BRIEFING PAPER

THE ADAPTATION FUND: FULLY OPERATIONAL

REPORT OF THE 11TH MEETING OF THE ADAPTATION FUND BOARD

by Alpha O. Kaloga and Sven Harmeling

October 2010

GERMANWATCH

Brief Summary

General background to the Adaptation Fund under the Kyoto Protocol

The Adaptation Fund (AF) was established under the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) in order to finance concrete adaptation projects and programmes, which should support the adaptation of developing countries to negative impacts of climate change. As Germanwatch has been following all the previous meetings one can find elaborate information on the Adaptation Fund and some past meetings on our web page www.germanwatch.org/klima/af.

Official background information and the preparatory documents for the 11th meeting can be found at www.adaptation-fund.org. Most of the session will also be webcasted at www.unccd.int/live/gef/index.php.

This report will highlight and summarise the key issues on the agenda of the 11th meeting of the AFB, and outline some actions beeing taken by the Board.

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Executive Summary

The 11th meeting of the Adaptation Fund Board (AFB), which is the operating entity of the Adaptation Fund established under the Kyoto Protocol, took place from September 16th to 17th in Bonn. During this meeting, the Board set further milestones for adaptation funding under the UNFCCC. It approved the funding of the first two full project proposals from vulnerable developing countries worth USD 14 million. One of the projects originated from Senegal and was submitted through the first accredited National Implementing Entity (NIE), "le Centre de Suivi Ecologique (CSE)". As the first direct access project, it focuses on combatting coastal erosion exacerbated by climate change and rising sea levels in three regions in Senegal. The second approved project was submitted by the Government of Honduras through the Multilateral Implementing Entity (MIE) UNDP and aims at reducing the vulnerability to climate change in the poorest households in the capital region of Tegucigalpa in Honduras by improving water management.

Furthermore, six endorsed project concepts are in the pipeline and could be considered for funding as soon as the respective countries submit their full project proposals. Three of them, which were submitted by MIEs on behalf of Guatemala, Madagascar and Mongolia, have been endorsed during the last meeting, in addition to those from Pakistan, Nicaragua and Solomon Islands endorsed during the 10th meeting of the AFB held in June.

Noteworthy is further the accreditation of two additional NIEs, the Planning Institute of Jamaica (PIOJ) and the Agencia Nacional de Investigacion e Innovacion (ANII) of Uruguay, which broadens direct access. A number of further NIE applications are in the pipeline. This shows that it is possible for developing countries to identify domestic institutions which fulfill the required fiduciary management standards and thus to go the direct access route, despite the difficulties and the time required.

Besides, the Board launched its communication strategy, which should increase awareness of the Fund, encourage donors to increase their support to the Fund and developing countries to apply for accreditation of their National Implementing Entity as well as all interested stakeholders to get more involved in the process. Accordingly, the Board agreed to initiate a regular open session during its future meetings with observers and civil society. This is an innovative approach which shows that the Board appreciates the contributions from civil society.

After its last session before CMP 6 in Cancun, the Board can be satisfied with the progress it has achieved in 2010, while of course challenges remain for the future work. The Fund is now fully operational. The Board has developed and implemented the modalities for direct access. Its credibility has been enhanced through financing of projects, its elevated, but for developing countries manageable fiduciary standards, good and reliable policies and procedures and good recipient accountability. Therefore, with self-confidence the AFB can present its report to the CMP in Cancun and thus counter some of the sceptics arguments about the fund.

This independent observer report on the 11th meeting will highlight and summarise the key issues on the agenda of the 11th meeting of the AFB, and outline some actions being taken by the Board. It furthermore contains an overview of all project decisions taken so far (Adaptation Fund Project Tracker) and a brief summary of the Senegalese project, which deserves some merits due to its very transparent and inclusive design.

1 Significant progress in direct access

The Accreditation Panel (AP) of the Adaptation Fund Board is tasked to accompany and overview the accreditation process of Multilateral Implementing Entities (MIE) and National Implementing Entities (NIE), the latter one as a prerequisite for the direct access approach.. Shortly before the 11th Meeting, the AP considered applications for further MIEs and NIEs based on a pre-screening by the secretariat forwarded a recommendation to the Board.

Accordingly, the Board, after meticulous examination and consideration of the recommendations made by the AP, approved the accreditation of the Planning Institute of Jamaica (PIOJ) and the Agencia Nacional de Investigacion e Innovacion (ANII) of Uruguay as National Implementing Entities (NIE). This totals three NIEs, together with the Centre de Suivi Ecologique (CSE) from Senegal which was accredited at the 9th meeting of the AFB. Furthermore, the Board adopted after consideration of the additional documentation and oral information submitted by the UNEP, to repeal the requirement of more frequent reporting on projects to be implemented by the UNEP, which was agreed on in the last meeting.

