



ADAPTATION FUND

AFB/EFC.9/5
20 June, 2012

Ethics and Finance Committee
Ninth Meeting
Bonn, Germany, 26-27 June 2012

Agenda item 8.a)

OPTIONS FOR A FUNDRAISING CAMPAIGN AND STRATEGY

Background

1. The Board, at its 17th meeting, set an experimental fundraising target of USD 100 million to guide the fundraising efforts of the fund until the end of 2013. In order to support these efforts, the Board considered a number of options for a fundraising campaign and strategy and requested the secretariat to continue with the analysis and potential next steps for some of these options.

2. *Having considered the recommendation of the EFC the Board decided to:*

a) *Set an initial fundraising target of US \$100 million on an interim or experimental basis initially up until the end of 2013;*

b) *Request the secretariat to:*

(i) *Prepare a briefing note, for presentation at the next meeting of the EFC, on relevant ongoing mechanisms being discussed in various fora, assessments of how the Fund might benefit from selected mechanisms, and inputs from all interested stakeholders that have been collected through a public call for comment;*

...

d) *Further request the secretariat, in consultation with the trustee, to:*

...

(ii) *Provide a detailed implementation plan for the issuance of adaptation certificates, as well as operational details and implications for the consideration of the EFC at its 9th meeting;*

(iii) *Provide further implementation and operational details on options to facilitate cash flow management, as well as potential implications, for the consideration of the EFC at its 9th meeting; and*

(iv) *Continue its analysis of the suitability and feasibility of the concepts listed in section IV.4 of document AFB/EFC.8/6 as potential fundraising mechanisms for the Fund and to report back to the EFC at its 9th meeting.*

...

(Decision B.17/24)

3. Following on this decision, the purpose of this document consists of:

a) Briefly outlining some of the most relevant mechanisms being discussed in other fora and also those suggested through the call for public input, for consideration by the EFC;

b) Providing a proposal for a work plan leading up to eventual implementation and issuance of adaptation certificates;

- c) Additional considerations on options to facilitate cash flow management;
- d) Providing an update on the analysis of the suitability and feasibility of the concepts listed in section IV.4 of document AFB/EFC.8/6 as potential fundraising mechanisms; and,
- e) Providing relevant recommendations for further follow up.

Funding mechanisms from innovative international sources and overview of inputs received

4. A number of initiatives to track and compile potential innovative mechanisms for climate finance generation have been undertaken at various levels and contexts. Most prominently, the Report of the UN Secretary-General's High-level Advisory Group on Climate Change Financing¹ set the basis for subsequent analysis in this field. Broadly speaking, the main potential sources identified rely on the application of a levy or share of proceeds on carbon units generated through market-based mechanisms for mitigation or emissions trading schemes, at either the national, regional and/or international level.

5. Other options have also been listed, such as:

- Foreign direct investments through carbon markets
- Financial transaction taxes
- Direct budget contributions

6. As recognized in the report itself, these options require high level political negotiations some of which may already be under discussion by Parties to the UNFCCC and the Kyoto Protocol.

7. The EFC may wish to take note that the Subsidiary Body for Implementation (SBI), at its 36th session last May in Bonn, noted among other conclusions that some Parties raised issues related to ensuring sustainability, predictability and adequacy of the resources for the Adaptation Fund².

8. In addition to this, the secretariat issued a call for public inputs following Decision B.17/24, paragraph 80 (b)(i). The responses to this call are compiled in document AFB/EFC.9/Inf.1 for consideration by the EFC. The following table summarises the suggestions and inputs received.

¹ Report of the Secretary-General's High-level Advisory Group on Climate Change Financing (<http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300>).

² FCCC/SBI/2012/L.13 - Initial review of the Adaptation Fund under the Kyoto Protocol - Draft conclusions proposed by the Chair

Source	Proposed mechanism	Comments by the secretariat
Ms Suman Apparusu	<ul style="list-style-type: none"> • Percentage Contribution from Stock Exchange Turnover and Commodities Exchange Turnover; • Mandatory Employer and Employee Green Climate Contributions 	<p>A percentage contribution from exchange/commodities exchange turnover is an interesting suggestion and would have to be based on a bilateral agreement between the Board and a given exchange. Presumably, the motivation by an exchange to enter into this kind of agreement would be based only on corporate social responsibility or philanthropic considerations.</p> <p>On the second suggestion, it seems this would be a sort of fiscal mechanism that may require a political decision by a national government.</p>
Ms. Irene Suárez/ The Nature Conservancy	<ul style="list-style-type: none"> • Debt for Adaptation Swaps; • Water Funds 	<p>Debt for Adaptation Swaps are considered in paragraphs 20 to 23 below.</p> <p>Water Funds seem to be an interesting financial mechanism, especially for NIEs, in mobilizing funding for water related adaptation actions. As suggested in the submission, it seems more plausible at this stage that this mechanism can be embedded in a project/programme proposal, rather than becoming a source of new funding for the Fund's Trust Fund at this stage. In this case the Fund's principle of funding concrete adaptation projects and programmes, as well as cost-effectiveness, will need to be carefully considered when designing the proposal and at the time of the review and approval.</p>
Mr. Koji Fukuda/ Institute for Global Environmental Strategies (IGES)	The submission calls for using a longer term perspective to frame the fundraising issue and consideration of options. The second part describes	The views reinforce the idea of clearly differentiating and demonstrating the comparative advantages and structural uniqueness of the Fund's design and operations. The submission

