



World Wildlife Fund

Creation and Evolution of Adaptation Funds

by

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Climate Focus**

March 2011

The views expressed in this report are those of the authors and do not represent the opinions or positions of WWF.

Report produced for WWF by

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March 2011

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Content

Acronyms	5
Executive Summary	6
1. Introduction	11
1.1. Background	11
1.2. Report objective	11
1.3. Report structure	12
1.4. Methodology	12
2. History and Evolution	13
2.1. 1989–1992: The GEF pilot phase	13
2.2. 1992–1994: GEF reform	13
2.3. 1998–2001: From the UNFCCC to the Marrakesh Accords, and the creation of the AF, LDCF, and SCCF	14
2.4. 2001–2010: Establishment and implementation of the LDCF, SCCF and AF	15
2.5. 2008–2010: Creation of the PCPR	17
2.6. GEF-5 reforms	18
2.7. Comparison of the AF, LDCF, SCCF and PPCR	19
3. Analysis of the Funds	23
3.1. Criteria used for analysis	23
3.2. Governance of adaptation funding	23
3.3. Efficiency of operations	26
3.4. Relations, synergies and cooperation among the funds	27
4. Looking Forward	29
4.1. Funding	29
4.2. Governance	31
4.3. Disbursement of funds	31
4.4. Incremental vs. additional costs	33
4.5. Accountability	34
4.6. Green Climate Fund	35
4.7. Role of civil society moving forward	37
ANNEX I—Least Developed Countries Fund (LDCF)	38
1. Introduction	38
2. Governance, Funding, and Current Status	38
2.1. Governance	38

2.2. Funding	40
2.3. Status	41
3. Review of Key Issues	42
3.1. Transparency	42
3.2. Accountability	42
3.3. Equitable representation	42
3.4. Timeline for disbursements	43
3.5. Access	44
3.6. Opinions on the LDCF	47
ANNEX II—Special Climate Change Fund (SCCF)	49
1. Introduction	49
2. Governance, Funding and Current Status	49
2.1. Governance	49
2.2. Funding	49
2.3. Status	50
3. Review of Key Issues	51
3.1. Timeline for disbursements	52
3.2. Access	52
3.3. Opinions on the SCCF	53
ANNEX III—Adaptation Fund (AF)	54
1. Introduction	54
2. Governance, Funding and Current Status	54
2.1. Governance	54
2.2. Funding	57
2.3. Status	57
3. Review of Key Issues	59
3.1. Transparency	59
3.2. Accountability	59
3.3. Equitable representation	60
3.4. Timeline for disbursements	60
3.5. Access	60
3.6. Opinions on the AF	63
ANNEX IV—Pilot Program for Climate Resilience (PPCR)	64
1. Introduction	64
2. Governance, Funding and Current Status	64
2.1. Governance	64

2.2. Funding	67
2.3. Status	67
3. Review of Key Issues	70
3.1. Transparency	70
3.2. Accountability	70
3.3. Equitable representation	71
3.4. Timeline for disbursements	71
3.5. Access	71
3.6. Opinions on the PPCR	73
Endnotes	73

Acronyms

ADB	Asian Development Bank
AF	Adaptation Fund
AFB	Adaptation Fund Board
AfDB	African Development Bank
ATF	Adaptation Task Force
AWG-LCA	Ad Hoc Working Group on Long-term Cooperative Action
CDM	Clean development mechanism
CER	Certified emission reduction
CIFs	Climate Investment Funds
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
COP	Conference of the Parties
COP6	The sixth session of the Conference of the Parties
COP16	The 16 th session of the Conference of the Parties
CTF	Clean Technology Fund
DANIDA	Danish International Development Agency
EBRD	European Bank for Reconstruction and Development
EFC	Ethics and Finance Committee
ET	Emissions trading
FAO	Food and Agriculture Organization
G77	Group of 77
GEF	Global Environment Facility
GEF-5	The GEF's fifth replenishment period
IADB	Inter-American Development Bank
IBRD	International Bank of Reconstruction and Development
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
JI	Joint implementation
KP	Kyoto Protocol
LDC	Least developed country
LDCF	Least Developed Countries Fund
MDB	Multilateral development bank
MIE	Multilateral implementing entity
MOU	Memorandum of understanding
NAPA	National Adaptation Programme of Action
NIE	National implementing entity
ODA	Official development assistance
PIF	Project Identification Form
PPCR	Pilot Program for Climate Resilience
PPG	Project Preparation Grant
PPRC	Project and Programme Review Committee
SCCF	Special Climate Change Fund
SCF	Strategic Climate Fund
SPCR	Strategic Program for Climate Resilience
STAP	Scientific and Technical Advisory Panel
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
WFP	World Food Programme

Executive Summary

Introduction

This report, written in 2010, documents and analyzes the evolution and functions of the four coexisting multilateral funds that organize the majority of international funding specifically targeted toward adaptation to climate change. It serves also to better understand the forces that influence—and the challenges and successes of—the development of adaptation funding. All financial contributions and other sources mentioned in this document were up-to-date as of November 1, 2010. Additional updates reflect more recent pledges and the outcomes of the COP16/CMP6 held in December 2010 in Cancun, Mexico.

Following are the four funds:

- The Least Developed Countries Fund (LDCF), under the United Nations Framework Convention on Climate Change (UNFCCC), managed by the Global Environment Facility (GEF)
- The Special Climate Change Fund (SCCF), under the UNFCCC, managed by the GEF
- The Adaptation Fund (AF), under the Kyoto Protocol (KP), managed by the Adaptation Fund Board (AFB)
- The Pilot Program for Climate Resilience (PPCR), outside of the UNFCCC and the KP, administered by the World Bank

All four funds provide funding for adaptation through slightly different approaches. The LDCF funds “urgent and immediate”¹ climate change adaptation needs through development and subsequent implementation of National Adaptation Programmes of Action (NAPAs) of least developed countries (LDCs). The SCCF’s top priority is adaptation, and it funds concrete activities, programs and measures in all developing countries. It also has an active window on technology transfer. The AF finances concrete adaptation projects and programs in developing countries. The PPCR funds programs that integrate climate resilience into development planning in a select group of pilot countries and regions.

History and evolution

All four funds date back to the creation of the GEF, which plays a major role in adaptation financing.

1989–1992: GEF pilot phase

The GEF was created to serve as a consolidated financial mechanism for global environmental issues, to make efficient use of already-existing institutional structures and to avoid a proliferation of environmental funds under various environmental conventions. The GEF brought in the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the World Bank as GEF implementing agencies. A number of key issues on adaptation funding were left unresolved during the GEF pilot phase and are under review today. These issues include the role of the World Bank and UN agencies, the additionality of finance, and the scope of adaptation activities.

Reviews after the three-year pilot phase were mixed. While finance was limited to costs that were incremental to national finance, developing countries and civil society criticized the GEF’s close relationship with the World Bank, as well as a lack of transparency. In contrast, others praised the GEF as an innovative model of global governance.

1992–1994: GEF reform

In 1992, the GEF was entrusted with the UNFCCC financial mechanism, under the condition that the GEF would reform the mechanism in certain areas, including transparency, accountability, democracy and universality of participation. The reform would have to reconcile the widely differing views of developing and developed countries on these issues. In 1994, after reaching consensus on these issues, the GEF started operating

in its current form, based on a carefully negotiated compromise among countries that blends features of the universality of the UN and the efficiency of the Bretton Woods institutions. Nevertheless, the GEF never gained the full support of developing countries.

1998–2001: From the UNFCCC to Marrakesh Accords, and creation of the AF, LDCF and SCCF

In 1998, at its fourth session, the Conference of the Parties (COP) to the UNFCCC adopted the Buenos Aires Action Plan and listened to proposals for two new funds for supporting climate change efforts in developing countries. Developing and developed countries disagreed on whether the GEF would be involved as an operational entity of these funds. On the one hand, developing countries (which weren't organized as a group until COP6) claimed that the GEF was too bureaucratic, took too long to provide funding and was dominated by the World Bank. On the other hand, developed countries did not want to create yet another entity similar to the GEF. They also preferred the GEF voting structure, which was in their favor, and did not object to the World Bank's role in the GEF. Negotiations ended with the creation of three funds: the SCCF, with a window for adaptation funding; the LDCF, to fund NAPAs of LDCs; and the AF, under the KP.

2001–2010: Establishment and implementation of the LDCF, SCCF and AF

The GEF administers both the LDCF and the SCCF, following the GEF governance model, in which funds are provided on a voluntary basis, count as official development assistance (ODA) and are distributed through the GEF implementing agencies (UNDP, UNEP and World Bank), and in which developed countries have a more influential vote on funding decisions. The LDCF and the SCCF first issued a call for proposals in 2002 and 2004, respectively. As of November 2010, the LDCF has approved the funding of 43 NAPA implementation projects, following the completion of 44 NAPAs. The SCCF has approved 25 projects under the adaptation window and four projects under the technology transfer window. The AF is funded by 2% of the proceeds of the clean development mechanism (CDM) projects under the KP, plus voluntary contributions, with the AFB acting as the operational entity under the authority and guidance of the COP, which serves as a meeting of the parties of the KP. The AFB comprises a majority of developing country members, and funding can be channeled through existing implementing agencies accredited by the AFB, including the UNDP, UNEP and World Bank, and also directly through accredited national implementing entities (NIEs) under the so-called direct access model.

2008–2010: Creation of the PPCR

In 2008, the PPCR was created outside the framework of the UNFCCC or KP in order to help developing countries integrate climate resilience into their core development planning. The PPCR was created out of, developed countries' desire to earmark donations for specific priority countries and as a way to test scaled-up funding. Funding is provided through multilateral development banks (MDBs) to ensure the application of adequate safeguards as well as World Bank procurement and fiduciary standards. The PPCR currently has the largest financial commitments of the four funds, with USD 1.036 billion in declared pledges as of October 31, 2010, but unlike the other funds, it is currently designated to expire at the end of calendar year 2012.

2010–2014: GEF-5 reforms

During its fifth replenishment period, the GEF initiated a number of ambitious reforms. The GEF-5 reforms include the allocation of funds to all developing countries, the possibility of allowing direct access for national accredited entities for developing countries, the establishment of regional technology transfer centers, regular country feedback, strengthening strategic engagement of developing countries, improved stakeholder involvement and a shortened GEF project cycle..

Analysis of the funds

Governance

The four adaptation funds differ in their governance, the roles MDBs and UN institutions play within them, efficiency of operations, and synergies and cooperation among them. The AF is notable in terms of governance because the majority of AFB members are from developing countries and because its funding consists of the 2% of proceeds from CDM projects. Some see this money as, essentially, developing country money, and as such

can justify the developing country majority on the AFB. Many believe that the CDM levy is useful because it provides a relatively steady source of income, but others disagree about the stability of the levy given the volatility and fragility of the carbon market. The AF provides direct access to funds by accredited NIEs in addition to multilateral institutions, which have to prove they meet specific fiduciary standards in order to be accredited. In regard to governance, the AF has been praised for its relative openness to civil society observers although it should be noted that the AFB has lacked transparency, conducting some business behind closed doors.

Views on the governance structure of the LDCF and SCCF have been mixed. Some have claimed that the GEF procedures are inefficient while others praise the GEF for its stability, experience and use of reputable implementing agencies. The Danish International Development Agency (DANIDA) and the GEF Evaluation Office recently evaluated the GEF and commended it for acting on recommendations to reform and for becoming more streamlined. In addition, the LDC Expert Group issued a letter in November 2010 in which it acknowledged the LDCF's important achievements and its increasing responsiveness to the needs of LDCs.

Some criticize PPCR governance because it is not under the COP's or CMP's guidance or authority, yet others see the balanced representation between developed and developing countries and decision making by consensus as positive elements. One point of contention is that PPCR funding is not divided equitably among developing UNFCCC parties but instead can be used by a select group of countries. The PPCR is the only one of the four funds that offers finance through both loans and grants. Civil society has criticized the PPCR for this, stating that adaptation funding is payment of a climate debt by developed countries, so it should never be repaid through loans.

Role of MDBs and UN institutions

MDBs and UN institutions are deeply involved in all four funds. Both the LDCF and the SCCF operate under the guidance of the UNFCCC and are operated by the GEF, which uses the WB, UNDP, UNEP and a number of regional development banks as intermediaries for setting up projects and disbursing funds. Because the AF is under the CMP's authority and guidance and is accountable to it, the CMP is active in the AF's strategic decision making. The CMP is not as involved in decision making now as it was when the AF was first conceived, and it now uses the secretarial services of the GEF and the World Bank as its trustee. Under the AF, projects can be run in a more "classic" way through MIEs (multilateral implementing entities, including UNEP and UNDP) and also directly through accredited NIEs. The PPCR uses the World Bank as its trustee and disburses funds through MDBs only.

Efficiency of operations

For various reasons, all four funds have been relatively slow to disburse funding and deliver results. The AF has been slow because it took a long time to be formally operationalized, and this can be attributed, at least in part, to the delay of the KP coming into force. Once the fund became operational, disbursement sped up, but a greater number of AF projects still need to be approved before the efficiency of fund disbursement can be assessed. The LDCF and SCCF may have experienced delays caused by the implementing agencies, capacity constraints in the GEF and the limited capacity of recipient countries. The PPCR's delay was due mainly to the amount of time it took to implement consultation procedures, agree on a prioritized set of countries, and establish country ownership and stakeholder participation.

Funding

The AF, LDCF and SCCF are all underfunded and suffer from insufficient capacity. The limited funds must be distributed equitably among recipient countries, but the most vulnerable countries and regions do not necessarily receive proportional funding. In contrast, the PPCR has more funding, but those funds are available only for nine countries and two regional programs.

Relations, synergies and cooperation among the funds

The LDCF and the SCCF have a great deal of synergy, thanks to their complementary goals. While the LDCF covers only LDCs, the SCCF covers all developing (currently all non-Annex I) countries. Among the LDCF's

short-term goals are NAPA development and implementation in LDCs, as well as general adaptation planning support. The SCCF's longer-term goals are complementary: increase climate resilience of development, and catalyze, leverage and maximize resources from bilateral and other multilateral sources, both in LDCs and other developing countries.

The PPCR exists to integrate transformational levels of finance into existing development programs. This goal puts the PPCR's operations on a different policy level than those of the LDCF and the SCCF, which mainly focus on specific projects. From a purely functional perspective, the PPCR could conceivably provide a program context in which LDCF NAPA implementation projects, SCCF projects and AF projects and programs could fit.

Some official documents acknowledge that the funds have overlapping goals, yet other official documents make an effort to avoid overlap. The GEF generally acknowledges that the four adaptation funds are relatively distinct in their purposes and functions, but it recognizes the risk of overlap. As such, it coordinates GEF-managed funds through the Adaptation Task Force (ATF), which is not an official GEF entity but rather an informal, once monthly conference call during which representatives of the GEF and those of its implementing agencies discuss fund-related issues. Until recently, a "firewall" between general GEF funds and LDCF and SCCF funding prohibited comingling of funding sources in a single project. The firewall was established because the US had pledged significant amounts of money to the GEF but not to the LDCF and the SCCF. Recent US pledges to the LDCF and the SCCF have rendered the firewall unnecessary.

Looking forward

The current landscape of adaptation finance is the result of a continued desire to direct funding toward adaptation and a general dissatisfaction about how climate and adaptation funds have been deployed. A cacophony of competing power struggles can overshadow the common interest of all groups to finance adaptation initiatives in developing countries, making structural reforms to improve international adaptation finance difficult. But it is worthwhile to recommend solutions to problems in areas such as funding, governance, disbursement of funds, accountability and cooperation.

Funding

The bottom line is that more funding is needed for adaptation. Current funding falls short of even the lowest estimate of USD 28 billion per year expected to be needed by 2030. Complicating the lack of funds is the often-cyclical nature of funding. To be effective, funding needs to increase and be delivered on a predictable schedule. Numerous alternative sources of funding have been raised, including the following: i) a uniform global levy on carbon emissions; ii) levies/taxes on emissions from international maritime transport and aviation; iii) the proceeds from auctioning Assigned Amount Units or other allowances; iv) an increased share of proceeds from the CDM and/or a levy on a similar share of proceeds on JI projects and emissions trading; v) defined budgetary contributions related to GDP (G77 and China proposal—0.5% to 1% GDP of rich countries); and vi) a currency transaction tax (small tax on the foreign exchange market for currency transactions).

Additionality of finance also must be addressed. While there's consensus that climate change funding should be new and additional to existing ODA, defining what constitutes additionality and then monitoring and enforcing it are different matters entirely. There is no definition of "additional funding" under the UNFCCC, nor is there a mechanism to monitor—let alone enforce—any financial contributions or commitments. There needs to be a way to determine whether adaptation funding is additional.

