



Views of CAN International regarding the Adaptation Fund's review of the interim arrangements of the Adaptation Fund

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CAN appreciates the opportunity offered by the SBI to submit its views and recommendations on further views on the review of the Adaptation Fund in accordance with the annex to decision 6/CMP.6¹ and decision 1/CMP.3² paragraph 33, including the institutional arrangements referred to in paragraphs 19 and 23 of the same decision.

Achievements of the AF

CAN Members, who have been following the Adaptation Fund since its inception, acknowledge the significant progress achieved by the AF in the past four years. The AF is now fully operational. The AF is now well established to adequately address the growing funding demands from developing countries for concrete adaptation projects and programmes.

As to date, the AF has approved 23 fully developed projects, 14 project concepts have been endorsed and, after revision, have a good chance of being approved. Also, the AF has now accredited 12 National Implementing Entities (NIEs) and 10 Multilateral Implementing Entity (MIEs). This represents concrete evidence that the AF has implemented its innovative direct access modality from a pilot approach to a well established and appreciated channel of allocating funding directly to poor countries. CAN also took note of the support of the UNFCCC secretariat and the AF by successfully organising four regional workshops, in order to familiarise developing countries Parties to the Kyoto Protocol with the accreditation process.

Despite this progress, however CAN members are deeply concerned about the financial constraint faced by the AF. Since the start of the CER monetization program in May 2009, the Trustee has, as of March 31, 2012, generated revenues of eq. USD170.65 million through sales of Certified Emission Reductions (CERs). The CER price has been continuously decreasing due to financial crisis and over-supply of the market, thereby diminishing the expected income for the AF. At the same time, developed countries - with few exceptions - are still hesitant in pledging significant funding into the AF.

The AF has committed more than \$165 million to adaptation projects in 25 countries around the world, and the total funds additionally available (CERs monetization and voluntary contribution to the AF) amounted to USD 158.30 million as of March 31, 2012. Since the largest share of the resources has been devoted to projects submitted by MIEs, the MIE cap has entered into force, so that the remaining funds are prioritised for direct access projects. It is not difficult to foresee that the AF seems to be doomed to dry out, if anything is undertaken to address this issue.

The more CAN welcome the fundraising campaign strategy of the AF with the objective to raise up to additional USD 100 million by December 2013. CAN encourages the AF to further exploring innovative ways under and outside the convention to secure fundings with the view of meeting its goal in developing countries.

¹ <http://unfccc.int/resource/docs/2010/cmp6/eng/12a01.pdf#page=16>

² <http://unfccc.int/resource/docs/2007/cmp3/eng/09a01.pdf#page=3>

Performance Review of the AF's institutional arrangement

The review of the institutional arrangement is a long standing issue that was supposed to be closed in Durban. As the AF was established, two institutional arrangements - with the GEF providing the secretariat services to the AF Board (AFB) and the World Bank acting as the Trustee of the AF- on interim basis have been adopted, through decision 1/CP.13. It was also adopted that this arrangement will be reviewed to ensure the effectiveness and adequacy of with a view to the CMP adopting an appropriate decision on this matter at its seventh session.

A consultant has undertaken an independent review in 2011. His findings,³ as well as the comment made by both institutions on the review, have been published shortly prior to the CMP 7 in Durban. However, it was not possible to consider the complex information in-depth, so Parties were not able to debate the review arrangement, because in their view, the comment of the AFB itself was missing. The AFB was requested to submit its view on the findings for inclusion in an information document by March 2012 so as Parties could be able to start negotiating at the SBI in May in Bonn. Yet the AFB was not able to provide its view on the findings. Therefore, the SBI36 in Bonn invited the Adaptation Fund Board to make available in its report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its eighth session its views on the report on the review of the interim arrangements of the Adaptation Fund by 13 August 2012⁴. The SBI further invited the Adaptation Fund Board to provide additional information on the administrative costs of the AFB⁵.

As today, the AFB has so far not published its view on the review of its institutional as well as its administrative costs. Therefore, the current CAN's submission is based on the review findings of the independent of the consultant, as well as the comment of both, the GEF and the IRBD on the findings of the consultant.

Institutional arrangement with the GEF providing the secretariat service to the AF

CAN is of the view

(1) To enable the secretariat - as recommended by the consultant that prepared the independent review - to endorse (but not to reject) the project concepts submitted to the AF.

This will enable the AFB, particularly the PPRC, to save significant time, which could be better allocated on issues related to project implementation such as an in-depth examination of the reports as well as on strategic issues related to the project to be funded. Since this would give the secretariat a strong role in the project approval process, it would be crucial to gradually scale up the AF secretariat's staff. When this approach would be applied it would be important to ensure that this does neither come on the expense of disclosure of information related to the projects nor on transparency and engagement of civil society in the process. This could mean e.g. that a clear schedule on the screening process should be made available. The date should be set up to allow all interested stakeholders to have sufficient time to examine the findings of the secretariat so as to provide comments or express concerns on specific components of the proposals. The disclosure of information on the technical screening process prior to endorsement is critical to keep a certain balance in the process and should help the AF to get information on the projects that are not mentioned in the proposal, but critical for ensuring inclusion, participation and cost effectiveness. This is important already on the concept stage, since there the key guidance is provided to proponents to improve their proposal.