The increase in number of accredited NIEs shows that developing countries are able to go the direct access route, despite difficulties faced. It is a further milestone in international climate politics because more and more developing countries can gain direct financial support from the AF now. Those countries with an accredited NIE do not need to take the detour via multilateral institutions, which developing countries often are complaining about as being bottlenecks slowing down the implementation of projects and the delivery of international funds[1].

*Although all the accredited NIEs have as a common denominator - meeting the fiduciary management standards set up by the AFB - , each of them is different from the other regarding the field of expertise, experience and management capacity. Unlike the ANII of Uruguay*2*, which is a relatively new entity, but administering over USD 120 million, the PIOJ of Jamaica exists since 1955. As a kind of national policy advisor for the Jamaican government, it provides " formulation on economic and social issues and external co-operation management in order to achieve sustainable development for the people of Jamaica*[3]". *The CSE of Senegal is primarily a research center, which has proven experience in environmental issues and with adaptation projects to the adverse effect of climate change.*

This diversity of work, experience and commitment of the accredited NIE indicates that there is no standard recipe nor is any specific type of institution predestined to be an NIE. Rather, it underlines that developing countries should first look at the existing set of institutions and examine whether one option is able to meet the fiduciary standards set by the Board[4]*. Now, there is even a greater potential for South-South exchange on experience with this application process.*

Still caution should be exercised to ensure that these NIEs with different background, despite meeting the same fiduciary standards, will provide the same expected outcomes. It is undisputable that the expectations towards the NIEs, as pioneers of direct access, by all relevant stakeholders are really high.

[1] Harmeling and Kaloga. 2010: Assessing the Adaptation Fund in: D+C Development and Cooperation. Sept. 2010. http://www.inwent.org/ez/articles/178318/index.en.shtml
[2] For detailed information about the ANII see: http://www.anii.org.uy/web/s
[3] About the PIOJ: see http://www.pioj.gov.jm/AboutUs/MissionVision/tabid/71/Default.aspx.
[4] See Operational Policies and Guidelines of the AFB pp.8-10. http://adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf

Given these expectations, the NIEs should be treated fairly and any shortcomings that may come up in the future should not be used to automatically question the approach of direct access. There are enough examples of shortcomings also in the work of the MIEs or bilateral donor agencies.

Overcoming barriers for NIE application

Given the pioneering role of the AF with regard to direct access, it is beyond doubt that the number of accredited NIE and the quality of their projects will determine the future role of the AF itself, but will also have implications on whether direct access will become more common in the finance architecture under the Convention.

Until the last meeting the Secretariat of the AFB has received 30 applications and expressions of interest to tackle a route of direct access[5]. Unfortunately just the aforementioned three institutions have successfully mastered the process of accreditation. Bearing in mind that 149 are eligible to the AF, it gives cause for concern on how to facilitate the process. Thus, the need for an awareness raising programme to promote and guide the successful accreditation application of NIE in developing countries becomes more crucial than ever. Corresponding to the document prepared by the Secretariat and discussion made during the last meeting, one can identify three levels, where the deficiency in the accreditation process can be overcome.

First of all on the **country level** the board recognizes several issues like lack of understanding of the fiduciary standards, lack of information sharing within the countries and difficulty to identify an appropriate institution able to act as NIE. Secondly on the **institutional level** the current design of the NIE application form is not tailored to convey clarity on the accreditation. For instance, it has two parts- one for the NIE and one for the Executing Entities EE - , which leads to some overlapped areas, while other areas are missing. As a last point, on the **Fund level**, it has been found that the communication between the applicants and the AFB is more time consuming than was originally planned. This makes it difficult for the applicant to submit the required information on time.

According to the recommendations of the Secretariat and after consideration and discussion on it the Board agreed to the following key points:

The Board made clear through its chair that the AF intends just to act as a facilitator for the accreditation of the NIE in order not to divert its focus on the adaptation funding. Dealing so the Board adopted to address the difficulties met by the applicants by improving and updating the current application tool as well as providing better structured and wide-ranging information on the accreditation process, particularly on the steps to arrange the application and to select the appropriate entity[6]. Therefore, measures have been adopted like providing a helpdesk[7], user friendly communication tools, fact sheet, a step-by-step guide and a toolkit to assist countries in the accreditation process. This manual will be drafted by an independent, experienced consultant, who will be taken under contract for 45 days until end of March next year. These measures should undoubtedly facilitate and improve the accreditation process in developing countries by concrete guiding steps, in order to achieve success for the accreditation challenge.

