risks and Vulnerability Based on Flooding and Droughts in the Estero Real River Watershed	UNDP	5,500,950
Pakistan	Reducing Risks and Vulnerabilities from Glacier Lake Outburst Floods in Northern Pakistan	UNDP	3,906,000
Papua New Guinea	Enhancing adaptive capacity of communities to climate change-related floods in the North Coast and Islands Region of Papua New Guinea	UNDP	6,530,373
Samoa	Enhancing Resilience of Samoa's Coastal Communities to Climate Change	UNDP	8,732,351
Solomon Islands	Enhancing resilience of communities in Solomon Islands to the adverse effects of climate change in agriculture and food security	UNDP	5,533,500
Sri Lanka	Addressing Climate Change Impacts on Marginalized Agricultural Communities Living in the Mahaweli River Basin of Sri Lanka	WFP	7,989,727
Tanzania	Implementation Of Concrete Adaptation Measures To Reduce Vulnerability Of Livelihood and Economy Of Coastal Communities In Tanzania	UNEP	5,008,564
Turkmenistan	Addressing climate change risks to farming systems in Turkmenistan at national and community level	UNDP	2,929,500
Total, MIE			150,129,774
Total, all			178,800,452

Projects and programmes submitted by Multilateral Implementing Entities and recommended for funding but for which funding was not available (pipeline), as of December 14, 2012

Country	Project title	Agency	Budget
Guatemala	Climate change resilient production landscapes and socio-economic networks advanced in Guatemala	UNDP	5,425,000
Cuba	Reduction of vulnerability to coastal flooding through ecosystem-based adaptation in the south of Artemisa and Mayabeque provinces	UNDP	6,067,320
Seychelles	Ecosystem-based Adaptation to Climate Change in Seychelles	UNDP	6,455,750
Myanmar	Addressing Climate Change Risks on Water and Food Security in the Dry Zone of Myanmar	UNDP	7,909,026
Total			25,857,096