Governance

The AF, SCCF, LDCF and PPCR are not currently contemplating changing their governance structures, but observations on the structures of these funds may be helpful when considering governance models for future funds, especially the Green Climate Fund. As long as adaptation funds rely on voluntary donations from developed countries, these countries will demand equal representation on governance bodies, and it is unlikely that the governance structure of the AF will soon become the standard model for climate financing. The PPCR's governance structure, which contains equal representation by developed and developing countries, may be a

workable approach moving forward. Both developed and developing countries expressed support for the PPCR's governance approach for the Green Climate Fund at COP16. *Disbursement of funds*

Issues critical to improving the disbursement of funds include management efficiency, direct access, conditionality, decision-making criteria and spending priorities, and incremental costs. Certain aspects of the AF and GEF, such as its direct access model, may serve as a model for the disbursement of resources under the Green Climate Fund.

Accountability

Fiduciary standards and safeguards hold accountable those who spend adaptation funding in developing countries. The AFB's fiduciary standards for NIEs focus solely on responsible financial management, unlike MDB safeguards, which cover social and environmental aspects. At a minimum, the AFB should consider nominating a set of social and environmental safeguards for the NIEs to adhere to, in addition to the fiduciary standards. The GEF already has environmental standards in place and the Council is currently developing accompanying social standards. The GEF has noted inconsistent application of safeguards among GEF implementing agencies, and it is taking steps to bring the various agencies up to GEF requirements.

Green Climate Fund

The Cancun Agreements coming out of COP16/CMP6 state that a large majority of the new funding for adaptation shall flow through the new Green Climate Fund. As such, the LDCF, SCCF, AF and PPCR may not benefit significantly from the new and additional resources mobilized for climate change adaptation in the future. Moreover, donors and recipient countries may find it simpler and more transparent to manage most adaptation projects under one framework in order to avoid competition, overlap and duplication, which could lead to decreasing contributions to the four major adaptation funds. The Green Climate Fund presents an opportunity to reconsider and, if needed, consolidate existing sources of adaptation funding. As such, the futures of the LDCF, SCCF, AF and PPCR are unclear.

If the Green Climate Fund can replicate and scale up the existing funds' work and adopt lessons learned from these funds, it may be possible to make a credible case to consolidate some of these funds into the new fund.

Role of civil society in moving forward

Civil society's role in adaptation funding will vary depending on the strengths, weaknesses, objectives and cultures of the civil society organization. Civil society organizations with strong technical and analytic skills can support local community and government input into the design and operation of adaptation projects. They can also support local government and candidate NIEs' capacity generally by providing training and support. Other organizations will serve as watchdogs of adaptation funding, reviewing and critiquing the operations of adaptation funds and agencies carrying out projects and programs. Going forward, civil society organizations engaged in adaptation will have to develop strategies for engagement that draw on their specific strengths.

1. Introduction

1.1. Background

A key component of a successful international climate agreement is a robust institutional architecture to source, allocate and disburse funding for climate change mitigation and adaptation actions. Adaptation is one of the four pillars of the Bali Action Plan,² and discussions on adaptation continue within the Ad-Hoc Working Group on Long-term Cooperative Action (AWG-LCA). The international effort to promote adaptation inspired the creation of various initiatives, including the Nairobi Work Programme (2005–2010),³ mandated by the Subsidiary Body for Scientific and Technical Advice and focused on information sharing and learning among the public, private and civil society partners; the National Adaptation Programmes of Action (NAPAs), used to help least developed countries (LDCs) prioritize their adaptation needs; and the Adaptation Fund, under the Kyoto Protocol (KP). At the Copenhagen Climate Conference in December 2009, the Conference of Parties (COP) made progress in the area of climate finance by establishing the Copenhagen Accord, and a year later at the group's 16th session (COP16), in Cancun, Mexico, the COP furthered its climate finance efforts by drafting the Cancun Agreements. The Copenhagen Accord⁴ and the Cancun Agreements⁵ both state that scaled-up, new and additional, predictable, and adequate funding—as well as improved access to funding—will be provided to developing countries for, among other things, adaptation to climate change. In addition, the accord and agreements describe developed countries' commitment to provide new and additional funds approaching USD 30 billion for 2010–2012, increasing to USD 100 billion annually by 2020. The Green Climate Fund was established at COP16 to manage a large portion of these new financial resources, and the COP decision to establish the fund included a basic governance structure, operational guidelines and a process to design the fund. A 40-member Transitional Committee will continue planning the fund in 2011.⁶

Currently, the large majority of international funding specifically targeted for climate change adaptation is organized through four coexisting multilateral funds: the Adaptation Fund (AF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF) and the Pilot Program for Climate Resilience (PPCR). The AF is under the KP, the LDCF and SCCF are under the United Nations Framework Convention on Climate Change (UNFCCC), and the PPCR is outside these UN processes completely. It's difficult to produce detailed and accurate assessments of the amount of funds needed for climate change adaptation, but the UNFCCC estimates a need for USD 28–67 billion annually by 2030⁷ and the 2007–2008 UN Development Report calls for USD 86 billion annually by 2015.⁸ Even though these are just estimates, current funding for climate change adaptation across the various bilateral and multilateral initiatives clearly is inadequate.⁹ The AF has USD 197.32 million in pledges, with USD 160.43 million deposited; the LDCF has USD 262.29 million, in pledges with USD 219.36 million deposited; the SCCF has USD 149.29 million in pledges, with USD 133.74 million deposited; and the PPCR has USD 1.036 billion in pledges, with USD 161 million held in trust.¹⁰ These numbers fall well shy of any existing estimate of financing needed to tackle climate change adaptation.

1.2. Report objective

WWF commissioned this study to provide its network with background information on the evolution and functions of the existing sources of international funding for adaptation. The objective of the study is to understand the forces that influenced the development of the four major adaptation funds (the AF, LDCF, SCCF and PPCR) and their challenges and successes. This information will help WWF better understand the future of adaptation funding in international climate change negotiations. In addition, this study reviews the history and evolution of the funds, their current governance and operations, and potential future development.

1.3. Report structure

This study's initial report contains the history, evolution, comparative analysis and future development of the four existing adaptation funds. After the introduction, the report is divided into three chapters: Chapter 2 contains a brief history that charts the evolution and development of these funds, sets the context of the current funding landscape and highlights the origin of a number of funds and their corresponding issues. Chapter 3 examines the relations between the funds, indicating their structural similarities and differences as well as the overlaps, gaps and conflicts among their activities and approaches. Chapter 4 focuses on future development and the evolution of adaptation funding.

Four Annexes at the end of the report provide an overview of each of the four funds. The Annexes, which can serve as stand-alone documents, provide background information on the funds and outline their institutional structures; sources of funding; current funding status; role in overall climate financing; and key issues such as transparency, accountability, equitable representation, the timeline for disbursement of funds, access to funds, and civil society and government opinions.

1.4. Methodology

This study was carried out through a mixture of desk review of fund documentation and published commentary on the funds, supplemented by interviews with government and civil society representatives and others who have written about or are involved in the operation and/or management of the funds. Interviewees and WWF staff peer-reviewed drafts of the report. The information and opinions included in this report are not attributed to specific individuals. Among the people interviewed were the following:

Athena Ballesteros (World Resources Institute)
Paul Bodnar (US Department of State)
Lars Christiansen (Global Environment Facility)
Saliha Dobardzic (Global Environment Facility)
Luis Gomez-Echeverri (International Institute for Applied Systems Analysis)
Su-Lin Garbett (PPCR Sub-Committee)
Sven Harmeling (German Watch)
Saleemul Huq (International Institute for Environment and Development)
Andrea Kutter (CIF Administrative Unit)
Susan Krohn (German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety)
Herve LeFeurve (WWF)
Marcia Levaggi (Adaptation Fund Secretariat)
Frank Fass Metz (German Federal Ministry for Economic Cooperation and Development)
Axel Michaelowa (Perspectives)
Hans Olav Ibrekk (Adaptation Fund Board)
Clifford Polycarp (World Resources Institute)
Ilana Solomon (Action Aid USA)
Beth Urbanas (US Department of the Treasury)
Annika Vogt (German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety)

2. History and Evolution

This chapter examines the history and evolution of the four adaptation funds: the Adaptation Fund (AF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF) and the Pilot Program for Climate Resilience (PPCR). It explains the creation of the funding and governance structures of the funds and provides a brief overview of each fund. It starts with the Global Environment Facility (GEF), which acts as secretariat to the AF and manages the LDCF and the SCCF. The GEF plays a key role in all climate change funding under the United Nations Framework Convention on Climate Change (UNFCCC) and influenced the creation of the AF, LDCF, SCCF and PPCR.

2.1. 1989–1992: The GEF pilot phase

The seeds of the GEF can be traced back to discussions in the late 1980s between World Bank staff members and a number of Washington, D.C.-based nongovernmental organizations (NGOs) on environmental funding within the World Bank.¹¹ Donor governments became interested in these discussions, ultimately leading to the creation of the initial pilot for the GEF in 1991 and the GEF in 1994.¹²

These discussions pertained to a number of key issues still relevant to adaptation funding today, including additionality of funding, avoidance of fund proliferation, and collaboration among institutions. At that time, most Group of 77 (G77) countries,¹³ while supporting the initiative, stressed that funding should be new and additional to existing official development assistance (ODA). Parties agreed with the G77 on that issue and regarding the use of GEF grants to cover only the “incremental costs” of projects that provide global environmental benefits. “Incremental costs” were defined as the extra costs incurred in the process of redesigning an activity from a baseline plan focused on achieving *national* environmental and developmental benefits into one that results in *global* environmental benefits.¹⁴ The GEF was created to avoid a proliferation of environmental funds under the various multilateral conventions and to rely, to the greatest extent possible, on existing institutional structures. Three already-existing agencies—the United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP) and World Bank—were established as GEF implementing agencies, with the idea that each agency would exploit its comparative advantage.

Reviews of the GEF after its three-year pilot phase, ending in 1991, were mixed. Developing countries objected to the incremental-costs approach and the GEF’s close relationship with the World Bank. Civil society criticized the pilot for a lack of transparency and limited stakeholder consultation. An independent evaluation¹⁵ found that there were “serious questions of top-down, agency-driven project development and inadequate attention to local conditions and interest.”¹⁶ Despite these criticisms, the GEF pilot itself was a success. It was a new and innovative attempt that relied on the combined comparative advantages of UN (UNDP and UNEP) and Bretton Woods (World Bank) institutional cultures to mobilize funding for international environmental purposes.

2.2. 1992–1994: GEF reform

The 1992 United Nations Conference on Environment and Development in Rio de Janeiro proved to be a watershed in the GEF’s history. Two of the main treaties signed there—the Convention on Biological Diversity and the UNFCCC—accepted the GEF on an interim basis as the financial mechanism. The permanency of the GEF’s status was conditional on reform, including bringing more transparency, democracy and universality of participation to the GEF—themes that continue in today’s discussions on adaptation funding.

The reform negotiations had to reconcile widely differing positions, some of which are prevalent today in negotiations of financial mechanisms and funding structures under the UNFCCC. Developing countries, UN agencies and the majority of NGOs were in favor of a mechanism with a governance structure more similar to the UN system. They wanted a reformed GEF to be more transparent, accountable, democratic and universal. In

addition, NGOs wanted more participation in GEF procedures and projects. In contrast, developed countries and the World Bank preferred the governance structure of the Bretton Woods system, which included voting weighted according to donation levels, and argued in favor of efficiency, cost-effectiveness, lean management and executive abilities. To make the GEF the financial mechanism for the conventions, these incompatible differences had to be resolved and a compromise found.¹⁷

During the negotiations for the restructured GEF, concerns about control over funds and efficiency in operation—concerns that continue to influence the perception of the GEF among various constituencies today—took center stage:

- *The governance structure of the new GEF.* Developed countries put forward the idea of a council similar to the World Bank's Board of Executive Directors, and developing countries (G77 and China) wanted a universal assembly similar to the General Assembly of the UN. The parties reached a compromise that included both elements: A participants' assembly would be universal and representative, and the GEF Council would serve as the main decision-making body, with representation based on constituencies and shares.
- *Distribution of the constituencies.* Developed countries favored a small and balanced council, whereas the G77 requested that the majority of council members be from developing countries. The final agreement foresees a GEF Council comprising 32 members: 14 from Organisation for Economic Co-operation and Development countries, 16 from the G77 and China, and two from the countries of central and Eastern Europe and the former Soviet Union.
- *The decision-making procedure.* Developed countries generally supported the Bretton Woods model of contribution-weighted share and voting rights, and developing countries were in favor of the of the UN system of one country, one vote. As a compromise, the parties agreed that GEF decisions would be based on consensus. Only if the Secretariat could not reach consensus would the GEF then resort to a formal vote. The agreed-upon voting system has a double majority and integrates both systems.¹⁸
- *Universal membership.* The developing countries made it a prerequisite for all further negotiations that the GEF be open for all parties of the conventions.

Following consensus on these points in 1994, the new, restructured GEF started operations.¹⁹ Four years later, after serving as the UNFCCC's interim financial mechanism since 1992, the GEF was formally accepted as the official mechanism.²⁰

While the GEF operates “under the guidance of the Conference of the Parties,” it is governed by its own rules and procedures, and establishes an additional layer of structures and approvals. The relationship between the GEF and the Conference of the Parties (COP) is critical to advancing the objectives of the UNFCCC in developing countries and to securing the support of those countries for the convention's multilateral approach. The treaties provide a framework under which the GEF and its implementing agencies can be held accountable, and as a result the relationship between the COP and the GEF has been strained. On the one hand, the GEF is challenged to respond to a “proliferation of guidance and priorities” emanating from the COP.²¹ On the other hand, the COP has limited means to influence the GEF's operations.²² This additional layer of governance, paired with administrative procedures, may be a contributor to a disconnect between COP guidance and (re)interpretation of this within the GEF's parallel governance.²³

2.3. 1998–2001: From the UNFCCC to the Marrakesh Accords, and the creation of the AF, LDCC and SCCF

At its fourth session, in 1998, the COP to the UNFCCC adopted the Buenos Aires Action Plan,²⁴ which included an ambitious schedule of work on developing country issues such as funding, technology transfer and capacity building. At the COP's sixth session (COP6), the chairman proposed a plan involving two funds to operationalize the Buenos Aires Action Plan: an adaptation fund and a convention fund.²⁵ The proposed adaptation fund would implement concrete adaptation projects in developing countries, be linked to the KP and be funded by a share of proceeds from clean development mechanisms (CDMs). The proposed convention fund would cover a broader range of issues, including technology transfer, capacity building and assistance with economic diversification.

At COP6 *bis*, a follow-up session to COP6 held in Bonn in July 2001, the COP to the UNFCCC commented on the proposal for the new adaptation and convention funds.²⁶ Developing countries expressed fear that adaptation funding might be minimal, because it depended on untested CDMs, and might be delayed, because funding would be linked to the implementation of the KP (which the US had just refused to ratify). Large, developed countries saw funding adaptation through a share of proceeds as a “solidarity tax,” and recognizing that they would inevitably host the majority of CDM projects, these countries agreed to share some of the proceeds of these projects with other developing countries that would likely not benefit as much from CDMs.

Developing and developed countries disagreed on whether the GEF should be involved in the administration and disbursement of funds. Developing countries did not want the GEF to become the operating entity of the funds because of i) the GEF’s bureaucratic complexity, ii) long periods between project approval and disbursement of funds by the GEF’s implementing agencies; iii) competition among implementing agencies, iv) the GEF’s application of the principle of “incremental costs,” v) the focus on global benefits (which did not fit with local benefits of adaptation), and vi) the continued dominant role of the World Bank within the GEF.²⁷ Developed countries, however, wanted to involve the GEF in order to prevent the formation of yet another entity similar to the GEF and probably also because the GEF’s voting structure favored donor (developed) countries, thereby giving them greater control over the use of their funds.²⁸ Developed countries supported the World Bank’s role as a trustee and GEF-implementing agency.