³ Terms of Reference for Hiring the Consultant to Conduct an Independent Review of the Interim trustee and the Interim Secretariat Servicing the Adaptation Fund Board: <http://unfccc.int/files/adaptation/application/pdf/torafbreview.pdf>. The finding of the consultant on the performance review of the secretariat and the Trustee http://adaptation-fund.org/sites/default/files/AFB.B.17.Inf_.5%20Performance%20Review%20of%20sec%20and%20trustee.pdf

⁴ http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php

⁵ Conclusions approved by SBI 36 on agenda item 6a of its agenda.

(2) To have an independent Secretariat as a stand-alone body within the GEF premises.

This option does not mean to cancel the current institutional arrangement, but rather to accommodate it to the reality and needs of the AF. The independent Secretariat will be lead by a Head of Secretariat responsible for the AF Secretariat staff and accountable to the AF, as proposed in option 2 of the review's recommendation. Currently, the manager of the AF Secretariat is accountable to the GEF CEO. The institutional arrangement with GEF has helped the fledgling AF to grow from scratch to become a fully operational institution. However the AF is now sufficiently operational to act as a stand-alone body with its own managerial responsibility. This option would help to avoid the expensive relocation to Bonn of the AF secretariat, and at the same time strengthen the independence of the AF Secretariat vis a vis the GEF. In doing so, the Board should:

- a) Provide the secretariat **with the minimum dedicated staff to be able to fulfil its core responsibility** such as the review of project proposals it has received. This could be performed by gradually scaling up the number of dedicated staffs so as to avoid any capacity and expertise gaps in the review process.
- b) Provide the **Secretariat with a Senior Executive manager, solely accountable to the AFB.**

This would allow, in contrast to the current set-up, for an effective, focussed and continuous leadership, worthy of a growing organisation such as the AF. In addition, it would enable the AF secretariat to use the services of the GEF Secretariat (through contracts with the World Bank), should this be necessary, since the AF is not legally empowered to employ people. So the AF needs to remain affiliated to an institution, which is so empowered to handle so.

Institutional arrangement with the IBRD acting as Trustee

For CAN it is important that the AFB would

1. **put in place a procedure for checking the AF's share of proceeds from CDM project activities as held by the Trustee.**

This would ensure that the amount of CERs held is accurate, complete and transferred on time. Since this issue has not yet been addressed or regulated either in the MoU with the Secretariat or the ToS with the Trustee, the proposed procedure should allow the AF to request the secretariat to independently confirm upon its agreement:

- a. **The number of CERs due to the Adaptation Fund from the CDM in the Share of Proceeds account;**
- b. **The number actually sold; and**
- c. **The value credited to the Adaptation Trust Fund as proposed in the NGO's recommendation.**

According to the consultant of the independent review, although the reporting of the CERs monetization is all-embracing and wide-ranging, there is a lack of information with respect to the strategic asset allocation of the resultant cash proceeds (incl. donations) by instrument counterparty and tenor.⁶

2. **get more involved in the investment strategy of the Trustee:** Bearing in mind the fact that there is no clear liability of the Trustee for any losses of funds in the IBRD Trusteeship, and taking note of the silence on the

⁶ see Ref FCCC/KP/CMP/2008/11/Add.2 pursuant to paragraphs 24, 25, 26, 27 and Performance Review of the Secretariat and Trustee p.38

risk exposure of the investments transacted by the Trustee, **the AF is well advised to get more involved in the investment strategy of the Trustee⁷.**

The involvement of the AF in the investment strategy of the Trustee is by no means a micromanagement of the Trustee. Rather, this could be carried out on the basis of risk exposure and investment procedure, which informs the AF "through its secretariat" about the investment strategy of the Trustee. **This should help to avoid both a loss of funds and any possible legal disputes upstream.** This does not imply an oversight role of the Secretariat over the Trustee, but rather should ensure a strong accountability of the Trustee by the AF for any losses incurred during the investment period.

This would also address the issue relating to the lack of detailed investment-management reports. The above-mentioned procedures should give accurate information about the liquidity returns and ensure an even cash flow. It is also in accordance with the readiness showed by the Trustee in its comments to share information on its investment strategy for the AF funds and to discuss the most suitable investment for each tranche with the AF members. In addition, the AF, as a Fund to finance adaptation actions in developing countries, should lead by example in placing its resources for scaling-up solutions to climate change rather than perhaps investing into environmentally and socially unsustainable practices.

3. be able to request the Trustee to restrict the number of its staff attending the AFB meeting to one.

As a means to save costs, it seems to be sufficient to limit the number of Trustee representatives at AFB meetings to one person. Any additional information could be conveyed e.g. through video conference services.

⁷ According to the consultant, the AF seems not to be adequately informed on the magnitude of the scheme set up within the IBRD to enable the exemption of its portfolio from losses resulting from unrestricted movements of capital. Regarding this particular finding the review recognises that it is sensible to disclose information about counterparties and that this is a common practice in all international funds.