[5] Different reasons prevent the successful accreditation of NIE such as (a) supporting documentation missing for some of the fiduciary standards; in particular, the standards related to the institutional capacity (especially capacity to undertake project appraisal, monitoring and evaluation), transparency, self-investigative powers and anti-corruption measures; (b) non submission of supporting documentation etc. For detailed information regarding the accreditation challenge see the Report of the third meeting of the Accreditation Panel, AFB/B.11/4 p.6

[6] Report of the third meeting of the Accreditation Panel AFB/B.11/4 p. Annex p.1

[7] Under helpdesk one understands a measure package: interactive tools, USB/CDs memory sticks, tool kits, fact sheets. This material will be supervised and drawn by the Board.

However, it is important that one of the concerns mentioned in the same document is the deficiency in information sharing. It is possible for all materials to end up with someone - for instance with focal points or the Designated Authority - without forwarding and sharing it within relevant stakeholders. It should however be kept in mind, that the level of information technologies in developing countries is not yet sufficiently developed to be used everywhere with the same efficiency. Therefore, it will be interesting beyond this virtual possibility to think about concrete regional meetings. They would create a platform of knowledge and experience sharing, in which for instance interested countries could attend with their own potential NIE and consult with already accredited NIEs. This could be used to jointly consider if this institution is suitable to meet the fiduciary standard as well as to prepare, if necessary, additional needed documents for the late successful submission. The advantage for such a measure is that it is little time intensive and it would enhance South-South cooperation

Another opportunity to improve the accreditation process is to extend the letter sent by the Board to the MIE requesting financial and technical support for the establishment of NIEs or to issue a new letter requesting co-operation of governments and other organizations, including bilateral development agencies as well as private actors to provide necessary assistance for the accreditation of NIE in developing countries.

2 AFB approves first projects

The Project and Programme Review Committee (PPRC) is responsible for assisting the Board in tasks related to project/programme review in accordance with the Operational Policies and Guidelines, and for providing recommendations and advice to the Board thereon[8]. In advance of the 11th meeting of the AFB, eight project and programme proposals were forwarded by the Secretariat after a technical pre-screening to the PPRC[9]. In total, these proposals would require USD 52,057,000, including USD 4,230,326 or an average of 8.1% of the total amount being requested by implementing entities to cover their management fees.

Table 1 gives an overview on the state of approval of projects (and NIEs) after the 11the meeting of the AFB. The first full project concept ever submitted by an NIE, the CSE from Senegal, was approved as well as a project in Honduras submitted through UNDP. Where project concepts were adopted, the submitting organisations are invited to submit fully-fledged proposals. So far, the Board in total (including the 10th AFB meeting) did not approve the concepts from Egypt, Mauretania, Mauritius, Turkmenistan Niue and Uganda. This indicates that the management is serious about ensuring that projects meet the required standards.

[8] Adaptation Fund Board, AFB/B.6/6 p.4

[9] For detailed information see Report of the secretariat on initial screening/technical review of the project and programme proposalsAFB/PPRC.2/3. Kaloga and Harmeling (September 2010): Briefing of the 11th Meeting of theAdaptation Fund Board,.p.5.

Table 1: Germanwatch Adaptation Fund Project Tracker, as of 17 September 2010

AF project	Project title	Implementing Entity	Financing requested (in USD)	LDC	SIDS	Africa	State of project proposal and NIE accreditation			Rank Human Development Index
Direct access							*AFB 11*	*AFB 10*	*AFB 9*	
Senegal	Adaptation to Coastal Erosion in Vulnerable Areas	CSE, Senegal	8,619,000				Full project approved	Concept approved	NIE approved	166
Jamaica	*Not yet submitted*	PIOJ, Jamaica					NIE approved			100
Uruguay	*Not yet submitted*	ANII, Uruguay					NIE approved			50
Non-direct access										
Egypt	Promoting Mariculture as an Adaptation Strategy to Sea Level Rise in the Nile Delta	UNDP	5,720,000				Full project not approved	Concept not approved		123
Guatemala	Climate change resilient productive landscapes and socio-economic networks advanced in Guatemala	UNDP	5,500,000				Concept approved			122
Honduras	Addressing Climate Change Risks on Water Resources in Honduras: Increased Systematic Resilience and Reduced Vulnerability of the Urban Poor	UNDP	5,698,000				Full project approved			112
Madagascar	Promoting Climate Resilience in the Rice Sector	UNEP	4,505,000				Concept approved			145
Mauritania	Reinforcing Nouakchott City adaptive capacities to reduce sea level rise, flooding, and sand dune encroachment threats	World Bank	15,000,000					Concept not approved		154
Mauritius	Adapting Coastal Zone Management to Address the Impacts of Climate Change	UNDP	9,240,000					Concept not approved		81