The least developed countries (LDCs) organized themselves for the first time as a distinct group at COP6. (Before then, they had been operating as regional groups.) The LDCs pushed for a fund that would focus on their specific needs and provide them with dedicated funding. All developing countries sought alternative funding to the AF (and GEF), because the AF, as originally proposed, would have covered a limited scope of activities to combat and avoid deforestation, land degradation and desertification.²⁹

By the close of COP6 *bis*, the COP had agreed to a revised proposal for three new funds: a KP adaptation fund (the AF) and two new funds under the UNFCCC (the SCCF, with an adaptation window added to the initial proposal for a convention fund; and the LDCF, to support the preparation and implementation of National Adaptation Programmes of Action [NAPAs] for LDCs).³⁰ The Bonn decision texts reflected the political agreement and were subsequently adopted at the seventh meeting of the COP, in November 2001 in Marrakesh (Marrakesh Accords).³¹

2.4. 2001–2010: Establishment and implementation of the LDCF, SCCF and AF

At the Marrakesh Accords, the COP agreed that the AF “shall be operated and managed by an entity entrusted with the operation of the financial mechanism of the Convention” and that it would be “under the guidance of” the COP on an interim basis until the KP came into force, at which point it would be under the guidance of the COP serving as the Meeting of the Parties to the Kyoto Protocol (CMP).³² Both the SCCF and the LDCF would be “operated by an entity entrusted with the operation of the financial mechanism, under the guidance of the Conference of the Parties.”³³ While the text regarding the operation of the three funds is similar, the text for the UNFCCC and the KP funds differs regarding negotiating the details for implementing these funds.

The LDCF and SCCF

The developed countries successfully pushed to have the GEF administer the LDCF’s and the SCCF’s funds.³⁴ The LDCF largely follows the traditional GEF governance model, where funds are provided by donor countries on a voluntary basis, and developed donor countries have a large say in funding decisions. Funds are distributed to developing countries through implementing agencies such as the UNDP and the World Bank. The SCCF is the sister fund of the LDCF, operated by the same council (the LDCF/SCCF council) under the GEF and with the same governance structure. The LDCF focuses solely on adaptation projects; the SCCF’s top priority is adaptation,³⁵ but it has an additional active window for technology transfer.³⁶ In addition, the SCCF is meant to serve as a catalyst to leverage and maximize complementary resources from bilateral and other multilateral sources.³⁷ Finally, the LDCF funds projects in LDCs only,³⁸ whereas the SCCF accepts applications for funding from all developing countries.³⁹

Adaptation Fund

Negotiating the Adaptation Fund's governance structure was challenging, because of the source of its funding. For the AF (the share of proceeds from the CDM) essentially came from developing country contributions, whereas the UNFCCC funds were financed by ODA. This differentiation in the source of funds bolstered developing countries, which in general had become more powerful and better organized as a group. Developing countries opposed making the GEF the operating entity of the AF, and developed countries pushed to use the GEF. By 2005, at the first meeting of the CMP in Montreal, the COP still could not agree on the GEF's role, and in order to move beyond the impasse of "GEF or no GEF," discussions at the second CMP meeting dealt with the governance structure of the AF. At the third CMP meeting, in Bali in 2007, the COP decided that the Adaptation Fund Board (AFB) would be the operating entity for the AF and would "supervise and manage the Adaptation Fund, under the authority and guidance" of the CMP.⁴⁰ The COP also decided then that the AFB would be "fully accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, which shall decide on its overall policies in line with relevant decisions."⁴¹ With this decision, in 2007 the CMP gained direct control and oversight of the AFB, moving from just providing "guidance" as foreseen in 2001 in the Marrakesh Accords, to claiming both "authority and guidance." The World Bank and the GEF would fill the roles of interim trustee and interim secretariat, respectively.

The AFB would have a de facto majority from developing countries, because members would be selected based on regional representation,⁴² seen as a more "neutral approach."⁴³ Passing effective control of the AF from developed countries (as in the case with the LDCF and the SCCF) to developing countries was a consequence of the AF being funded primarily by the 2% deduction from certified emission reductions generated under CDMs.

Box 1: Direct Access

Direct access (DA), though only utilized by a few multilateral funds (e.g. the UN Adaptation Fund and the Global Fund to Fight Aids, Tuberculosis and Malaria) has become a central talking point in climate finance discussions. While developing countries and a large number of NGOs support it, pointing at the failures of conventional donor driven fund management (such as the large number of unfulfilled pledges and the sluggish flow of funding) as well as the need to increase developing country ownership, developed countries are more reluctant due mainly to questions of effectiveness and efficiency of relevant developing country associations along with losing control over funding.

Through DA, developing countries have access to funds via their own national implementing entities rather than through international organizations. All organizational and management tasks and responsibilities lie within these entities including project design, implementation, monitoring and evaluation. Funds are transferred directly from the financing mechanism to these domestic entities. Although DA is expected to deliver funds faster than the traditional indirect approach, becoming eligible takes a considerable amount of time through current procedures. For the Adaptation Fund, for instance, there are strong fiduciary and program standards that domestic entities have to meet in order to qualify for direct access, and so far experiences show that only a very limited number of entities in developing countries have applied and met these standards.

DA is a relatively new concept and as a result it does not yet have a clear definition, which makes it even harder for Parties to agree on the future of the model. Nevertheless, the increasing confidence of developing countries at international climate negotiations makes it very unlikely that any large-scale financial mechanism would be designed without the inclusion of direct access in some form.

Source: *Business as Unusual, Direct Access: Giving power back to the poor?* Discussion paper, Caritas, CIDSE.

At the same meeting, it was decided that Parties should have direct access to the AF. This was both a novel aspect of climate change funding and a logical step in the evolution of the increased confidence, capacities and influence of major developing countries. Direct access to the AF is the result of developing and developed countries realizing that traditional donor-oriented aid systems, such as the existing arrangements with the GEF and the World Bank, may not provide the most effective way for the countries to reach their goals, because of a lack of country ownership.⁴⁴ This principle continues today: The G77 and China, for example, in their Copenhagen position on a financial mechanism, made direct access an important condition for climate financing.⁴⁵ Evolution in climate change negotiations mirrors similar development within ODA discussions, as evidenced by the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action.⁴⁶

Between 2007 and 2009, the AFB established its own rules and procedures for operating the AF, and in 2009 the AF officially became operational. The CMP's authority (as opposed to guidance only) over the AFB raised a number of administrative issues around the operation of the AF—such as memorandums of understanding, with the GEF as secretariat and World Bank as trustee—that had to be adopted as CMP decisions, along with government appointments to the AFB.

At the second meeting of the AFB, the World Bank raised the issue that the AFB would need legal personality if the World Bank were to act as trustee. The World Bank was concerned with a potential loss of reputation if problems were to occur in relation to the disbursement and use of funds, and no legal entity could seek legal recourse with regard to such problems.⁴⁷ The AFB would also need to have legal personality to enforce agreements made with implementing and executing entities regarding AF resources, particularly if there were any misuse of AF funds.⁴⁸

In 2008, at the third meeting of the CMP, the parties decided that “the Adaptation Fund Board be conferred such legal capacity as necessary for the discharge of its functions with regard to direct access.”⁴⁹ It has been held that this decision should not be seen as the CMP conferring international legal personality upon the AFB but rather as referring to legal capacity at the national level.⁵⁰ Whether such legal personality exists automatically or has to be conferred depends on a state's constitutional principles. At the fourth meeting of the AFB, the parties created an ad hoc group to work on the operationalization of the legal capacity of the AFB. The group sent a letter to all KP parties, inviting them to recognize the legal capacity of the AFB. So far, only Germany and Barbados have expressly stated their intention to grant this legal capacity under their national laws.⁵¹

2.5. 2008 - 2010: Creation of the Pilot Program for Climate Resilience

The PPCR was established to help developing countries by integrating climate resilience into core developmental planning. It is part of the Strategic Climate Fund (SCF),⁵² one of the two multi-donor trust funds within the Climate Investment Funds (CIFs). The World Bank's Board of Directors approved the CIFs in 2008 “to bridge the financing and learning gap between now and a post-2012 global climate change agreement,”⁵³ and that same year the PPCR joined the growing list of funds focusing on adaptation. The PPCR along with the CIFs are expected to expire in 2012.

The UK reportedly initiated the creation of the CIFs in early 2007⁵⁴ as a result of the desire to earmark donations for specific priority areas—something not allowed under the GEF—and to test the scaling up of existing programs to produce transformational changes in a country. In contrast, GEF-managed funding focused on approving new and comparatively smaller projects. The US and Japan joined the UK in its efforts in late 2007, and in 2008 civil society was invited to participate in the CIF planning discussions.⁵⁵ All three founding countries wanted resources to be provided to a World Bank-managed fund independent of the UNFCCC's guidance or authority.⁵⁶ This would allow funding to be concentrated in existing programs in a selection of countries or regions, an approach considered more effective than spreading out funding over a large number of countries. Multilateral development banks (MDBs) were the preferred mechanism to ensure that adequate safeguards were applied to the initiatives being funded and that the funds themselves were managed and disbursed in accordance with World Bank procurement and fiduciary standards. This was intended to streamline climate resilience into MDBs' development activities.⁵⁷ Thanks to the donor countries' generous initial and

subsequent funding, PPCR is the richest of the four funds investigated in this report, with current contributions totaling USD 1.036 billion.⁵⁸

A committee comprising 50% members from developed countries and 50% members from developing countries governs the PPCR. The committee makes decisions using a “one country, one vote” rule, effectively giving all members veto power. This should be contrasted to the LDCF and SCCF – that in 2001 were fitted into the traditional GEF structures, in which developed donor countries have the weightier vote⁵⁹ – and the AF structure that was adopted in 2007, with a one member - one vote rule with most members coming from developing countries. See figure 1 for an overview of the high level relationships of the funds.

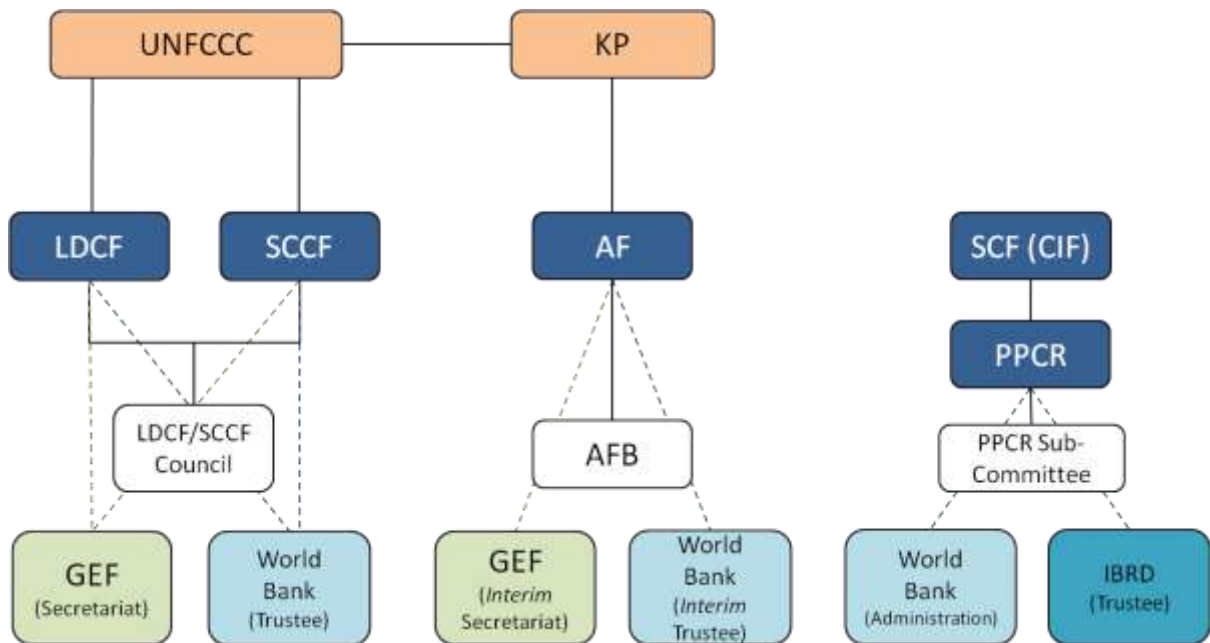


Figure 1: Overview of high-level relationships of the funds.

2.6. GEF-5 reforms

During the GEF’s fifth replenishment period (GEF-5), the GEF developed reforms to address many of its criticisms from previous years. The GEF-5 reforms stress the importance of countries’ feedback in making sure that their needs are met as closely as possible. Moreover, to strengthen strategic engagement further, the reforms give developing countries the opportunity to undertake (with financial support) a National GEF Portfolio Identification Exercise with two goals: helping countries assess their priorities and guiding the GEF in its work with specific countries. GEF-5 encouraged all developing countries to set up national steering committees responsible for overseeing the preparation of National GEF Portfolio Identification Forms and clearing all projects and programs submitted for GEF financing. The GEF’s National Dialogue Initiative continues into the fifth replenishment, facilitating stakeholder consultation, helping identify country priorities, increasing country ownership and coordination, and raising awareness of the GEF.⁶⁰ Under the GEF-5 reforms, all developing countries receive a GEF resource allocation and the much-criticized GEF project cycle has been shortened and simplified.⁶¹ Another important improvement achieved during the GEF-5 was the agreement in principle to expand the list of the implementing agencies to include national entities as authorized by article 28 of the GEF instrument. Although the shortening of the GEF project cycle is a significant step forward, some point out that delays are not necessarily experienced on the GEF’s side but in the implementing agencies and recipient

countries,. In order to speed up disbursement, developing country parties would need more support and capacity building to prepare their projects and programs.⁶²

The GEF expressed intentions to move the LDCF's project-oriented focus to a more programmatic approach to support effective NAPA implementation, though current funding limitations may create challenges.⁶³

It is important to remember that these reforms are brand-new, having been in operation for only a few months. Some critics point out that a major problem with most of the existing environmental funds—including the GEF—is their lack of experience managing funds as big as the ones needed to address climate change. In addition, critics cite the GEF's unsuccessful history of leveraging the private sector, an essential skill in mobilizing the money needed for tackling climate change.⁶⁴

2.7. Comparison of the AF, LDCF, SCCF and PPCR

The four funds support the following adaptation projects, as defined in their establishing decisions and programming documents:

Adaptation Fund:

“The Adaptation Fund ... shall finance concrete adaptation projects and programmes. [...] A concrete adaptation project is defined as a set of activities aimed at addressing the adverse impacts of and risks posed by climate change. Adaptation projects can be implemented at the community, national, and transboundary level. Projects concern discrete activities with a collective objective(s) and concrete outcomes and outputs that are more narrowly defined in scope, space, and time. [...] An adaptation programme is a process, a plan, or an approach for addressing climate change impacts that is broader than the scope of an individual project.”⁶⁵

Least Developed Countries Fund:

“[...] the operation of the Least Developed Countries Fund should be consistent with the following principles:

- (a) A country-driven approach, supporting the implementation of urgent and immediate activities identified in national adaptation programmes of action (NAPAs), as a way of enhancing adaptive capacity
- (b) Supporting the implementation of activities identified in national adaptation programmes of action, and of other elements of the least developed countries work programme identified in decision 5/CP.7, in order to promote the integration of adaptation measures in national development and poverty reduction strategies, plans or policies, with a view to increasing resilience to the adverse effects of climate change
- (c) Supporting a learning-by-doing approach.”⁶⁶

Special Climate Change Fund:

“In accordance with paragraph 2 of decision 7/CP.7, the fund shall finance activities, programs and measures relating to climate change that are complementary to those funded by the resources allocated to the climate change focal area of the GEF and by bilateral and multilateral funding, in the following areas:

- (a) adaptation, in accordance with paragraph 8 of decision 5/CP.7;
- (b) transfer of technologies, in accordance with decision 4/CP.7;
- (c) energy, transport, industry, agriculture, forestry and waste management; and
- (d) activities to assist developing country Parties referred to under Article 4, paragraph 8(h) (i.e., countries whose economies are highly dependent on income generated from the production, processing and export, and/or consumption of fossil fuels and associated energy-intensive products) in diversifying their economies, in accordance with decision 5/CP.7.”⁶⁷

While this broad scope reflects the original intent of the SCCF, the SCCF subsequently narrowed it down to “Adaptation activities to address the adverse impacts of climate change shall have top priority for funding.”⁶⁸

Pilot Program for Climate Resilience:

“The PPCR aims to help countries transform to a climate resilient development path, consistent with poverty reduction and sustainable development goals. In its nature as a pilot program and supporting learning-by-doing, PPCR implementation ultimately aims to result in an increased application of knowledge on integration of climate resilience into development. The PPCR will complement, yet go beyond, currently available adaptation financing in providing finance for programmatic approaches to upstream climate resilience in development planning, core development policies, and strategies. [...] The PPCR is designed to provide lessons over the next few years that can be taken up by countries and regional groupings, the development community, and the future climate change regime, including the UNFCCC’s Adaptation Fund. Underlying principles state that the PPCR should:

- (a) be country-led and country driven;
- (b) build on the National Adaptation Programs of Action (NAPAs);
- (c) complement the existing adaptation funds and be supportive of the emerging operations of the Adaptation Fund; and
- (d) support actions that are both an outcome of a comprehensive planning process and consistent with the countries’ development and poverty reduction goals.”⁶⁹

Table 1 shows the financial status of the four funds, Table 2 highlights some specific projects the funds have already approved and Table 3 describes in more detail two specific projects of each fund.