	IGES' initial assessment of the proposed fundraising options suggested in the document AFB/EFC.8/6.	also provides useful insights into the challenges and opportunities of the options listed in document AFB/EFC.8/6, many of which are included in subsequent sections of this document.
Dipl.-Ing. Sonja Butzengeiger-Geyer/ Perspectives GmbH	The submission refers to the introduction of an Adaptation Market Mechanism (AMM) based on the adoption of mandatory adaptation targets at the international, regional or domestic level. Such market-based approach to adaptation funding calls for the creation of a universally accepted and verifiable trading unit applicable to all adaptation activities. Three mechanisms to define such units are suggested: Net Present Value of property saved; Disability Adjusted Life Years Saved (DALYS) for health benefits; and a potential separate unit to consider the environmental benefits of an adaptation activity.	While the secretariat considers this as an interesting proposal, it is not clear whether the Board would be in a capacity to negotiate adaptation targets at international, regional or domestic level. It might be possible to pilot test it with a group of private companies or industries who can agree to voluntarily participate in such a scheme. As suggested in the conclusions section of the submission, and given the political decisions that need to be made, this mechanism could be more appropriate for discussion in the context of the UNFCCC or Kyoto Protocol negotiations.
Mr. Roland Mader/ The Higher Ground Foundation	The submission introduces the concept of Vulnerability Reduction Credits (VRC™) which are to be generated through the establishment of project baselines and quantifiable vulnerability reductions. The submission proposes: <ul style="list-style-type: none"> • Identifying projects proposed that would be good candidates for a pilot program, • Engaging with governments and the private sector to educate them of the value of VRCs in unlocking support for vulnerability reduction activities, to elicit demand 	The secretariat considers that this proposal is also interesting and seems to have the potential to bring more objectivity at the output level on sustained vulnerability reduction. However, the secretariat considers that the implementation of such a scheme may require a substantive review of the existing operational policies and guidelines of the Fund. The suggested model also requires the set up and financial support of a governance regime to oversee and regulate the issuance of credits, validation and monitoring report verification, establishment of a registry and accreditation of

	<p>for VRCs through pledges to purchase a defined quantity of VRCs, and,</p> <ul style="list-style-type: none"> • Undertaking the necessary pilot assessments of baselines, creation of guidelines, and establishment of a governance regime that would include a review process for projects to be registered and for credits to be issued, third-party project-design validators and monitoring report verifiers, and establishment of a registry and governance board. 	<p>validators and verification agents, which is currently beyond the Board's mandate.</p>
Ms. Suleika Reiners/ World Future Council	<p>The submission proposes a mechanism whereby a designated climate fund "converts" Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) into national currency in order to generate new and additional funding for climate change activities³.</p>	<p>The proposal is also interesting and provides an innovative look at how SDRs could be used for climate finance generation.</p> <p>The secretariat believes however that such scheme requires political decision-making by countries interested in participating, which may be better achieved in the context of the UNFCCC or Kyoto Protocol negotiations and/or maybe also within the IMF governing body.</p>

Adaptation Certificates

9. Document AFB/EFC.8/6 presented the following objectives in relation to a potential consideration of adaptation certificates:

- a) Attract contributions based on "Corporate Social Responsibility" (CSR) initiatives in the private sector;
- b) Induce contributions in specific quantities → "par amount" could be set e.g. at \$100,000 per certificate;
- c) Increase visibility of private contributions to the Adaptation Fund → a "registry" would need to be set up in order to register and list all contributors.

10. Further, the mechanism would be based on the following basic actions:

³ The document refers more specifically to renewable energy infrastructure projects.

- i. Once interest is confirmed, corporate entity/foundation (or even public entities) buys Adaptation Certificates
- ii. Appropriate number of adaptation certificates are issued for the equivalent amount
- iii. Buyer obtains the benefit of being publicly listed in what would be the "Adaptation Fund Registry", thereby enhancing its profile as CSR investor.

11. It was also noted that such "Adaptation Fund Registry" can be as simple as a dedicated section in the Fund's web site initially, or a more sophisticated system housed either inside the Adaptation Fund Board secretariat or at a partner institution.