Mongolia	Ecosystem Based Adaptation Approach to Maintaining Water Security in Critical Water Catchments in Mongolia	UNDP	5,500,000				Concept approved			115
Nicaragua	Reduction of risks and vulnerability from floods and droughts in the Estero Real watershed	UNDP	5,500,000					Concept approved		124
Niue	Reducing climate risks to food security in Niue through integrated community-based adaptation measures and related institutional strengthening	UNDP	3,465,000				Concept not approved			not available
Pakistan	Reducing risks and vulnerabilities from Glacier Lake Outbursts Floods in Northern Pakistan	UNDP	3,960,000					Concept approved		141
Solomon Islands	Enhancing resilience of communities in Solomon Islands to the adverse effects of climate change in agriculture and food security	UNDP	5,000,000					Concept approved		135
Turkmenistan	Addressing climate change risks to farming systems in Turkmenistan by improving water management practice at national and community levels	UNDP	2,970,000					Concept not approved		109
Uganda	An Integrated Approach to Building Climate Resilience in Uganda's Fragile Ecosystem	WFP	13,500,000				Concept not approved			157

However, what requires improvement is the way the Board reports about the consideration of the projects. At the 10th meeting, the AFB decided not to publish any longer the technical screenings prepared by the Secretariat which analyse strengths and weaknesses of projects, on the one hand not to publicly prejudice the outcomes of the PPRCs considerations, and on the other hand to have the possibility to keep certain information confidential. [10] *But these screenings served as an independent reference for all interested stakeholders as well as to comprehend the decision in the PPRC.*
From a transparency and public interest point of view, it is problematic, if all the information of the technical screening of projects and the tasks that the implementing entities are given to improve the projects based on the PPRC discussion, are kept secret and away from the public. Civil society, in particular in the target countries, also has a right to know why certain projects have not been approved, or in which regard they have to be improved according to the PPRC.
The same concerns have been raised by some Board members at the last meeting, also pointing to the credibility of the AFB which is central for trust in this instruments, be it by civil society as well by donors. However, there was no clear decision taken at the AFB meeting, so it remains to be seen how the AFB will handle this. Thus the first test will be the report on the 11th meeting which has not been published yet.

Revision of review process timeline

Other matters discussed during the meeting concerned the possibility to extend the review cycle to ten instead of seven weeks[11] before each PPRC meeting. The objective is to enable applicants to timely respond or reply information requested by the Secretariat before it prepares its technical review as well as to allow the PPRC to have sufficient time to consider the recommendations made by the Secretariat. This discussion was linked to the question of reducing the number of annual AFB meetings to 3 instead of 4, as it is the case now. While some Board members argued, this would make sense to allow the Secretariat to better be able to handle the workload, others pointed to the need that the AFB members themselves need this frequency of meetings to further increase the depth and quality of their work and their cooperation. Finally, the Board agreed to maintain the present process and to continue to discuss methods to improve the process.

However, one has to acknowledge that the current process is already a challenge for observers who want to thoroughly assess the project proposals and, inter alia, try to acquire information from civil society and local communities within the country in order to feed it back to the Board. This is in particular the case when the technical screenings are not being published. ***This underlines the need for a meaningful consultative process within the countries before the projects are submitted to the Board.***

The nature of concrete adaptation projects and programmes

Furthermore the PPRC requested the Board to provide, when it reviews the project review criteria additional information on programme and projects[12]. Currently the review is not suited to reviewing programme and therefore puts such proposals to a disadvantage. The Board also discussed on the adequate adaptation reasoning in projects and programme. Actually the AF is established in order to finance full concrete adaptation projects/programs. So far it is not precisely defined to which degree a

[10] See the 10th meeting´s report: http://www.adaptation-fund.org/system/files/AFB%2010%20Rev.1%20final%20report_9_7_10.pdf

[11] Eligible Parties submit a fully-prepared project document to AFB seven weeks before the next AFB meeting. See Adaptation Fund Project/Programme Approval Process in the OPG of the AF; Annex 3 p21. See http://adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf.

[12] Report of the second meeting of the Project and Programme Review Committee, p. 4

proposed project is a concrete adaptation project to climate change. Therefore the Secretariat requested the Board to introduce specific criteria to be followed in determining, whether the adaptation reasoning was adequate. Currently the Committee exercises its professional judgment on the proposals on hand. Undoubtedly it is a learning by doing process to make very good assessments. Until the Board defines the concept the upcoming first decision should be based on a case by case approach. However it is necessary to clarify or to give guidelines what concrete adaptation means in the context of the Adaptation Fund, since so far the AFB has rejected six proposals (see above) partially with the argumentation that some of them are not concrete enough.