Table 1: The financial status of the four funds, as of October 31, 2010

	Adaptation Fund (AF)	Least Developed Countries Fund (LDCF)	Special Climate Change Fund (SCCF)	Pilot Program for Climate Resilience (PPCR)
Total amount pledged (USD million)	197.32 ⁷⁰ (112.47 from sale of certified emission reductions remaining from donations)	262.29 ⁷¹	149.29 ⁷²	1.036 ⁷³
Amount already deposited/held in trust (USD million)	160.43 ⁷⁴	219.36 ⁷⁵	133.74 ⁷⁶	161 ⁷⁷
Projects approved (USD million)	14 ⁷⁸	141.9 ⁷⁹	99.6 ⁸⁰	9.225 ⁸¹

Table 2: Project highlights of the four funds

Adaptation Fund (AF) 2 projects approved ⁸²	Least Developed Countries Fund (LDCF) 92 projects approved ⁸³	Special Climate Change Fund (SCCF) 28 projects approved ⁸⁴	Pilot Program for Climate Resilience (PPCR) 9 pilot countries and 2 pilot regions ⁸⁵
Adaptation to Coastal Erosion in Vulnerable Areas Senegal	Enhancing Adaptive Capacity and Resilience to Climate Change in the Agriculture Sector in Mali Mali	Adaptation to Climate Change in Arid and Semi-Arid Lands (KACCAL) Kenya	PPCR in Cambodia , Phase 1
Addressing Climate Change Risks on Water Resources Increased Systematic Resilience and Reduced Vulnerability of the Urban Poor Honduras	Enhancing Climate Risk Management and Adaptation in Burundi (ECRAMB) Burundi	Adaptation to Climate Change Through Effective Water Governance Ecuador	PPCR in Tajikistan , Phase 1
	Building the Capacity of the Agriculture Sector in DR Congo to Plan for and Respond to the Additional Threats Posed by Climate Change on Food Production and Security DR Congo	Adaptation to Climate Change in the Nile Delta Through Integrated Coastal Zone Management Egypt	PPCR in Yemen , Phase I
	Building Adaptive Capacity and Resilience to Climate Change in the Water Sector in Cape Verde Cape Verde	Climate-Resilient Infrastructure Planning and Coastal Zone Development Vietnam	PPCR in Mozambique , Phase 1
	Building Adaptive Capacity and Resilience to Climate Change in Afghanistan Afghanistan	Design and Implementation of Pilot Climate Change Adaptation Measures in the Andean Region Bolivia, Ecuador, Peru	PPCR in Bolivia , Phase 1
	Adapting Water Resource Management in Comoros to Increase Capacity to Cope With Climate Change Comoros	Integrating Climate Change Into the Management of Priority Health Risk Ghana	PPCR in Zambia , Phase 1
	Adaptation in the Coastal Zones of Mozambique Mozambique	Integrating Climate Change Risks Into Water and Flood Management by Vulnerable Mountainous Communities in the Greater Caucasus Region of Azerbaijan Azerbaijan	Proposal for Accelerated Funding of Phase 1 Activities in Nepal

For a full list of adaptation projects, see <http://www.climatefundsupdate.org/projects> and <http://www.gefonline.org>.

Table 3: Select project outlines from the AF, LDCF, SCCF and PPCR

Adaptation Fund (AF)	Least Developed Countries Fund (LDCF)	Special Climate Change Fund (SCCF)	Pilot Program for Climate Resilience (PPCR)
<p><i>Adaptation to Coastal Erosion in Vulnerable Areas</i>⁸⁶ Senegal USD 8,619,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Implement actions to protect the coastal areas of Rufisque, Saly and Joal against erosion from sea-level rise, with the aim to protect houses and the economic infrastructures threatened by the erosion. 2. Implement actions to fight the salinization of agricultural lands used to grow rice in Joal. 3. Assist local communities (especially women) in the coastal area of Joal in the handling of fish-processing areas of the districts located along the littoral and to conduct awareness program and training related to adaptation and its adverse effects. 	<p><i>Enhancing Adaptive Capacity and Resilience to Climate Change in the Agriculture Sector in Mali</i>⁸⁷ Mali GEF project grant: USD 8,619,000 Co-financing: USD 3,000,000 Total amounts: USD 9,865,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Economic assessment of the impacts of climate change on the agricultural sector. and establishment of a national funding strategy for adaptation, based on realignment of national budget allocations and mobilization of new sources of funds. 2. Appropriate agro-pastoral farming systems aimed at reducing risks from increased climate variability established in the most vulnerable agricultural areas. 	<p><i>Adaptation to Climate Change in Arid and Semi-Arid Lands (KACCAL)</i>⁸⁸ Kenya GEF project grant: USD 1,000,000 Co-financing: USD 1,357,000 Total amounts: USD 2,357,000</p> <p>Program objectives:</p> <p>Assist Kenya in adapting to expected changes in climatic conditions that otherwise threaten the sustainability of rural livelihoods in the country's arid and semi-arid lands.</p> <ol style="list-style-type: none"> 1. Reduce the near-term vulnerability to current climate. 2. Strengthen the country's mid-to-long-term ability to address climate change impacts related to increased climatic variability and higher temperature, associated with changes of magnitude and frequency of extremes. 	<p><i>PPCR in Cambodia, Phase I</i>⁸⁹ Funding approved for Phase 1: USD 1,500,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Include climate resilience considerations in planning, budgeting and investment proposals of key ministries 2. Include climate resilience considerations in investments at the subnational level in local governance, local development and natural resources management. 3. Ensure more stable sources of income for vulnerable groups such as subsistence farmers and fishing communities. 4. Implement early-warning systems that provide daily weather predictions and reliable seasonal forecasts.
<p><i>Addressing Climate Change Risks on Water Resources Increased Systematic Resilience and Reduced Vulnerability of the Urban Poor</i>⁹⁰ Honduras⁹⁰ USD 5,698,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Improve institutional capacities and tools for mainstreaming adaptation to climate change through the regulation and application of the new Water Law and the National Plan Law, which calls for inter-sectoral and landscape approaches that internalize climate change concerns. 2. Use complementary measures to pilot responses to climate change impacts (e.g., existing water stress and projected increased water scarcity in Tegucigalpa and environs, flash floods due to extreme events) in both watershed and urban settings. 	<p><i>Enhancing Climate Risk Management and Adaptation in Burundi (ECRAMB)</i> Burundi⁹¹ GEF (LDCF) preparation and project grant: USD 3,526,171 Co-financing: USD 15,798,000 Total amounts: USD 19,324,171</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Improve access to modernized meteorological and hydrological observation networks. 2. Develop national meteorological and hydrological GIS data sets to support planning and implementation of adaptation, risk reduction and climate-proofing interventions. 3. Improve and scale up production techniques, including soil and water conservation techniques, to respond to climate change impacts. 4. Popularize rainwater harvesting techniques for agricultural and domestic use. 	<p><i>Adaptation to Climate Change Through Effective Water Governance</i>⁹² Ecuador GEF project grant: USD 3,350,00 Co-financing: USD 16,185,400 Total amounts: USD 19,535,400</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Reduce Ecuador's vulnerability to climate change through increased adaptive capacity for effective water resource management in a changing climate and improved access to timely and accurate climate data. 2. Facilitate the implementation of efficient water management practices (e.g., sound water governance arrangements, decentralization of climate-resilient water management, information management and dissemination, flexible financial mechanisms to promote local innovation in sustainable water management) to withstand the effects of climate change. 	<p><i>PPCR in Tajikistan, Phase I</i>⁹³ Funding approved for Phase 1: USD 1,500,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Assess Tajikistan's institutional, technical and human capacities at the national and local levels in an effort to mainstream climate change considerations in key policy areas, with particular focus on the requirements for advancing the Strategic Program for Climate Resilience. 2. Assess Tajikistan's ability to project future climate scenarios and their impacts on various sectors and resources, and roadmap for further development and use of climate change information. 3. Hold events to raise policy makers' and other stakeholders' awareness of climate change impacts, vulnerabilities and adaptation, and training of trainers for future awareness-raising activities.

3. Analysis of the Funds

3.1. Criteria used for analysis

This section analyzes the synergies, complementary relations, conflicts and gaps among the Adaptation Fund (AF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF) and the Pilot Program for Climate Resilience (PPCR). Numerous (and often overlapping) metrics are helpful in the analysis of climate change-related funding, including i) the “three E” (effectiveness, efficiency and equity) criteria;⁹⁴ ii) criteria to determine if adaptation funding is effective and equitable, including the presence of representative governance, participation of affected communities, sustainable and compensatory funding, economic policy conditionality, and streamlined access;⁹⁵ iii) criteria to determine if the finance is appropriate, equitable, new and additional, adequate, and predictable;⁹⁶ and iv) more academic analysis based on ethical considerations around procedural and distributive justice,⁹⁷ or consequentialist and non-consequentialist ethical principles.⁹⁸

For the purposes of this paper, we take an objective approach wherever possible, following generally accepted principles of good governance, including transparency, accountability, equitable representation, efficiency (timeline for disbursements) and access. We analyze each fund with this in mind in the fund-specific briefing papers attached to this study as Annexes, with highlights summarized below.

We recognize that many other criteria could be applied to a more detailed analysis of adaptation funding. Two critically important aspects to assessing the success of adaptation finance are the appropriateness of adaptation initiatives funded to date and the on-the-ground results achieved. Unfortunately, analysis of these criteria and aspects of adaptation funding is beyond the scope of this report.

3.2. Governance of adaptation funding

This section provides important information about each fund’s governance, origins and implementation. Depending on viewpoint, these features are viewed as either positive or negative by others.

Adaptation Fund

The majority of Adaptation Fund Board (AFB) members are from developing countries. Civil society and developing countries often point to the composition of the board as a landmark achievement that could “herald a new era of international cooperation on adaptation.”⁹⁹ Developed countries, in contrast, believe that the AF’s governance structure is a consequence of the AF’s primary source of funding: a share of proceeds from clean development mechanism (CDM) projects. Some argue that the AF’s funds are essentially developing countr, so it is appropriate for developing countries to control those funds.¹⁰⁰ Others maintain that the share of CDM proceeds is a tax on the private sector (including the private sector in developed countries that invest in CDM projects in developing countries) or a necessary complement to donations from developed countries.¹⁰¹ From this perspective, the AF’s governance structure may not have the same inextricable link to the source of funding, but it reflects a shift in control based on other reasons, such as equity.¹⁰² Others, including some of the persons interviewed for this report, argue that because public and private entities from developed countries fund CDM projects, the levy is not on funds that “belong” to developing countries.¹⁰³ Some see the use of any levy on CDM activities to fund adaptation as “morally wrong” because money for adaptation should come from developed countries, not developing countries.¹⁰⁴ Despite these polarized views on the relationship between funding and governance, and the moral nature of the funding, people tend to agree that the levy is useful because it provides a steady source of funding¹⁰⁵ independent of the will and whims of donor counties.¹⁰⁶ The levy, however, is not perfect: The volume of funding generated is not sufficient to meet adaptation needs, and it is subject to the volatility of the carbon market¹⁰⁷ and uncertainty about the CDM’s future after 2012. The AF still

depends on significant voluntary contributions to achieve meaningful results, which have not been forthcoming to date.

Most persons interviewed for this report agreed that the provision of direct access to funding by approved entities within developing countries (as opposed to the provision of funding through implementing agencies such as the LDCF, SCCF and PPCR) is a positive feature of the AF. Donor countries traditionally have wanted funding to flow through established UN agencies or multilateral development banks (MDBs), which could apply appropriate procurement procedures and safeguards. Many recipient countries and civil society representatives saw such funding as donor-driven and in line with donor countries'—not recipient countries' or stakeholders'—priorities. This is particularly problematic when applied to adaptation funding, which developing countries often describe as restitution for inevitable damage caused by pollution from developed countries ("climate debts"), and therefore is rightfully under the control of developing rather than developed countries.

The direct access under the AF combines implementation by domestic agents called national implementing entities (NIEs) with "sound financial management, including the use of international fiduciary standards."¹⁰⁸ The NIEs must demonstrate that they meet AFB criteria of "financial integrity, requisite institutional capacity and transparent and self-investigative powers," as stated in the AFB's Report on Fiduciary Standards for Implementing Entities,¹⁰⁹ before being accredited. These fiduciary standards do not extend to additional social and environmental safeguards, such as the World Bank's, and this issue has been raised in AFB meetings but not settled.¹¹⁰ To date, there are three accredited NIEs: one in Senegal, one in Jamaica and one in Uruguay, with the latter two approved in September 2010.

Some civil society representatives acknowledge the AF's openness: Almost all documents are posted on the AF's website,¹¹¹ and civil society organizations can observe AFB meetings, which are streamed as webcasts, fairly easily. Recent AFB meetings have shown some qualifications to these initially positive views.

But the AFB is not completely transparent. Segments of its meetings have been held behind closed doors, and though observers can attend meetings, they cannot ask questions or make comments. The closed-door segments of AFB meetings have been attributed to the politically and financially sensitive nature of some of the issues discussed, such as the rejection of specific projects, strategies to sell certified emission reductions and their effect on overall market prices, and concern over personal liability of AFB members for decisions they make.¹¹² It is reasonable to hold sensitive discussions on such topics behind closed doors, but the AFB's failure to provide detailed written explanations for rejecting a project is inconsistent with commonly accepted principles of good governance and sound administrative decision making. Decision making and rationales need to be transparent and disclosed to allow verification that the decisions are consistent and based on sound reasoning. The AFB lacks procedures for an aggrieved party to request a review of an AFB decision if that party thinks a decision is unfair or incorrect.¹¹³ Even though it is possible for parties to submit projects an infinite number of times for AFB review, the board does not provide feedback or offer rationales, which makes improvement hard and inefficient.

Finally, AFB members are political appointees who are not necessarily chosen based on technical expertise, so some members are not equipped to assess projects' technical merits. The Global Environment Facility (GEF), as secretariat, is supposed to perform initial project reviews, but capacity constraints within the GEF sometimes have resulted in adequate analysis.¹¹⁴ Adept technical experts should support and advise the AFB on the technical merits of projects so that the AFB can focus on its strengths: higher-level strategic planning and decision making. This would reflect the role of the AF Accreditation Panel that assesses applications for the accreditation of implementing agencies.

The LDCF and SCCF

Recipient countries' and civil society's representatives have historically been less favorable of the GEF's governance, stating that procedures are slow, oriented toward donor wishes. Even representatives of donor countries have pointed out the GEF's slowness. Donor country representatives, however, are quicker to emphasize that a solid foundation that supports the GEF's structures, which have been in place for quite some

time; that the GEF works with reputable implementing agencies with steady track records; and that the GEF is busy streamlining its procedures in order to increase LDCF and SCCF funding approvals.

The GEF-5 reforms, which started in July 2010, aim to address concerns and criticisms from the GEF's previous replenishment periods by introducing reforms to increase strategic engagement, raise awareness of GEF activities, help countries better assess their priorities, enhance stakeholder dialogs and shorten the project cycle, among other goals.¹¹⁵ Thus, the GEF has the potential to address a number of its critiques if the promised reforms are indeed implemented. In their recent evaluation of the LDCF, the Danish International Development Agency and the GEF Evaluation Office commended the fund for a number of reforms and for becoming more streamlined.¹¹⁶ In November 2010, the LDC Expert Group issued a letter in which it acknowledged the LDCF's important achievements over the past years and its increasing responsiveness toward the needs of LDCs.¹¹⁷ These two recent reports indicate the critiques of the past are being taken on board and addressed. Finally, it should be noted that while the SSCF and LDCF are often criticized, they have funded more projects than either the PPCF or the AF, though the quality of some of the National Adaptation Programmes of Action has been called into question.¹¹⁸

PPCR

Some donor countries view the PPCR's lack of COP and CMP guidance and authority as a positive feature, as it simplifies decision making.¹¹⁹ Because PPCR funding does not need to be divided equitably among all the parties to the UNFCCC, the donors can choose and test scaled-up funding in a selection of countries.

Many developing countries and civil society, however, maintain that the PPCR lacks legitimacy because it is not supported by all UNFCCC members or a UNFCCC mandate. This group argues that legitimacy can be achieved only through complying with a UNFCCC mandate that allows for universal participation and representation¹²⁰—a topic that can be traced back to the GEF reform period of 1992–1994. Despite this issue of equitable representation, the PPCR technically falls under the mandate of Art. 11(5) of the UNFCCC, which states: “Developed country Parties may also provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels.”