12. Following on this elements and further consultation with the trustee, as well as taking into account submissions received through the call for inputs⁴, the secretariat suggests the following approach in preparation for an eventual implementation of adaptation certificates:

13. Priority should be given in the remainder of 2012 to gauging the appetite and willingness of potential non-governmental donors to donate to the Fund. This can be done through engagement with relevant entities that represent a community of donors, charities and foundations. Ideally, such engagement should lead to participation at key meetings where a presentation can be delivered to make the case of the Fund.

14. It is suggested therefore that at least two such presentations are pursued between July and December 2012, one covering main philanthropic organizations in the Americas and another for Europe. Participation at, and/or organization of, these meetings can be made in consultation and collaboration with United Nations Foundation (UNF) as well as with other interested organizations.

15. The secretariat would then report back to the Board at its closest next meeting, and no later than at its first meeting in 2013, on the outcomes and experiences achieved with a view to defining appropriate follow up steps and to determine, in consultation with the trustee, whether the issuance of adaptation certificates would effectively add value to the donation process on the basis of the feedback collected.

Promissory notes and bonds

16. As outlined in document AFB/EFC.9/Inf.1, promissory notes allow a donor country to pledge certain amount of resources over a period of time, therefore enhance predictability within the recipient fund about future donations.

17. This instrument, however, is only a means to enhance the formality of a pledge by a donor. Therefore, it is crucial for this instrument to be relevant that donor countries express their interest in pledging additional resources for the Fund in the first place.

18. As suggested by responses to the call for public inputs, the implementation of promissory notes and bonds may also demand considerable time and administrative resources

⁴ AFB/EFC.9/Inf.1.

and costs, which constitutes a significant challenge vis-a-vis the existing time horizon for the fundraising goal and the need to ensure cost-effectiveness in the operations of the Fund.

19. Following on the above and given the practical implications at this stage, the secretariat suggests that these options are not considered for the time being but are kept in sight until their potential usefulness becomes more clear and appropriate.

20. In this connection, the secretariat suggests that follow up engagement with donor countries is further pursued at the margins of CMP 8 in order to continue raising awareness on the progress and challenges of the Fund and with a view to exploring possibilities for new donations.

Other potential options

Debt for Adaptation Swaps

21. Following on the submission received through the call for public inputs and also on the conclusions of consultations with the trustee, debt-for-adaptation swaps seem to offer potential as internal financial mechanism to leverage funding for adaptation actions in developing countries. However, further elaboration on the value added for the Fund's funding process, as well as for the other parties to the swap agreement when engaging in the Fund's requirements, seems to be still necessary, particularly in relation to the mobilization of additional funds.

22. In particular, it would be convenient to gather more concrete information to assess potential implications for the Fund should an adaptation project/programme be proposed containing a debt-for-adaptation swap as its internal financial mechanism, especially vis-a-vis the Fund's mandate to fund only concrete adaptation projects/programmes.

23. Another area requiring further insights, ideally in the form of concrete experiences and lessons learned, refers to the cost-effectiveness of such schemes compared to "regular" or direct funding to the recipient countries, especially in the case of the direct access modality of the Fund.

24. Some inputs received also point out the potential lengthy process to establish and set up a functional debt-for-adaptation swap mechanism. Further concrete experiences and lessons learned, if available and shared by interested agencies, could also help clarify such potential underlying operational risks.

Disaster risk insurance and investment guarantees

25. The secretariat engaged with relevant organizations involved in discussions and promotion of these initiatives and instruments, and also considered inputs compiled in document AFB/EFC.9/Inf.1.

26. The information collected so far did not clarify the potential added value that the Fund could offer to these mechanisms in the context of mobilization of *additional* funding for concrete adaptation projects and programmes. Also, some concerns were raised about compatibility of commercially oriented funding from the private sector with the existing guiding principles of the Fund. Therefore, the secretariat suggests that these instruments are still further considered in

consultation with the trustee and interested agencies and revisited once relevant information to clarify these issues becomes available.

Recommendations

27. The EFC may wish to recommend to the Board to
- a) Take note of the inputs received and consider potential follow up;
 - b) Request the secretariat to
 - i) Proceed with all necessary arrangements and efforts to make at least two presentations to foundations and philanthropic organizations, one for the Americas and one for Europe, about the Adaptation Fund in order to fundraise with them and also assess whether issuing Adaptation Fund Certificates would add value in comparison to plain donation agreements;
 - ii) Report back to the Board on the outcome of these activities no later than at the 20th Board meeting;
 - c) Request the secretariat to continue its analysis of debt-for-adaptation swaps, water funds, disaster risk insurance and investment guarantees, taking into account the Fund's experience on its own portfolio of projects and programmes, and in consultation with the trustee and through further engagement with interested organizations and agencies and to report back to the EFC once more relevant information becomes available;
 - d) Request the secretariat, in consultation with the Chair, to organize a follow up meeting on the dialogue with donors at the margins of CMP 8.