3 Second meeting of the Ethics and Finance Committee (EFC)

The EFC met for the second time a day prior to the 11th meeting of the AFB. It is responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit. During its meeting following points have been discussed.

Memoradum of Understanding until legal capacity is realised

The legal capacity is the power provided under law to a natural person or a juridical person to enter into binding contracts, and to sue and be sued in its own name.[13] According to the information received from the German government, the legal capacity of the Adaptation Fund is expected to undergo the last step of the German legislative process by end of November. Correspondingly, the Board will likely be conferred its own legal capacity before the end of the year.

With the intention to fill the legal gap in order not to delay the release of project funding, the AFB Members approved a Memorandum of Understanding (MoU) for preliminary use at its 9th Meeting.[14].

This matter was now taken up again because a UNDP representative has expressed his concern that the organisation could not enter into the MoU until the legal capacity of the Board would be realised. However, since the project of Honduras submitted through UNDP is not intended to start earlier than at the beginning of next year, a project delay is not necessarily to be expected.

To address this issue, it was proposed to draft a standard legal contract which can be used once the legal status with the German government will be conferred. The standard legal contract should include "a provision that guaranteed that the Operational Policies and Guidelines and other rules of procedures approved by the Board , prevailed in case of conflict with the Implementing Entity´s (IE) rules of procedures"[15]. In this case resources disbursed should be refunded to the AF. In case the IE would not sign a MoU as soon as the AFB acquired the legal capacity, and within 4 months from the approval of the project, the funds committed for that project would be added to funds available for new commitments.

[13] Definition from Business Dictionary see: http://www.businessdictionary.com/definition/legal-capacity.html
[14] For detailed Information see e.g. Germanwatch's Briefing on the 9th meeting of the Adaptation Fund Board.
[15] Recommendation EFC.2/3 in the report of the second meeting of the Ethics and Finance Committee-

Decision on a project management fee cap

Due to the different amounts of management fees charged by the Implementing Entities- the lowest 5,1% by CSE from Senegal and 10% requested by UNDP- the Board saw the need to discuss whether to harmonize the fees, without preventing to reach the expected quality of the project.

Upon request of the Board, the accredited MIE delivered additional information (AFB/B.11/Inf.6) on their fees by using concrete examples without providing a definite cost breakdown. Based on three options - (a) fees on a case by case basis with a cap of 9%; (b) a flat fee of 9% and (c) a lower fee (7-8%) - the Board adopted, after some discussion, the recommendation of the PPRC to set a cap for a fee of maximum 8.5% for all projects/programs. In addition, the Implementing Entities should provide a justification on the fee demanded which would be considered during the program review[16].

Regarding these numbers, there were different positions among the members. Some members highlighted that it was too early to take such a decision. Other members pointed out that the gap between the fee was too high while the average between them would be balanced and economically reasonable. Actually the average of management fees charged so far by all submitted projects amounts to 8,1 %[17]. Thus 8,5% represents such an average. The fee policy could be reviewed and adjusted after three years.

Financial issues for fiscal year 2010-2011

Furthermore, the Board adopted the recommendation made by the EFC regarding the Budget reconciliation for the fiscal year 2010-2011 (FY.2011). According to the annex attached to the report of the EFC the grand total of all components amounts to 2.720.000, but the board adopted USD 3 million, bearing in mind to provide, if necessary, the difference as an operational reserve protection from unforeseen events.

The amount for unforeseen events could also be used to extend the amount in the budgetary line for GEF staff cross support, for instance to recruit new people for 2011 since it is expected that the work load of the Secretariat will augment with an increasing number of project proposal submission.

4 Adoption of the Communications Strategy

The action under this agenda item expected by the Board during the last meeting was to consider the proposal on the communication strategy prepared by an independent consultant. The first aim of the strategy is to regularly send to all interested stakeholders a clear message on the AF and the progress made in order to encourage them to get more involved in the process. This strategy should provide further inputs on how the Board will deal with the high expectation and skepticism among donors and reluctant developing countries as well as to draft a policy on how to better communicate its track record. The document differentiates advisably between decision makers - Board, governments, NIE, etc. - and targeted audiences - potential donors, civil society, former members of the Board - whose concern shall be met through different procedural methods in the current communication strategy.

After having discussed the Communication Strategy (CS), the Board appreciated and launched it. Thus, the chair of the Board was chosen to serve as the spokesman of the Fund. This "ambassador" of the Board should be able to proactively and systematically reach the target audiences with clear messages tailored to the different addressees. In addition some delegates pointed out the need to integrate key elements of the Nairobi Work Programme on Impacts, Adaptation and Vulnerability

[16] Recommendation EFC.2/6 in the report of the second meeting of the Ethics and Finance Committee
[17] Kaloga and Harmeling (September 2010): Briefing of the 11th Meeting of the Adaptation Fund Board,.p.5.

under the UNFCCC, which is missing in the current document. This will help to better improve the understanding and assessment of the Board on current and future impacts , vulnerability and adaptation to climate change as well as to better define what concrete adaptation projects and programmes are supposed to mean. Furthermore the Board decided to intensify its interaction with civil society and NGO on their advise and concerns.