The PPCR is the only adaptation fund that offers adaptation finance via loans rather than grants. It is required to do this because the UK provided GBP 225 million (USD 419 million) in funding as loans, from a capital grant, that will need to be repaid.¹²¹ The PPCR repaid loan funds can then be invested in other programs to help other developing countries. The World Bank points out that the loans are optional and the terms, including interest rates, are more favorable than those of International Development Association loans. It also points to the International Finance Corporation (IFC) as one of the implementing agencies of the PPCR, and questions whether IFC funding of private-sector projects in developing countries should be via loans or grants.¹²² Civil society has criticized the PPCR for providing any adaptation funding via any form of loan. Because civil society believes that given adaptation funding should be seen as payment of climate debts, they argue that debts should never be repaid via loans, making any obligation to repay adaptation funding fundamentally objectionable.¹²³ Critics stress that although the loans are “optional,” many of the developing countries will have to accept the loans in order to access appropriate amounts of adaptation funding.¹²⁴

Role of MDBs and UN institutions

The role of MDBs and UN institutions varies from fund to fund. Both the LDCF and the SCCF operate under the UNFCCC's guidance and the GEF's operation. The GEF uses the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and a number of regional development banks as intermediaries for setting up projects and disbursing funds. The CMP has guidance and authority over the AF, which uses the GEF's secretarial services and has the World Bank as its trustee. Under the AF, projects can be run in a more “classic” way, through multilateral implementing entities (MIEs) such as UNEP and UNDP, and also via direct access through accredited NIEs. The PPCR uses the World Bank as its trustee and disburses funds only through MDBs.

Developing country and civil society representatives have questioned the functioning of MDBs and UN institutions. These representatives believe that MDBs and UN institutions have their own interests in mind when fulfilling their role as intermediary. One civil society representative interviewed for this report said that even when operating as intermediaries for adaptation funding, UN organizations and MDBs still push for their “pet projects” and do not act as not neutral entities focusing solely on setting up the best adaptation projects. Although the AF makes direct access to funds possible through NIEs, only three NIEs have been approved. As a result, some developing countries recently complained to the AFB about how difficult it was for them to get their NIEs accredited. The UNDP and the World Bank offered to provide capacity building to assist these countries in getting NIEs accredited, but the more successful the UNDP and the World Bank are in providing assistance to developing countries, the more developing countries will have NIEs accredited, thus leaving less room for the UNDP and the World Bank as MIEs. Due to this conflict of interest, the UNDP and the World Bank should not offer assistance for NIE accreditation. What entity would replace the UNDP and the World Bank in this role is unclear.¹²⁵

3.3. Efficiency of operations

Donors, recipients and stakeholders note how relatively slow all four funds have been to disburse funding and deliver results. But in contrast, another perspective holds that for financial infrastructures that manage large amounts of funding over long periods of time, increasing the pace of establishing the funds may not necessarily be as important as other issues.

Although the AF was created in 2001, it didn’t approve its first two projects until September 2010. This delay of activity can be explained mostly by the delay in the KP entering into force; protracted negotiations ending in 2007 to define an operating entity and a governance structure; and the discussion on the AFB’s legal capacity that ended in 2008 in Poznan before it become operational in 2009, eight years after the AFB’s establishment. Civil society representatives interviewed for this report generally expressed their understanding for this delay, while government representatives interviewed tended to show discontent. That the AF has been operational only since 2009 and approved two projects by September 2010 may prove that the AF’s operation is more efficient than its establishment. The project in Senegal, for example, received its first disbursement for funding only three months after the concept was submitted for approval.

The SCCF and LDCF were established more quickly, in part because the GEF provided a ready infrastructure for them. There was also a drive to get the LDCF operational quickly – as evidenced by the initial contribution of CAN 10 million made by Canada to help kick start the fund. The LDCF was established in 2001 and its operational guidelines approved by the GEF in April 2002, from which point all LDCs could access funding. The first proposals for NAPA preparation were approved in October 2002. Even with this early funding, however, the first NAPA wasn’t posted on the UNFCCC website until late in 2004, with two more following in 2005, eight more in 2006 and 33 in 2007 or later.¹²⁶ Despite the Least Developed Countries Expert Group’s NAPA preparation guidelines, which indicate a maximum of 18 months for standard preparation, many countries took much longer to prepare their NAPAs. The SCCF, also established in 2001, didn’t approve its first projects for funding until 2006, mainly because the GEF could not operationalize the SCCF before the ninth meeting of the Conference of the Parties (COP), in 2003, where the COP would provide additional guidance on the operation of the fund.¹²⁷ In reality, it took until 2004 for the COP’s decision and guidance to be translated into practical operational guidelines and earn GEF Council approval. The first proposal for SCCF funding for adaptation projects was submitted in 2005 and the first approvals made in 2006.

The PPCR was also meant to act quickly, building on existing MDB initiatives and helping mainstream adaptation into development through larger programs. Developing strategic approaches, creating local ownership and conducting stakeholder consultations takes time, however, and as a result, PPCR funding has not flowed as quickly as some donors would have liked.¹²⁸

Overall, the AF, the SCCF and the LDCF all have suffered from underfunding and insufficient capacity. In 2007 and again in 2008, the UNFCCC concluded that if the funding available under the financial mechanism of the

convention (GEF, LDCF and SCCF funds) remained at its current level and continued to rely mainly on voluntary contributions, it would fail to meet estimated needs to address climate change mitigation and adaptation.¹²⁹ This funding gap is exacerbated by the need to distribute limited funds equitably among developing countries, which is not readily overcome by focusing on the most vulnerable countries or regions. As a result, funds that are insufficient to start with become even less adequate when distributed equitably among developing countries. Some interviewees called into question the ability for some UN agencies implementing the LDCF to scale it up should significant funding become available, in addition to their ability to deliver funding at scale through direct action, given the current dearth of local entities able to participate in direct access.

The former concern is not applicable to all LDCF implementing agencies, including the major MDBs. Some of these, such as the World Bank, already have significant experience managing large projects in developing countries and should be able to manage scaled-up finance for adaptation. Experience and capacity are important and should be drawn upon, but many developing countries' and civil society representatives are actively encouraging a shift away from adaptation funding dominated by the usual implementing agencies. As already noted, such a shift has a number of benefits but could expose capacity and other constraints.

3.4. Relations, synergies and cooperation among the funds

Synergies and overlap

The funds have overlapping efforts, as acknowledged in decision 5/CP.7, which states that certain adaptation activities can be funded by the SCCF “and/or” the AF.¹³⁰ The AF, the PPCR, the LDCF and the SCCF all must fund adaptation activities, with only slight differences in focus among the funds. The AF funds “concrete adaptation projects and programs”;¹³¹ the PPCR focuses on the integration of climate risk and resilience into development policies and planning, through more broadly oriented programs for a limited number of countries; the LDCF funds NAPA development and implementation in LDCs only; and the SCCF funds a broad range of activities. Though the COP originally requested that the GEF craft funding guidelines of the SCCF only for adaptation and technology transfer, it provided additional guidance at its 12th meeting regarding the operationalization of the other areas of SCCF work: energy, transport, industry, agriculture, forestry, waste management and economic diversification.¹³² Despite this request, the SCCF since has been tasked to focus on adaptation and the large majority of SCCF funding flows through its adaptation window, with some additional financial flows through the technology transfer window. The other two funding windows have never been active. Finally, while synergies can be drawn between the funds, whether they are the result of initial design of the negotiators or the consequence of implementation is unclear. The initially broader mandate for the SCCF is evidence that it was intended to be a broader fund but was subsequently whittled down and repurposed.

While some distinctions can be drawn between NAPA implementation, longer term adaptation initiatives, and concrete adaptation projects and programs, differentiating this in practice will inevitably result in overlaps without strong coordination – which is unfortunately already a problem. These overlaps make the coordination between the different funds an important issue to ensure that as many needs are met as possible. Some effort has been made to avoid overlap. For example, the COP decision establishing the SCCF states that SCCF activities should be “complementary to those funded by the resources allocated to the climate change focal area of Global Environment Facility and by bilateral and multilateral funding.”¹³³ The PPCR notes in its programming documents its aim to “complement the existing adaptation funds and be supportive of the emerging operations of the Adaptation Fund,”¹³⁴ but the PPCR has been accused of attracting donor funds at the expense of the other funds.¹³⁵ The LDCF's and the AF's documents say nothing about complementary activities, plus they operate under narrower mandates than the SCCF and the PPCR. To promote coordination, the GEF created the Adaptation Task Force (ATF) with the implementing agencies. The ATF convenes during a monthly conference call during which representatives of the GEF and those of its implementing agencies discuss fund-related issues.¹³⁶

Until recently, a “firewall” between general GEF funds and LDCF and SCCF funding prohibited comingling of funding sources in a single project. The firewall was established because the US had pledged significant funding

to the GEF but not to the LDCF and the SCCF. Recent US pledges to these latter two entities have brought the firewall to an end.¹³⁷

The PPCR focuses on scaling up and integrating adaptation into existing development projects or programs of MDBs to produce “transformational change” in developing countries.¹³⁸ With its program-oriented approach, the PPCR operates on a higher policy level than do the AF, the LDCF and the SCCF, which focus mainly on specific projects. The PPCR aims to provide a program context within which LDCF NAPA implementation projects, SCCF projects and AF projects would fit. Because MDBs carry out projects under these three funds, and are used under the PPCR, coordination of activities is very well possible. First steps are taken in this direction under the PPCR, where an attempt is made to streamline LDCF NAPAs into the general development policies of LDCs involved in a PPCR program. Close coordination between the funds, however, could not take place, at least at the level of fund governance, for a number of reasons. The PPCR’s creation initially resulted in acrimony between the UNFCCC-endorsed mechanisms and the PPCR, which was established outside of the UNFCCC and may have attracted funding that would have otherwise gone to the other funds. Nonetheless, the GEF’s revised program strategy states that the PPCR, due to its different funding approach, is fully complementary to the LDCF and the SCCF. The document also acknowledges that “there is an ongoing effort to take full advantage of the synergies among these funds and to reduce duplication.”¹³⁹ Even with the informal ATF and GEF program strategy, the authors received conflicting messages on the degree of active coordination between the GEF and the PPCR, with some commentators claiming—and others contesting—absent participation in PPCR committee meetings.¹⁴⁰

4. Looking Forward

Article 4 of the United Nations Framework Convention on Climate Change (UNFCCC) establishes numerous commitments regarding cooperation on adaptation and the provision of funding by developed countries.¹⁴¹ Yet funding for adaptation is exposed to competing attempts to gain control over funding, differing views over feelings of entitlement, competition, rivalries, failure to perform and general feelings of mistrust. These sentiments are not unique to adaptation or climate change; they can be traced back to before the creation of the Global Environment Facility (GEF), an agency which was intended to promote cooperation and collaboration among agencies while preventing a proliferation of funds to deal with international environmental problems. The current landscape of adaptation funds is a consequence of a continued desire to direct funding toward adaptation, as well as dissatisfaction about how climate and adaptation funds have been deployed.

The contentious issue of control is tied to many other challenges, including competition, historic responsibility and feelings of rivalry. Developing countries prefer unencumbered control over predictable adaptation funding in order to address damage that pollution, primarily from developed countries. Adaptation funding is seen as the right of developing countries, so they should be able to control and deal with the funding as they see fit.¹⁴²

Civil society tends to support this view and emphasizes the need to consult with and engage local stakeholders to help prioritize funding, promote ownership by recipients, and shift influence and control to the local level. Local control will help ensure that funding is used to support activities that will deliver real adaptation benefits.¹⁴³

Developed countries want to ensure that any taxpayer-sourced funding they provide is used in the most efficient and effective manner. They appreciate the increased control and oversight they can exercise when funds are disbursed through UN agencies and multilateral development banks (MDBs). These institutions provide some assurance regarding the application of international standards of fiduciary duties, procurement policies and safeguards, but civil society and many developing countries do not trust these institutions, which at times challenge their effectiveness, costs and decision making. Developed countries call into question the practical limitations of ensuring safeguards and fiduciary standards with direct access.¹⁴⁴ Competition to control disbursement of funding by UN agencies and MDBs creates rivalry and poor coordination among these agencies, thereby undermining opportunities for cooperation and collaboration.¹⁴⁵

This cacophony of competing power struggles can overshadow the groups' common goal to finance adaptation initiatives in developing countries, thereby making structural reforms to improve international adaptation finance difficult. But reform is possible, and the funds can move forward on issues such as funding, governance, disbursement of funds, accountability and cooperation.

While the majority of this report up to this point has collected, recorded and analyzed facts and opinions, this chapter comprises mostly the views and opinions of the authors, though at times we reference and incorporate opinions of third parties.

4.1. Funding

The bottom line is that more funding is needed for adaptation. Governance reforms and new funding vehicles will not address the fundamental problem of a simple lack of funds. As noted in the introduction, current funding falls far short of even the lowest estimates of USD 28 billion per year expected to be needed by 2030, though not all adaptation funds face equal funding shortfalls. For example, the Pilot Program for Climate Resilience (PPCR) has attracted much more donor interest than any of the funds under the authority of the UNFCCC and the Kyoto Protocol (KP). The PPCR is attractive to donors because of its integration into existing MDBs' policies and programs, the PPCR's "transformational" objective and donors' ability to earmark

contributions. Recent GEF reforms, including direct access for national entities and much-wanted shortened project cycle and support for increasing country capacities to deal with GEF processes, may also lead to increased efficiency of GEF funds and thus increased donor contributions to the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF). The newly established Green Climate Fund, with its large-scale adaptation window,¹⁴⁶ may once again divert funding away from the existing adaptation funds, assuming that these funds survive and remain operational under any new financial mechanism.

The often-cyclical nature of funding complicates the lack of funds. To be effective, funding needs to increase and be delivered on a predictable schedule, a fact recognized at least since the UNFCCC's creation in 1992.¹⁴⁷ A number of options of alternative sources of funding have been raised,¹⁴⁸ including the following:

- A uniform global levy on carbon emissions¹⁴⁹
- Levies/taxes on emissions from international maritime transport and aviation¹⁵⁰
- The proceeds from auctioning Assigned Amount Units¹⁵¹ or other allowances¹⁵²
- An increased share of proceeds from clean development mechanisms (CDMs) and/or a levy on a similar share of proceeds on joint implementation projects and emissions trading¹⁵³
- Defined budgetary contributions related to GDP (G77 and the China proposal—0.5% to 1% of GDP of rich countries),¹⁵⁴
- A currency transaction tax (small tax on the foreign exchange market for currency transactions)¹⁵⁵
- The International Monetary Fund issuing Special Drawing Rights (i.e., printing new money)¹⁵⁶

Some developed countries question whether it is appropriate or politically feasible to tax or otherwise require the private sector to pay for adaptation. Developed country governments are very sensitive about international obligations that would impose taxes within their countries, because they see those taxes as infringing on issues under sovereign rather than international jurisdiction. We believe, however, that it is appropriate for adaptation funds to come from those sectors and countries that contribute to climate change.¹⁵⁷ As noted above, the appropriateness of using any levy from CDMs to pay for adaptation has been called into question.

What constitutes an appropriate source of funding for adaptation depends on perspective. Based on principles of equity, taxing the private sector in developed countries via one or more levies seems more appropriate than does taxing CDM project developers in developing countries, especially given that most CDM projects do not receive significant amounts of foreign direct investment from developed country sources. Developed countries, however, are reluctant to assume international tax obligations. One option to overcome this impasse to secure predictable and increased levels of funding could be to set out a range of options at the international level from which countries could choose. Countries would implement options domestically to meet agreed-upon international funding commitments that would be recorded alongside emission reduction commitments. This approach would be consistent with others under the UNFCCC and KP, such as emission-reduction commitments that were agreed upon under the KP for developed countries, and could be implemented through domestic actions of the countries' choosing, plus use of the flexible mechanisms. Similarly structured financial commitments could be adopted, with a number of options that countries could consider using in order to meet these commitments, including the alternative sources outlined above.

The additionality of finance is another aspect of funding that needs to be resolved. While the idea that climate change funding should be new and additional to existing official development assistance (ODA) is well established, defining what constitutes additionality and then monitoring and enforcing it are different matters entirely. There is currently no definition of what is additional funding under the UNFCCC or mechanism to monitor (let alone enforce) any financial contributions or commitments.

The closest mechanism for this under the UNFCCC or KP is found in CDMs. Funding for CDM projects is meant to be additional to ODA and should not divert ODA from other purposes.¹⁵⁸ Documentation for CDM projects requires disclosure of any public funding the project used. The guidelines for completing this documentation essentially repeat the rule as stated by the CMP:

“In case public funding from Parties included in Annex I is involved, please provide [...] information on sources of public funding for the project activity from Parties included in Annex I, which shall provide an affirmation that such funding does not result in a diversion of official development assistance and is separate from and is not counted towards the financial obligations of those Parties.”¹⁵⁹

While the Organisation for Economic Co-operation and Development’s Development Assistance Committee in 2003 interpreted this requirement and explained what “diversion” of ODA means,¹⁶⁰ this requirement can be met simply by providing an affirmation from the developing country that states there is no diversion of ODA and it is additional to their financial obligations. The accuracy of such a statement requires no additional due diligence; besides, it would be very hard to prove or disprove diversion of ODA.

A clear approach to assessing whether adaptation funding is additional is needed. Recording adaptation funding commitments (potentially along with existing levels of ODA) is one option. Total ODA would be recorded in a base year, and then all adaptation funding commitments and payments over a period of time would be recorded to demonstrate additionality.

4.2. Governance

Changing the governance structures of the AF, SCCF, LDCF or PPCR is not currently being contemplated. However, some observations on the governance of these funds may be helpful when considering governance models for any future funds – such as the Green Climate Fund.

As long as adaptation funds rely on voluntary donations from developed countries, it is unlikely that the governance structure of the AF will soon become the standard model for adaptation funding. Despite moral and political claims about climate debt and existing obligations in the UNFCCC, developed countries will want to ensure full accountability over how their funds are spent, and arguments of climate debt are unlikely to sway them.

The structure of the PPCR and the Green Climate Fund, which are both represented equally by developed and developing countries, may be a more workable approach moving forward. Decision making in the PPCR is made by consensus, which avoids weighted voting of the LDCF and the SCCF¹⁶¹ and the uneven representation between donors and recipients if the AFB representation model were used. It also gives all countries equal veto power, which, depending on how it is exercised, can have benefits, such as giving more power to recipient countries, and drawbacks, such as promoting “back scratching” to support friendly countries’ projects or retaliatory vetoing if one country vetoes another country’s project (though such drawbacks are likely in any group decision making). Observing the PPCR over time will help flesh out its model’s strengths and weaknesses. To be effective, it cannot approve every project and must avoid politics and other irrelevant factors.

Macro-level structural changes to governance are unlikely, but modest changes are possible in the future. For example, stakeholder participation in adaptation governance could be strengthened. The AF allows UNFCCC-accredited observers to attend Accreditation Fund Board (AFB) meetings but does not allow them to speak. This procedural rule could be easily changed. In comparison, the PPCR limits the number of observers, but does allow them to speak and interject with comments during PPCR committee meetings. The potential for observers to speak freely should be promoted in all adaptation funds and managed appropriately to ensure all participants are granted equitable opportunities to participate.

4.3. Disbursement of funds

Issues have arisen regarding the disbursement of funds, including management efficiency, direct access, conditionality, decision-making criteria, spending priorities and incremental costs.

Management efficiency

One element of disbursing funds is ensuring that the entities involved in disbursement and in implementation operate efficiently and effectively. As of July 31, 2010, the total operational cost of the AF was USD 9.54 million, with total receipts from certified emission reduction sales and donations totaling USD 169.98 million. This includes an administrative budget in 2010 of USD 1.08 million for the AF trustee (World Bank) and USD 2.29 million for the AFB and the secretariat (GEF).¹⁶² The cost-effectiveness and efficiency of the GEF's and World Bank's services to all the adaptation funds should be reviewed and measured against performance criteria established by the Conference of the Parties (COP) and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP).

Direct access

Although direct access promotes ownership within developing countries, as well as greater participation and consultation with stakeholders, it is not the perfect solution to disbursing funds, and its benefits are by no means guaranteed.

It is sometimes assumed that a sense of ownership will automatically translate into effective and transparent use of funds with direct access models.¹⁶³ This however, fails to take into account governance challenges and the poor track record of many developing countries in using their own funds.¹⁶⁴ The feasibility and success of the direct access model depend on the robustness of developing country institutions accessing and spending funds. Where there are strong institutions in place, direct access promotes ownership and reduces costs. Supporting country leadership and ownership of adaptation through an accountable, transparent, adequately funded national development planning and financial management system is in line with the Paris Declaration on aid effectiveness.¹⁶⁵ Simply transferring funds to or conferring a sense of ownership of funds onto developing countries, will not on its own guarantee the appropriate use of these funds, and the countries' capacity to distribute significant amounts of funding under direct access models has also been called into question.¹⁶⁶ While this may present short- and medium-term challenges to direct access, it should not be a long term problem.

Direct access can have a number of advantages, and local organizations in developing countries should be supported so that they can meet international accounting, procurement and fiduciary standards and safeguards to gain greater access to funding under direct access models.

Conditionality

Developed countries, UN agencies and MDBs attempt to guarantee the appropriate use of funds by placing conditions on receipt of these funds. Some developing countries and civil society believe that such strong-arming disempowers fund recipients and is simply another avenue for donors to exercise undue amounts of control over finance. As such, any conditions placed on finance should be targeted and limited to the greatest extent possible while still ensuring appropriate use of funding. Conditions should be limited to a basic set of mutually agreed-upon requirements. To strengthen country ownership and improve the predictability of financial flows, donors agreed in the context of the Paris Declaration on aid effectiveness that, whenever possible, they would draw their conditions from developing countries' own development policies.

Decision-making criteria and spending priorities

When funding is limited, examination of how funds are spent becomes increasingly important. Appropriate procedures should be in place to ensure that limited funding is based on real choices regarding which projects are funded and which are not. The AFB's "Strategic Priorities, Policies and Guidelines of the Adaptation Fund" list criteria on how to prioritize projects or programs for funding.¹⁶⁷ But prioritization cannot create sufficient funding to meet every country's every priority. In order to allocate the limited resources among countries more efficiently, the AFB is discussing putting a cap on funds per eligible host country project and program. The AFB's discussions focus on periodic assessments of the overall status of resources in the AF in order to ensure equitable distribution.¹⁶⁸ The AFB's system would assign a cap to each eligible country (and possibly also each eligible region). The AFB stresses, however, that "a cap is different from an allocation: countries are not entitled to a certain amount of financing (as in an allocation system). Countries will receive an amount between zero and their cap depending on the resources available in the Fund [...]"¹⁶⁹ The AFB is considering three options: i) a uniform cap per country, ii) variable caps taking into account the specific circumstances of certain groups of

countries, and iii) variable caps taking into account the specific circumstances of each country.¹⁷⁰ In addition, in an effort to standardize (and limit) agency fees, the Ethics and Finance Committee at the 11th AFB meeting, in September 2010, recommended instituting an 8.5% cap for all projects and programs, to cover multilateral implementing agencies' and national implementing agencies' management fees. The AFB will review and adjust this fee policy after three years.¹⁷¹

The LDCF and the SCCF are both underfunded and real choices on which projects to fund need to be made. Defining what is a bona fide adaptation project and what is regular development can be hard. The LDCF and the SCCF could adapt the prioritization criteria that the AFB is considering for itself. These criteria include a project's level of concreteness (a criterion specific to the AF); regional, multisectoral and/or cross-sectoral benefits; and strength of adaptive capacity.¹⁷² The LDCF, through its "balanced access approach," aims to ensure that National Adaptation Programme of Action (NAPA) implementation is available to all LDCs rather than provided on a first-come, first-serve basis, which would favor countries with higher institutional capacity.¹⁷³ The SCCF, however, has less defined funding priorities and a broader range of suitable project types.

The PPCR anticipated funding constraints and decided from the start to limit funding to a select group of countries to test whether transformational change could be achieved with higher amounts of funding per country or region. It needed to choose and prioritize those areas, taking into consideration climate change risks. The PPCR's framework views country-level risks as the combination of two factors: a country's exposure to long-term, large-scale climate change hazards with the potential to have systemic adverse impacts at the country level; and a country's underlying vulnerability to these hazards.¹⁷⁴ This framework's success and its applicability to other funds will need to be examined further.

Decision making should consider the strategic context of an investment. Reviewing individual projects or programs without considering broader adaptation and development strategies may not identify the best uses of funding, even if the particular project or program is well-designed and seems reasonable. In theory, the NAPAs should provide this strategy for SCCF and AF projects, but NAPAs are often of poor quality, so they do not always provide a strategic framework of adaptation projects. The PPCR's strategy of co-designing projects with recipient countries and integrating adaptation into broader development strategies has a number of benefits in this respect. The participatory design and broader development context of the PPCR initiatives should promote better decision making, but only time will tell if this is the case.

Finally, irrespective of prioritization and decision-making criteria, all reasons for any decision need to be transparent, recorded and subject to review by an independent third party, in case an aggrieved party disagrees with a decision. This is different than a project or program proponent's ability to resubmit an idea after revision. If a governing body makes a decision that is wrong based on a misunderstanding of the facts, or represents a failure to follow its own criteria or procedures, that decision must be subject to review and capable of being overturned. This does not mean that decision makers should be held personally liable for their decisions. Rather, the establishment of such procedures to address grievances may, in fact, make it unnecessary for aggrieved parties to seek recourse against a decision in local courts if other options are available to them.

4.4. Incremental vs. additional costs

The concept of incremental costs is meant to exclude financing baseline costs and to limit claims to climate financing. The underlying assumption of the incremental cost principle is that the relevant costs of adaptation/mitigation (and other aspects of climate finance) are incremental rather than total. In this sense climate finance is only to provide the amount of support needed to make a project adapted to climate change/beneficial for the environment on top of a baseline cost of a project - that is assumed to have happened anyway. Although the general concept of incremental costs is fairly well-understood, identifying the relevant costs associated with a particular activity can be very difficult, in particular where there are no baseline costs from which to measure the incremental costs.

The GEF applied the “incremental cost” approach upon its establishment. The GEF refers to “additional costs” in relation to the LDCF and the SCCF, but these are different than incremental costs, and explaining both types of costs is rather simple. Originally, the GEF, through its Trust Fund, was to support only projects and programs that would result in “global environmental benefits.” To determine how many eligible projects it could fund, the GEF developed the incremental cost approach. This approach, which was applied to projects and programs with global environmental benefits instead of local adaptation benefits, was inappropriate for the LDCF and the SCCF. As such, the GEF created the term and concept of “additional costs” to determine which projects and programs to fund.¹⁷⁵ In essence, the difference between the incremental and additional cost approaches is more academic than practical.

The approach used under the GEF-administered funds differs from that used under the AF and the PPCF. Under the AF, “funding is provided on full adaptation cost basis of projects and programmes to address the adverse effects of climate change.”¹⁷⁶ Under the PPCF, “both grants and concessional loans will be available to finance the additional costs necessary to make a development activity resilient to the impacts of climate change.”¹⁷⁷

Funding a portion of the cost of adaptation projects related to adaptation rather than to underlying development is academically appealing. The precise interpretation and application of this method is difficult in practice. Rather than to attempt to develop sophisticated techniques to define additional costs or harmonize definitions, a better approach is to abandon the idea completely when applied to the assessment of how much of a project’s costs are associated with adaptation and how much are associated with baseline development. More effort should go into identifying the types of projects and programs that will help a country adapt to climate change, and making some or all of the funding for these projects eligible for adaptation finance. Applications for funding should include detailed cost estimates and sources of co-financing, and decision makers should weigh the benefits and drawbacks of using adaptation funding to fill finance gaps. Analysis should focus on criteria such as strong adaptation benefits, whether a project or program fits within a country’s overall adaptation and development plans, and if the project or program is likely to succeed. Analysis should ignore counterfactual calculations of baseline development funding and the additional costs of adaptation.

4.5. Accountability

Accountability applies to accountability of the funds to the COP, the CMP, donors, recipients and entities that apply for and use the funds.

The LDCF and SCCF are accountable to the COP and the AF is accountable to and under the authority of the CMP. The additional level of control the CMP has over the AF is seen by some as a positive element to ensure maximum involvement and control by developing countries. While developed countries do not object to this in the AF, they would want higher accountability to developed countries if they are to be principle donors in a fund. Developing countries’ concerns regarding the LDCF, SCCF and any future climate funds may be able to be addressed through the more equitable governance structures mentioned above.

The application of safeguards is the best way to ensure accountability by those that spend adaptation funding in developing countries. In an effort to simplify application of safeguards in adaptation funding, the MDBs are attempting to harmonize their different safeguards. This is, however, beyond the COP’s and CMP’s direct control, but if the MDBs’ efforts are too slow or produce inadequate safeguards, the COP and the CMP could develop their own set of safeguards that apply to climate finance generally, including guidance on how to conduct stakeholder consultation, which is currently lacking. If the COP and CMP were to develop their own guidance, it would likely be a difficult and time-consuming challenge, though some progress has been made in the negotiating safeguards for REDD+.

While the AFB has adopted a set of fiduciary standards that NIEs should adhere to,¹⁷⁸ these focus on responsible financial management – they do not go further to cover social and environmental aspects the same way MDB safeguards do. The AFB should consider, at a minimum, nominating social and environmental safeguards that

require NIE adherence, in addition to the fiduciary standards. Nonetheless, it is important to note that many international agencies have difficulties meeting the World Bank fiduciary standards. The fiduciary standards¹⁷⁹ were adopted in 2005,¹⁸⁰ and GEF agencies have until 2012 to meet them.¹⁸¹ As of October 31, 2010, six of the 10 GEF agencies have met the standards (in one or more areas); the following four have not:¹⁸² the Asian Development Bank, the Food and Agriculture Organization, the United Nations Environment Programme and the United Nations Industrial Development Organization.¹⁸³ Meeting the standards is clearly an important issue that needs to be resolved immediately, but at the same time it could make hollow developed countries' claims that NIEs should also adopt social and environmental standards.¹⁸⁴

Another aspect of accountability pertains to the provision of funds. Third parties often find it difficult to track ODA and other international donations of developed countries independently. Funding commitments from developed countries should be monitored, reported and verified annually.

In all cases, adherence to safeguards and MRV of developed country donations should be subject to periodic auditing by an independent third party.

4.6. The Green Climate Fund

In December 2010, at COP16 in Cancun, Mexico, the COP accepted the Cancun Agreements, which call for, among other things, new and additional resources, including “forestry and investments through international institutions, approaching USD 30 billion for the period 2010–2012, with a balanced allocation between adaptation and mitigation.” In addition, the agreements state that “funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island states and Africa.” Regarding the long-term, it states “developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries.” The Cancun Agreements further state that “a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund.”

Because the Green Climate Fund is so new, details on actual fund design are not yet available, but the Cancun Agreements address some basic and important issues:

1. **Accountability:** the Green Climate Fund is “accountable to and functions under the guidance of the Conference of the Parties.”
2. **Scale:** The fund will support “projects, programmes, policies and other activities in developing country Parties using thematic funding windows.”
3. **Governance:** The fund “shall be governed by a board of 24 members comprising an equal number of members from developing and developed country Parties.”
4. **Trustee:** The COP decided that the Green Climate Fund will have a trustee that “should be accountable to the Green Climate Fund Board” and invited the World Bank “to serve as the interim trustee of the Green Climate Fund, subject to a review three years after operationalization of the fund.”
5. **Secretariat:** The Cancun Agreements state that the fund “shall be supported by an independent secretariat”; however, further details on the structure, operation and role of this body were not provided.
6. **Design process:** The COP decided that the fund “shall be designed by a Transitional Committee” consisting of 40 members: “15 members from developed country Parties and 25 members from developing country Parties,” with seven members from Africa, seven from Asia, seven from the Community of Latin American and Caribbean States, two from small island developing states and two from least developed countries. The different representation of parties in the governance and the design process was a compromise between the parties agreed in the final hours of the negotiations.

As noted above, the Cancun Agreements state that a large majority of the new funding for adaptation will flow through the new Green Climate Fund, indicating that the LDCF, the SCCF, the AF and the PPCR may not

benefit significantly from the new and additional resources mobilized for climate change adaptation in the future. Moreover, donor and recipient countries may achieve greater transparency and find it simpler to manage most adaptation projects under one framework, thereby avoiding competition, overlap and duplication, all of which could lead to decreasing contributions to the four adaptation funds. The Green Climate Fund represents an opportunity to reconsider and, if needed, consolidate existing sources of adaptation funding. It could be established in a number of ways: i) as a new entity with its own operational structure independent of the GEF that leaves the existing funds to continue while their funding lasts; ii) as a new entity independent of the GEF that absorbs some or all of the existing funds; iii) as a new entity within the GEF structure, either independent from or as a replacement to the existing GEF funds and the AF;¹⁸⁵ or iv) under some other structure. Some features and duties of the existing funds may be consolidated into the Green Climate Fund, leaving those funds' futures uncertain.