This is an important step to be closely followed, since the inclusion of CSOs can enrich the AFB´s work. For instance, if the AFB wants to meet some of its core goals such as the strategic priority "to give special attention to the needs of the most vulnerable communities ", inclusion of CSOs on the local level early in the project cycle should be taken serious. In that context, the AFB also decided to harmonise the project review criteria with the project template and to explicitly consider the inclusion of stakeholders as one of the review criteria. This enhances the transparency and accountability. However, more concrete guidelines on stakeholder inclusion would be advisable since so far each project follows a different approach.

5 Other agenda items

Adjourning the debate on the Initial Funding Priorities (IFP)

In order to fairly divide up the scarce resources of the AF among its 149 eligible developing countries, the Board has been discussing for several meetings now further guidance on priorities for funding and resource allocations, based on continuously revised documents prepared by the AFB Secretariat (Initial Funding Priorities, IFP).

The current IFP document was based on the views expressed during the discussion on the following issues: eligible countries, cap per eligible country, allocation per region, criteria for prioritizing among eligible projects[18]. During the 10th meeting, the AFB decided to invite the Board members to consider the issues outlined in the document and request them to make a submissions on this agenda. This request has not been followed until at the date of issuance of documents by the secretariat before the 11th meeting. Therefore, the Board postponed the discussion on this item and requested the Secretariat to resubmit a revised version of the document based on the upcoming submission at its 12th meeting .

The balanced allocation of resources among vulnerable developing countries is a moot point in the climate change community as well as under the Convention due to its link to the question of which countries are seen as particularly vulnerable. While the options for prioritisation the AFB has considered are much more concrete and operational than the level of debate in the current UNFCCC negotiations under the Ad-hoc Working Group on Long-Term Cooperative Action (AWG-LCA), the Board yet has not managed to agree on a prioritisation, despite consideration of this issue at several meetings.

Extension of the arrangements with the Trustee

One of the consequences of the failure to effectually progress the review of the AF and its institutional arrangements under the UNFCCC in the June negotiating session is the need to early extend the arrangement with the World Bank. The World Bank acts as Trustee of the Fund on interim basis. The current Terms of Conditions between the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP) and the World Bank would expire three months after Cancun- in March 2011, unless the CMP extends the terms and the Trustee agrees to it. Overall, one can state that

[18] for more information see: Kaloga and Harmeling, June 2010: Briefing on the 10th meeting of the Adaptation Fund Board

the World Bank has so far provided overall satisfactory Trustee services and has now useful experience and expertise in selling CERs in the high volatile carbon market. The extension of the Terms of Conditions can be seen as an important step, because it signals reliability, credibility and consistency to the World Bank´s partners in the carbon market. These are important for the stability of the future transaction in the volatile carbon market. The Board agreed that the agreement should be extended until 2013. However, it is important to bear in mind, that the extension of the Trustee arrangement and the timeframe of its legal force do not automatically apply to the remaining institutional review. The arrangement could be cancelled with a three months deadline

Financial status of the Fund

One of the usual items on the agenda is the Report of Financial Status of the Adaptation Fund Trust and the Administrative Trust Fund. This report provides the Adaptation Fund Board with information on the financial status of the Adaptation Fund Trust Fund. The revenues of the Adaptation Fund is obtained primarily from a 2 per cent share in the proceeds from the Kyoto Protocol's Clean Development Mechanism (CDM) project activities in addition to the contribution of developed countries and other contributions. The Trustee has generated revenues of USD eq. 112.5 million through the sales of 6,645,000 tonnes since the start of the CER sales monetization program in Mai 2009. This means the Fund held by the Trustee contains USD 160.43 millions on July 31st, 2010[19]. Furthermore the Trustee executed a donation agreement with the government of Spain for an amount of Euro 45 million and other countries as well as received draft donation agreements of the pledged donation of Euro 10 million from German and SEK 100 million from Sweden. At the beginning of the implementation phase it is clear that this income will not suffice in order to finance the costs of adaptation in developing countries, which is estimated by the World Bank to be in the order about USD 70-100 billion each year (average from 2010 to 2050).