LDCF: The LDCF's duty is specific: Fund NAPAs in LDCs only. The extensive effort put into NAPA development to date should not be lost because of the creation of the Green Climate Fund (despite the need to revise some NAPAs). The Cancun Agreements state that new resources "will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island states and Africa," but it does not explain how the Green Climate Fund will do this.

Depending on how the Green Climate Fund is designed, it may make sense for the LDCF to be wrapped into it. First, LDCs may prefer the Green Climate Fund's governance structure over the LDCF's, which follows the GEF. Second, direct access may be incorporated into the Green Climate Fund, making it preferable to the current LDCF model if the current reform of GEF direct access is not proven effective. Finally, if the Green Climate Fund is financed at the levels discussed, it will have sufficient funding to direct funds toward adaptation in LDCs. If the Transitional Committee can provide sufficient assurances to LDCs that their existing interests in the LDCF will be maintained or enhanced under the Green Climate Fund, it will be hard to justify continuing the LDCF once the Green Climate Fund becomes operational. The Transitional Committee, thanks to its composition, may support this outcome. If the Green Climate Fund does not adequately address LDCs' needs, the LDCF could continue as is, so long as sufficient donor funds continue to be made available to support it.

SCCF: The SCCF has already been scaled back from a general climate change fund to an adaptation fund. As noted above with the LDCF, if the Transitional Committee can wrap the remaining tasks of the SCCF into the Green Climate Fund, it will be difficult to justify the SCCF's continuance once the Green Climate Fund is established.

PPCR: The PPCR provides lessons in climate change adaptation for a future climate regime. Unlike the other adaptation funds and the Green Climate Fund, it provides scaled-up financing for a small number of select pilot countries and regions. It is unlikely that the Green Climate Fund will be operational by the end of 2012, when the PPCR is due to expire. If the PPCR is not extended beyond its end date, it likely will never coexist with an operational Green Climate Fund. If the Green Climate Fund is expected to become operational soon after the PPCR's planned expiration, and if the finance gap may be problematic for existing programs, the PPCR could be extended until the Green Climate Fund could take over.

AF: The most significant difference between the AF and the Green Climate Fund is that while the former is under the authority of the CMP and the Kyoto Protocol, the latter is under the guidance of the COP to the UNFCCC. One important consideration regarding this disparity is that the US does not support the AF, but it plans to contribute significant financial resources to the Green Climate Fund. If the US considers embracing CDMs in a future climate change agreement or in COP decisions, the AF may be able to align with or consolidate into the Green Climate Fund. One of the AF's most unique features is its direct access approach. This may or may not be adopted in the Green Climate Fund. If the Green Climate Fund uses a direct access approach, it will create further synergies among the funds (and potential for consolidation) and build a significant developing country trust in the new fund.

4.7. Role of civil society moving forward

Civil society will remain important in adaptation funding moving forward. Individual civil society organizations' roles in helping make adaptation funding more effective will vary depending on their strengths, weaknesses, objectives and cultures. Civil society organizations with strong technical and analytic skills can support local community and government input into the design and operation of adaptation projects. They can also support the local government's and candidate NIEs' capacity generally by providing training and support services. Some local organizations may even apply to become NIEs in their home countries. Civil society organizations with strong advocacy and political clout can help pressure developed country governments to provide additional funding for adaptation. Other organizations will serve as watchdogs of adaptation funding, reviewing and critiquing the operation of adaptation funds and agencies carrying out projects and programs. Every civil society organization can have a role in the adaptation funding process, but it will be up to them individually to determine how they can best use their talents.

ANNEX I—Least Developed Countries Fund (LDCF)

1. Introduction

The LDCF was launched at the seventh session of the Conference of the Parties (COP), in Marrakesh, to address the urgent and immediate adaptation needs of least developed countries (LDCs), to support the United Nations Framework Convention on Climate Change (UNFCCC) work program for least developed countries (LDCs) and to help the world’s 49 LDCs prepare and implement National Adaptation Programmes of Action (NAPAs).¹⁸⁶ NAPAs provide a process for LDCs to identify priority activities that address their urgent and immediate needs to adapt to climate change –those for which further delay would increase vulnerability and costs.¹⁸⁷ The LDCF subsequently decided to focus on reducing the vulnerability of sectors and resources central to human and national development, including water, agriculture and food security, health, disaster risk management and prevention, and infrastructure. These priority areas are further identified and prioritized in the LDC NAPAs.¹⁸⁸

2. Governance, Funding and Current Status

2.1. Governance

Because the GEF has been entrusted to operate the LDCF, the governance structure and general operational procedures and policies that apply to the GEF trust funds apply also to the LDCF, unless the GEF Council agrees that the policies and procedures should be modified in response to COP guidance or to facilitate the LDCF’s operations to achieve the objectives of the fund. The GEF approved certain procedures for the LDCF different than those for the conventional GEF trust funds. Table 1 provides an overview of the differences between LDCF and GEF trust funds. The GEF receives guidance from and reports to the UNFCCC COP.¹⁸⁹

Table 1: Key distinctions between LDCF and conventional GEF trust funds¹⁹⁰

Key distinctions between LDCF and conventional GEF trust funds	Conventional GEF trust funds	LDCF
Project must generate global benefits	Yes	No
Funding is allocated according to Resource Allocation Framework or STAR ¹⁹¹	Yes	No
Projects are financed according to the “incremental cost” principle	Yes	No
Project proposals are approved on a rolling basis	No	Yes
Projects are funded according to “balanced access”	No	Yes

The operations and administrative costs incurred in connection with managing the LDCF are kept separate from GEF trust funds.¹⁹²

LDCF Council

Any GEF Council Member is eligible to take part in the LDCF/SCCF Council and may choose to participate or to attend as an observer.¹⁹³

The GEF Council comprises 32 members appointed by constituencies of the GEF member countries: 16 members are from developing countries, 14 from developed countries and 2 from the countries of Central and Eastern Europe and the former Soviet Union. The council also has 16 alternate members. The member and alternate representing a constituency are appointed by the participating countries in each constituency. Unless the constituencies decide otherwise, each member and alternate serves for three years or until the constituencies appoint a new member, whichever comes first.¹⁹⁴

The council meets semi-annually or as frequently as necessary. It develops, adopts and evaluates GEF-financed activities' operational policies and programs, and it reviews and approves the work program.¹⁹⁵

GEF Assembly

As the governing body of the GEF, the GEF Assembly meets every three to four years to review and evaluate the GEF policies, operation and memberships.¹⁹⁶ This includes the LDCF. The Assembly consists of representatives and alternates of the GEF's 176 participating countries.¹⁹⁷ All representatives and alternates serve until replaced. Decisions are made by consensus.

GEF Secretariat

The GEF Secretariat coordinates the overall implementation of GEF activities, including those of the LDCF. It services and reports to the assembly and the council and is supported administratively by the World Bank. Every three years, the council appoints a chief executive officer, who can be reappointed, to head the Secretariat.¹⁹⁸ The CEO is accountable to the council for the Secretariat's performance. The current CEO is Monique Barbut (France).

Trustee

The World Bank serves as trustee for both the LDCF and the SCCF.¹⁹⁹

Implementing agencies

The LDCF has 10 implementing agencies: the United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), World Bank, African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), International Fund for Agricultural Development (IFAD), United Nations Food and Agriculture Organization (FAO), and United Nations Industrial Development Organization (UNIDO). Their standards—including country drivenness, replicability, ecological and financial sustainability, stakeholder participation, transparency, and accountability—are applied to the LDCF.²⁰⁰

Scientific and Technical Advisory Panel (STAP)

The STAP provides independent advice to the GEF on scientific and technical aspects of programs and policies. The UNEP's executive director—in consultation with the GEF's CEO, the UNDP's administrator and the World Bank's president—appoints STAP members. UNEP serves as the STAP's secretariat and operates as the liaison between the GEF and the STAP.²⁰¹

Monitoring and evaluation

The Independent Office of Monitoring and Evaluation provides a basis for decision making on amendments and improvements of policies, strategies, program management, procedures and projects; promotes accountability for resource use against project objectives; provides feedback on activities; and promotes knowledge management of results, performance and lessons learned.²⁰²

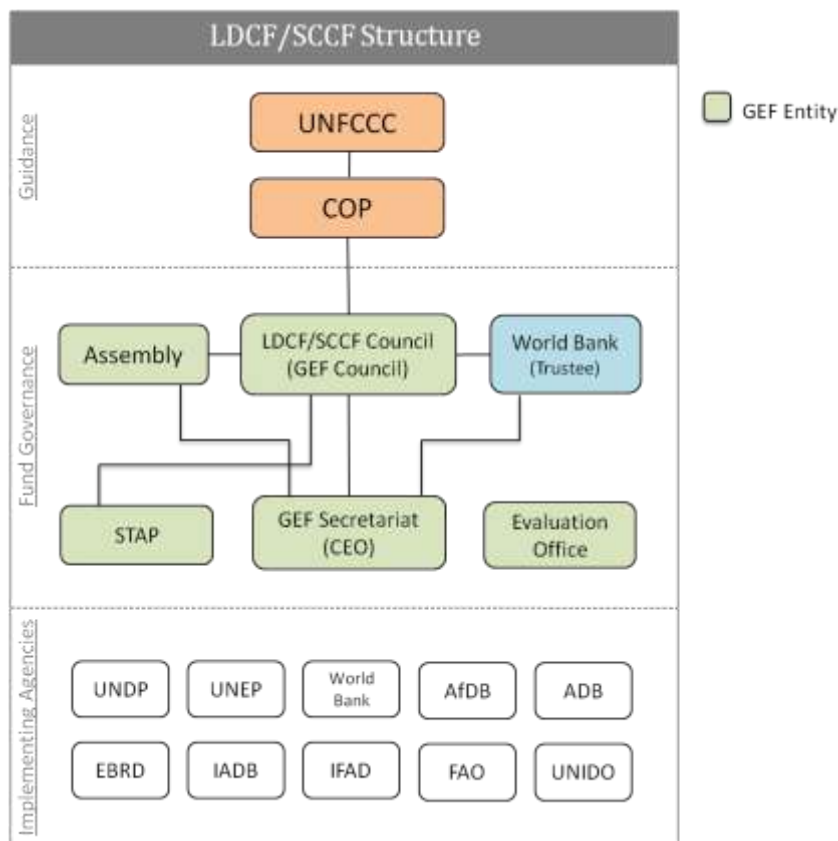


Figure 1: Overview of the LDCF/SCCF structure

2.2. Funding

UNFCCC Annex II countries and some Annex I countries provide the LDCF’s funding, and any non–Annex I countries that care to may voluntarily contribute funds as well. Donations to the LDCF count as official development assistance (ODA).²⁰³ Voluntary contributions alone do not come close to addressing all of the LDC’s immediate adaptation needs. To ensure full implementation of NAPAs, developed countries should contribute at least USD 2 billion to the LDCF in the next five years.²⁰⁴ As of October 31, 2010, however, the LDCF has received only USD 262.29 million in pledges from 22 contributing participants (see Table 2). The LDCF disburses all funds in the form of grants.²⁰⁵

The GEF mobilizes funds for further NAPA implementation and will continue to do so until it has addressed the NAPA’s prioritized areas of intervention. The GEF plans to hold a pledge meeting every two to three years. However, donor countries will continue to have the option to contribute to the LDCF on a rolling basis, consistent with their budget and financial plans.²⁰⁶

Table 2: Status of LDCF pledges and contributions, as of October 31, 2010²⁰⁷

Participant	Pledges (in USD)	Funds deposited (in USD)
Australia	14,267,850	14,267,850
Austria	580,400	580,400
Belgium	14,608,968	638,000
Canada	6,518,366	6,518,366
Czech Republic	25,454	25,454
Denmark	30,958,424	30,958,424
Finland	10,454,990	10,454,990
France	14,617,380	14,617,380
Germany	55,237,118	41,266,150
Ireland	9,749,794	9,749,794
Italy	1,000,000	1,000,000
Japan	250,000	250,000
Luxembourg	5,702,900	5,702,900
Netherlands	16,342,601	16,342,578
New Zealand	5,808,840	5,808,840
Norway	8,421,064	8,421,064
Portugal	64,065	64,065
Spain	1,520,781	1,520,781
Sweden	9,912,143	9,912,143
Switzerland	4,231,686	4,231,686
United Kingdom	22,020,974	22,020,974
United States	30,000,000	30,000,000
TOTAL	262,293,798	219,361,020

2.3. Status

Unlike other adaptation funds, the LDCF focuses solely on LDCs. Although both the AF and the SCCF have guidelines to focus on the most vulnerable countries and communities, reports have shown that in practice this does not always apply.²⁰⁸ In contrast, only LDCs are eligible for LDCF funding. The LDCF’s clear message to support the most vulnerable is important both for LDCs and donors who contribute to this fund.

As of October 31, 2010, 44 LDCs have submitted NAPAs to the UNFCCC secretariat. Four additional NAPAs are in the final stages of preparation and are expected to be completed before the end of 2010. Also as of October 31, 2010, 92 NAPA implementation projects have been approved: 38 full-sized projects, six medium-sized projects and 48 as “enabling activities.”²⁰⁹ The UNFCCC is responsible for the NAPAs, while the GEF, under the UNFCCC COP’s guidance, is responsible for the projects that implement these NAPAs. USD 151.31 million in grants is expected for already-approved projects, plus an additional USD 19.25 million in grants for projects that have submitted a Project Identification Form (PIF) or posted for council approval.²¹⁰ Estimates show that in order to realize all NAPA projects, developed countries should allocate USD 2 billion to this purpose in the next five years.²¹¹

3. Review of Key Issues

3.1. Transparency

During the 12th meeting of the COP, in 2006, the parties requested that the GEF “further simplify its procedures and improve the efficiency of the process through which developing country Parties receive funding.”²¹² The GEF Evaluation Office concluded in 2006 that “the GEF activity cycle is not effective, nor efficient, and that the situation has grown worse over time; nor is it cost-effective; and (b) GEF modalities have not made full use of trends towards new forms of collaboration that serve to foster ownership and promote flexibility, efficiency and results.”²¹³ In response to the Evaluation Office, the GEF in 2007 revised its project cycle (see below) and in 2008 started to post all actual project proposals on its website. Despite these changes, the GEF has continued to receive criticisms on its “lack of transparency in decision making that appears to be the prerogative of powerful individuals.”²¹⁴ According to a recent evaluation from the Danish International Development Agency (DANIDA) and the GEF Evaluation Office, however, the LDCF has become more streamlined.²¹⁵ In a letter in November 2010, the LDC Expert Group acknowledged the LDCF’s important achievements over the past years and its increasing responsiveness to LDCs’ needs.²¹⁶ Such positive reviews indicate that the GEF may be effectively responding to critiques.

3.2. Accountability

The relationship between the Conference of Parties to the UNFCCC and the GEF Council was agreed in a memorandum of understanding (MOU) contained in Decision 12/CP.2 and Decision 12/CP.3. The COP provides regular guidance to the GEF, an entity entrusted with the financial mechanism of the COP, on policies, program priorities and eligibility criteria for funding. The MOU also stipulated that the GEF must report annually to the COP. The GEF must prove its accountability to the COP by detailing in its annual report all GEF-financed activities carried out in implementing the COP, whether such activities were carried out by the GEF implementing agencies, the GEF Secretariat or executing agencies implementing GEF-financed projects.²¹⁷

3.3. Equitable representation

At its ninth meeting, in 2003, the COP decided that LDCs should have equitable access to the LDCF’s funds,²¹⁸ which the GEF translated into a concept of “balanced access.”²¹⁹ The balanced access principle aims to ensure that all LDCs have access to project funding instead of awarding funding on a first-come, first-served basis, which potentially favors LDCs with higher institutional capacity for project development.²²⁰

The GEF states that it will take a flexible approach to balanced access, taking into account several factors, including the following:

1. Vulnerability to climate change
2. Type of interventions to address climate change
3. National and local circumstances, including population and country size
4. National and local capacities to cope with current variability and future change²²¹

The LDCs will be able to decide how to use the first round of LDCF resources for the first round of NAPA implementation projects. They will use the funds to complete either one relatively large project that addresses the first priority identified by the NAPA or a number of smaller projects that address multiple priorities identified by the NAPA. Once the LDCs decide how to use the resources, the GEF Secretariat and the implementing agencies will monitor requests for projects through their LDCF pipeline management.²²²

The voting rule of the LDCF/SCCF Council (i.e. the GEF Council) foresees that all decisions should be reached by consensus. If the council cannot reach consensus, a council member can request a formal vote. Decisions that

require a formal council vote are taken with a double-weighted majority, meaning that an affirmative vote represents both a 60% majority of the total number of participants and a 60% majority of the total contributions. This arrangement favors the developed countries that provided the contributions, leaving developing countries with no real influence in matters put to a vote.²²³

3.4. Timeline for disbursements

As of October 31, 2010, 94 projects have been approved or CEO-endorsed: 40 full-sized projects, six medium-sized projects and 48 as “enabling activities” (for NAPA preparation).²²⁴ See Tables 3 and 4 for highlights of approved projects.