Presentation on Desaster Risk Reduction

Furthermore the Board discussed on issues remaining from the 10th meeting. Since the discussion on vulnerability was postponed, new items on Disaster Risk Reduction (DRR) and on Gender (UNDP) were introduced. Basically the Board agreed that there is some overlapping between DRR and adaptation to climate change. For instance the loss related to disaster will have impact on land use, on agriculture etc., which falls both under DRR and adaptation to climate change. However, both depend very much on the vulnerability of the exposed group. An overview on the data available for DRR highlighted that the level of development for an adaptation is associated with the level of vulnerability. In the Discussion ensuing the presentation some delegates clarified that the Hyogo Framework is the key instrument for implementing disaster risk reduction. It was adopted by the Member States of the United Nations. However it is not binding and does not fall under the convention. Therefore the link between DRR and Disaster Risk remain a controversial institutional discussion.

Gender mainstreaming in the Result Based Management

Another new item introduced discussions during the last meeting. It pertains to the role of gender in the upcoming adaptation projects. The presentation made by the UNDP brought forward, that women are the most vulnerable group under most vulnerable communities. About 80% of them are engaged in the agriculture sector. This although the gender issues have been considered in the OPG as well as the submitted projects recognized her indispensable role in the implementation. The referee highlighted

[19] Financial Status of the Adaptation Fund Trust Fund, AFB/EFC.2/5, p.2

the need to integrate the vulnerability of women in a comprehensible RMB of the AF as well as demanded the mainstreaming of Gender from the PPRC in their review.

Report to the CMP

As usual at every CMP the Board has to present its report and recommendations to the Parties. This report summarizes actions that were undertaken and progress made during the ongoing year to the CMP.

Basically, the Board has achieved important milestones this year. It has accredited three NIEs – from Senegal, Uruguay, Jamaica – and several MIE. It has approved funding for two fully developed projects- Senegal, Honduras - and already endorsed six brief concept projects, which are awaited to become full project proposals. Six proposals were rejected.

Furthermore, the Board will report on the progress made to confer the legal capacity to the Board as well as on the proceeds from the monetization of Certified Emission Reductions (CERs), which reached more than 160.43 millions on July 31st 2010.

The Board has almost achieved setting a robust Results-based Management system in place, which intends to ensure to fulfill the objectives of the AFB as well as to measure the progress made both on a fund level as well as on a project level.

This overall progress should, despite the remaining constraints, build confidence to ensure that the AF is given adequate relevance in the design of the future climate finance architecture, including through channeling additional resources into it. It also has shown that a fund operation “under the authority of the CMP” is possible in a way where the CMP´s role is limited to some overarching questions, but where the day-to-day business can be developed independently by the Board.

6 Towards a success story? The Senegalese project

Project of Senegal submitted through the NIE "Centre de Suivi Écologique (CSE)"

It has been an important signal and is of symbolic character that the first project approved under the Adaptation Fund has been one submitted through the direct access approach.

However, it is crucial to look at the actual quality of the project "Adaptation to Coastal Erosion in Vulnerable Areas in Senegal". It addresses an important issue, with which Senegal is confronted in its leading economic sectors: climate change threatening the availability of natural resources which are key for major labor activities such, as an additional stress factor to human activities.

Location of the 3 sites Rufisque, Joal, Saly from the Appendix Proposal of Senegal

For the following reasons, the project sets important benchmarks and sets the course for others to follow:

(a) In comparison to other projects, the way that relevant stakeholders have been consulted and their inputs introduced in various projects suggests a relatively strong (while maybe not perfect) involvement of civil society organizations.[20].

(b) Four types of Executing Entities (EE) are listed and introduced: the Department of Environment and Classified Institutions (DEEC) under the authority of the environment ministry, the NGO Green Senegal, an Association of youth and women (Association Joal) and not further defined private companies contracted inter alia for construction work. In contrast, the approved proposal of Honduras only mentions to work through UNDP and a government agency as Executing Entity, the "national" Secretariat Environment and Natural Resources (SERNA);

(c) Local Communities are involved and targeted in all project activities, including as explicit elements of the projects organigram (see following page);

(d) A transparent approach with a publicly available list of all relevant decisions taken and persons involved both by the NIE as well as the EE;

(e) The proposal is rather a programme[21] than a project, because it is broader than the scope of an individual project. Thus it targets three strategic regions - Joal, Rufisque and Joal - in contrast to the proposal of Honduras, which aims at systematically increasing resilience of the urban poor of Tegucigalpa City.

The way the Senegalese project is designed and presented justifies the approval by the Board. In many regards it is appears to be better than many other projects which have been presented to the Board. However, direct access through a NIE means not only an opportunity but rather responsibility. Senegal has now a good reputation to defend, and the work of the CSE as implementing entity as well as that of those directly involved in the execution of the project will be followed.

[20] http://adaptation-fund.org/system/files/AFB.PPRC_.2.4%20Proposal%20for%20Senegal.pdf p.15
[21] According to the OPG p.22: "An adaptation programme is a process, a plan or an approach for addressing climate change impacts which are broader than the scope of an individual project. Further guidance on how to present programs for approval can be found in the instructions accompanying the templates."

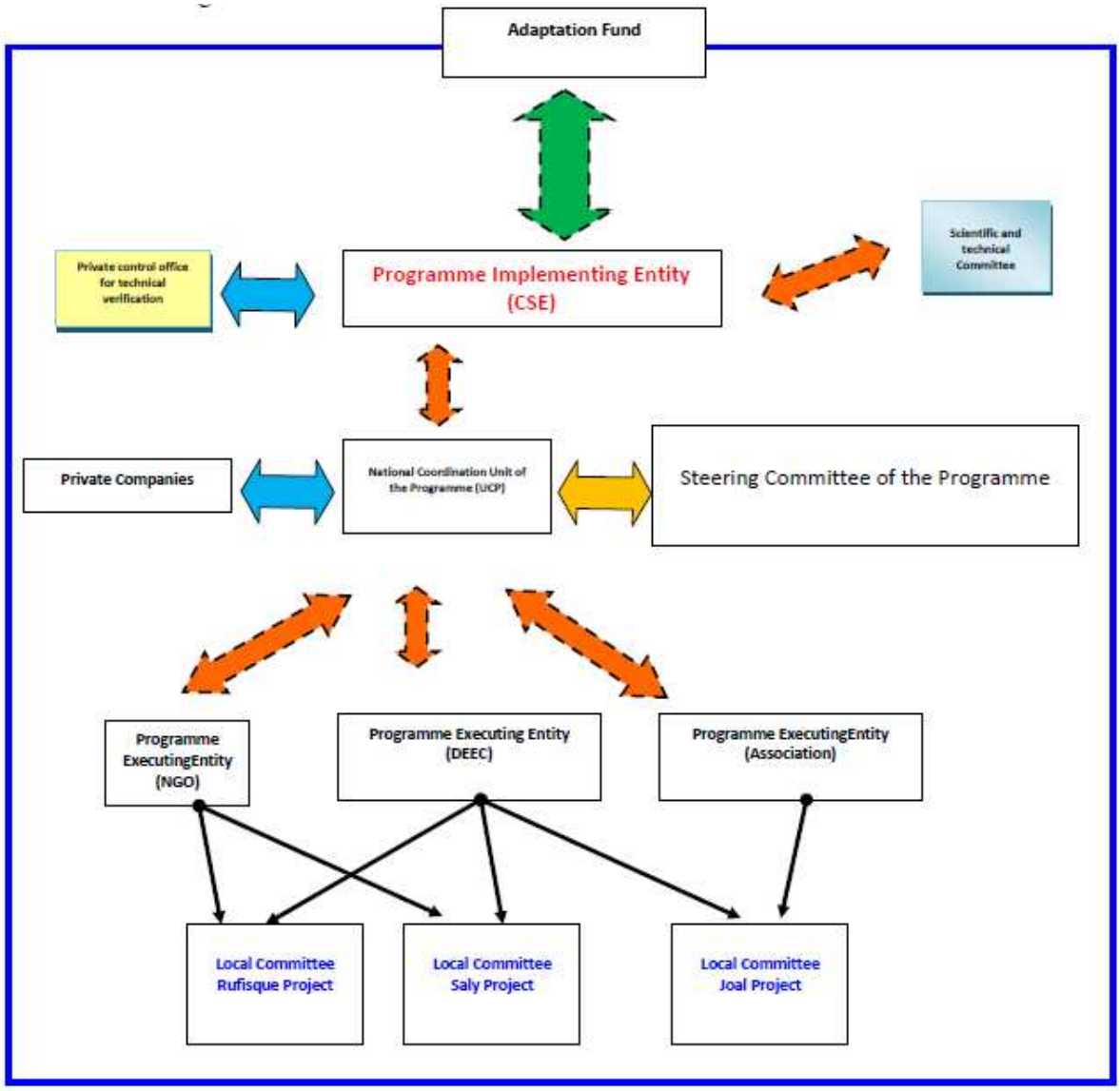

Figure: Organisational structure of the Senegalese project

Germanwatch

Following the motto "Observing, Analysing, Acting", Germanwatch has been actively promoting North-South equity and the preservation of livelihoods since 1991. In doing so, we focus on the politics and economics of the North with their worldwide consequences. The situation of marginalised people in the South is the starting point of our work. Together with our members and supporters as well as with other actors in civil society we intend to represent a strong lobby for sustainable development. We endeavour to approach our aims by advocating fair trade relations, responsible financial markets, compliance with human rights, and the prevention of dangerous climate change.

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