Table 3: Highlights of LDCF-approved projects

Least Developed Countries Fund (LDCF) project highlights: 92 projects approved ²²⁵
Enhancing Adaptive Capacity and Resilience to Climate Change in the Agriculture Sector in Mali Mali
Enhancing Climate Risk Management and Adaptation in Burundi (ECRAMB) Burundi
Building the Capacity of the Agriculture Sector in DR Congo to Plan for and Respond to the Additional Threats Posed by Climate Change on Food Production and Security DR Congo
Building Adaptive Capacity and Resilience to Climate Change in the Water Sector in Cape Verde Cape Verde
Building Adaptive Capacity and Resilience to Climate Change in Afghanistan Afghanistan
Adapting Water Resource Management in Comoros to Increase Capacity to Cope With Climate Change Comoros
Adaptation in the Coastal Zones of Mozambique Mozambique
For a full list of adaptation projects, see http://www.climatefundsupdate.org/projects and http://www.gefonline.org .

Table 4: Description of two projects approved for LDCF funding

Least Developed Countries Fund (LDCF): 92 projects approved ²²⁶
<p><i>Enhancing Adaptive Capacity and Resilience to Climate Change in the Agriculture Sector in Mali</i>²²⁷ Mali GEF project grant: USD 8,619,000 Co-financing: USD 3,000,000 Total amounts: USD 9,865,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Economic assess the impacts of climate change on the agricultural sector. 2. Establish a national funding strategy for adaptation, based on realignment of national budget allocations and mobilization of new sources of funds. 3. Establish appropriate agro-pastoral farming systems aimed at reducing risks from increased climate variability in the most vulnerable agricultural areas.
<p><i>Enhancing Climate Risk Management and Adaptation in Burundi (ECRAMB)</i> Burundi²²⁸ GEF (LDCF) preparation and project grant: USD 3,526,171 Co-financing: USD 15,798,000 Total amounts: USD 19,324,171</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Improve access to modernized meteorological and hydrological observation networks. 2. Develop national meteorological and hydrological GIS data sets to support planning and implementation of adaptation, risk reduction and climate-proofing interventions. 3. Improve and scale up production techniques, including soil and water conservation techniques, to respond to climate change impacts. 4. Popularize rainwater harvesting techniques for agricultural and domestic use.

3.5. Access

Until recently, access to LDCF funds was not only slow but also subject to growing criticism from both donor countries and LDCs wishing to access LDCF funds.²²⁹ The UNFCCC COP has provided guidance to the GEF in order to improve the working of the LDCF, including through better access to its funds.²³⁰ The COP since has requested that the GEF work with its agencies to improve communication with LDC parties and speed up the process by taking certain measures, such as establishing a time frame within which LDC parties can access funding and other support for the preparation and implementation of projects identified in NAPAs.²³¹

The GEF responded to this request by issuing a two documents: one addressing access to resources under the LDCF, and the other further streamlining the LDCF project cycle that the LDCF Council adopted in July 2010.²³² The recent DANIDA/GEF evaluation and the letter from the LDC Expert Group evidence the fact that the LDCF has addressed some of these concerns successfully.

Many of the GEF-5 reforms aim to improve communication between developing countries and the GEF.²³³ The following sections describe how LDCF funds are accessed through the updated GEF project cycle.

Eligible countries

Any LDC that is party to the UNFCCC and has completed its NAPA is eligible for project funding under the LDCF.²³⁴ Before an LDCF adaptation project proponent can prepare for project implementation and then access financing, it must complete a country NAPA and send it to the UNFCCC Secretariat for web publication.

Additionality

LDCF activities must focus on “additional costs” imposed by climate change on the development baseline, meaning that activities considered part of the development baseline are not considered for funding. For example, improvement of public health and education systems, infrastructure for rural development, and water sanitation are not eligible. Funding is provided only to address impacts of climate change above and beyond the baseline in

a vulnerable socioeconomic sector. Unlike GEF- and trust fund-financed projects, the LDCF's and SCCF's projects do not need to generate global environmental benefits. Local benefits can be generated, as long as the case for "additionality" can be made.²³⁵

Project cycle

The GEF differentiates between full- and medium-sized projects for the LDCF as follows:

1. Full-sized projects require more than USD 2 million in funding.
2. Medium-sized projects require no more than USD 2 million in funding.

The project cycle is largely the same for both sizes of projects. Any differences are indicated below:²³⁶

1. The project proponent develops a project concept, requests assistance from one of the 10 GEF implementing agencies and secures GEF Operational Focal Point endorsement in the country where the project is to be implemented.
2. The project proponent submits the project concept, as a PIF, to the GEF Secretariat.²³⁷ A request for a project preparation grant (PPG) may simultaneously or subsequently be submitted.²³⁸
3. The GEF Secretariat reviews the PIF, which can take up to 10 business days. If the project idea needs revisions, the project proponent can resubmit the PIF. The GEF Secretariat rejects the project if it is ineligible for funding under the LDCF.
4. For full-sized projects: Within four weeks, the LDCF Council reviews the PIF. Approval is granted on a no-objection basis.
For medium-sized projects: The GEF CEO approves the PIF within the aforementioned 10 business days.²³⁹
5. For full-sized projects: The project proponent and the implementing agency have 18 months to prepare the proposal.
For medium-sized projects: The project proponent and the implementing agency have 12 months to prepare the proposal.
6. The GEF processes the proposal within 10 business days.
7. The GEF submits the proposal to the LDCF Council, which has two weeks to formulate possible objections. Unless the council has any objections, the GEF CEO endorses the project.²⁴⁰
8. The GEF agency follows its own internal procedures to approve the project.²⁴¹
9. The CEO-endorsed and agency-approved project receives funding and can be implemented by the project proponent and the implementing agency.

Delays in this cycle are frequent despite the GEF's revised and streamlined project cycle, and who is at fault for them is unknown. PIF/PPG approval and project document approval have taken significantly longer than expected—on average, 59 and 28 days, respectively, not the stipulated 10 business days.²⁴² For instance, the time needed for PIF approval is calculated starting from the submission of the first PIF version. It may become subject to review, and one or more revised versions are re-submitted later. In its evaluation of the work with the LDCF and the SCCF, the UNDP states that "the delay does [...] not depend solely on the GEF Secretariat. The time needed for PIF approval, for example, is calculated starting from the submission of the first PIF version. In several cases, it becomes subject to review, and one or more revised versions are re-submitted. In fact, when the final PIF was submitted, GEF CEO clearance often arrived within a few days."²⁴³

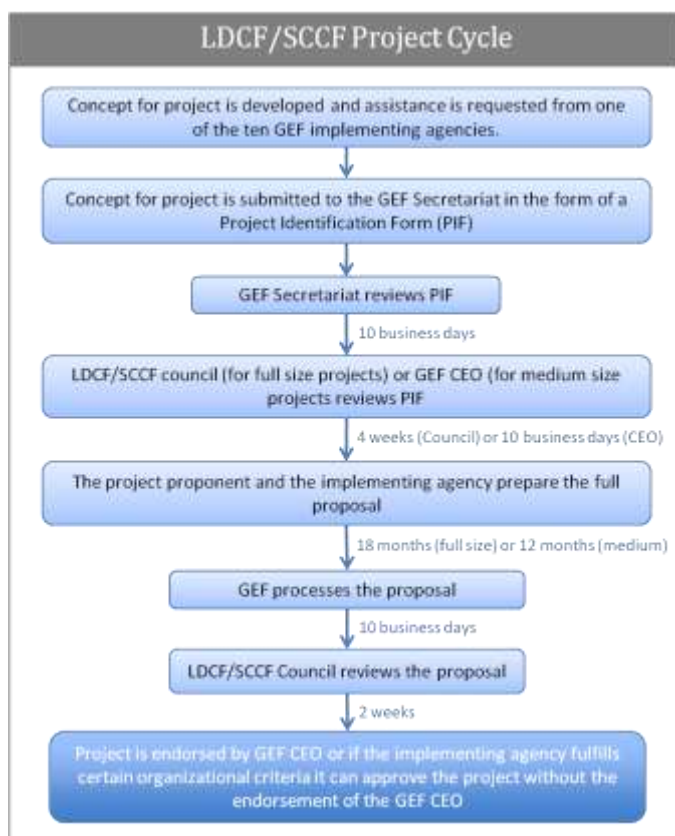


Figure 2: Overview of the LDCF/SCCF project cycle

Eligibility of projects

Proposals submitted for funding under the LDCF are reviewed in light of the following project criteria:²⁴⁴

1. Country ownership
 - Country eligibility: A country is eligible to receive funding if it is an LDC party to the UNFCCC that has completed its NAPA.²⁴⁵
 - Country drivenness: The project proposal should:
 - be identified as a priority activity in the country's NAPA;
 - show evidence of stakeholder consultation and support; and
 - take into account other relevant local, national or regional studies and projects.
2. Program and policy conformity
 1. Program conformity: The project document should demonstrate that the proposal was developed in compliance with the NAPA rules and procedures and that it is a response to an urgent and immediate adaptation need.
 2. Project design: The proposal should include:
 - 2.1. a list and a description of project components; and
 - 2.2. additional cost calculations that demonstrate what would be done on the development baseline in the absence of climate change, as well as the alternative scenario, including measures that meet urgent and immediate needs that justifies the request for LDCF resources.²⁴⁶
 3. Sustainability: The benefits of the project, such as the increased capacity to cope with adverse impacts of climate change, should continue after project completion.

4. Stakeholder involvement: The project should provide for multi-stakeholder consultations and participation—which have proven pivotal to the NAPA preparation process –to continue during project implementation.
3. Financing
 - Development and inclusion of a financing plan: A financing plan should summarize financial contributions to the project, including an assessment of the baseline financing used in the project. The total project cost will be the sum of the LDCF contribution and all co-financing.
 - Evidence of cost-effectiveness: A discussion the various options considered to achieve the project’s goal and demonstrate that the selected adaptation measures and activities represent the most cost-effective approaches.
4. Institutional coordination and support
 - All projects must ensure that any potential duplication of activities is minimized and that coordination, collaboration and consistency of approaches to other activities in the country are maximized.
 - Implementing, executing or other agencies’ legitimate comments and concerns must be seriously and respectfully responded to and, where appropriate, incorporated into a revised project design.
5. Monitoring and evaluation requirements
 - By the time of project approval, all projects should have a detailed monitoring and evaluation plan that includes provision and arrangements for annual monitoring reports and independent midterm and final evaluations. In addition, indicators for tracking the achievement of project goals and objectives, including targets for midterm and project completion, should be provided. The baseline year (or “pre-project”) values for these indicators should be estimated at the time of project approval.²⁴⁷

In the PIF phase, a project proposal must prove in general terms that it fulfills the first four criteria. In the CEO endorsement phase, a project proposal must prove in more detail that it fulfills all five criteria.

In order to be eligible for funding, projects seeking LDCF financing must be complementary to those funded by the SCCF and the GEF trust funds. They cannot duplicate or overlap with such activities.²⁴⁸

3.6. Opinions on the LDCF

Opinions on the LDCF are often lumped with those of the SCCF and the GEF. Past criticisms have included the following:

- Developing countries believe the governance structure is complex and weighted in favor of donor countries.
- Rules and structures make accessing funding difficult and time consuming.
- The LDCF emphasizes supporting projects rather than taking programmatic approaches.
- The LDCF’s focus on securing environmental projects over development projects results in fewer global benefits.²⁴⁹

Some of these criticisms are no longer applicable or may be misplaced; for example, the LDCF now supports programmatic approaches and has improved funding access, and the GEF does not require LDCF projects to contain global benefits.

Further issues regarding the GEF, the LDCF and the SCCF raised in another paper include:²⁵⁰

- The LDCF and the SCCF do not adequately meet developing countries’ adaptation needs.
- Donors are delaying pledged commitments because of an alleged lack of adequate and accountable mechanisms in developing countries for receiving and disbursing money.
- The GEF does not provide adequate operational guidance, making it difficult for developing countries to apply for project funding.
- GEF funding mechanisms incur high transaction costs.
- Funding is saddled with additional requirements, such as burdensome reporting and co-financing criteria.

- Distinguishing “additional” costs of climate change impacts from baseline development needs is extremely complex.
- Many countries cannot afford to meet the baseline development costs, so offers of funding for the additional cost are futile.
- Implementing agencies such as the UNDP, the UNEP and the World Bank add further bureaucracy to the process and delay access to funds.

This older, more critical view of the LDCF should be contrasted with the more recent evaluation from DANIDA and the GEF Evaluation Office, which commended the fund for implementing reforms and becoming more streamlined.²⁵¹ In addition, in November 2010, the LDC Expert Group issued a letter in which it acknowledged the LDCF’s important achievements over the past years and its increasing responsiveness toward LDCs’ needs.²⁵² Both the evaluation and the letter prove that the LDCF is addressing criticisms seriously.

ANNEX II—Special Climate Change Fund (SCCF)

1. Introduction

The SCCF was established under the United Nations Framework Convention on Climate Change (UNFCCC) at the seventh meeting of the Conference of the Parties (COP), in 2001, to finance and implement activities, programs and measures that increase national development sectors' long-term resilience to the impacts of climate change in non-Annex I countries. The SCCF is meant to serve as a catalyst to leverage and maximize complementary resources from bilateral and other multilateral sources.²⁵³

The SCCF's top priority is adaptation activities to address the adverse impacts of climate change. Projects on technology transfer and its associated capacity-building activities also receive funding. Other activities eligible for SCCF funding relate to energy, transport, industry, agriculture, forestry, waste management and economic diversification.²⁵⁴

2. Governance, Funding and Current Status

2.1. Governance

Like the Least Developed Countries Fund (LDCF), the SCCF is operated by the Global Environment Facility (GEF), under COP guidance. GEF operational policies, procedures and governance structures (council, assembly, secretariat, implementing agencies, Scientific and Technical Advisory Panel, and Independent Office of Monitoring and Evaluation) applicable to both the SCCF and the LDCF, as well as a table highlighting some key distinctions between conventional GEF trust funds and the Green Climate Fund, can be found in Annex I—LDCF.²⁵⁵

2.2. Funding

Voluntary contributions, which count as official development assistance from Annex I countries, finance the SCCF. As of October 31, 2010, 14 contributing participants have pledged a total of USD 149.29 million to the SCCF (see Table 1 for details).²⁵⁶ Because demand significantly exceeds supply for SCCF adaptation resources, the SCCF urgently needs a significant increase in donor contributions.²⁵⁷ The SCCF disburses all funds in the form of grants.²⁵⁸

Table 1: Status of SCCF pledges and contributions, as of October 31, 2010²⁵⁹

Participant	Pledges (in USD)	Paid (in USD)
Canada	12,894,703	12,894,703
Denmark	9,041,885	9,041,885
Finland	5,859,493	4,883,473
Germany	27684,060	17,133,340
Ireland	2,125,000	2,125,000
Italy	10,000,000	5,000,000
Netherlands	3,128,880	3,128,880
Norway	21,676,866	21,676,866
Portugal	1,299,099	1,299,099
Spain	6,861,900	6,861,900
Sweden	6,120,153	6,120,153
Switzerland	3,991,194	3,991,194
United Kingdom	18,603,167	18,603,167
United States	20,000,000	-
TOTAL	149,291,072	133,740,352

2.3. Status

Since its creation in 2001, the SCCF has mobilized close to USD 150 million, of which USD 133 million is for the adaptation window and USD 16.6 million is for the technology transfer window.²⁶⁰ Through its adaptation program, the SCCF has approved 28 projects (seven medium-sized projects and 22 full-sized projects) totaling USD 99.6 million as of October 31, 2010.²⁶¹ Additional funding for new projects has been made available recently, and the United States recently pledge USD 50 million for the LDCF and SCCF (of which USD 20 million is for the SCCF).²⁶²

One reason why demand for SCCF funding is high is that all developing countries under the UNFCCC can apply. Many unfunded projects are currently on hold, however, due to financial constraints. In fact, the lack of available funds likely plays a role in the SCCF's inability to meet its deadlines in the project cycle and in the resultant delays in project approvals.²⁶³ Thus far, projects have focused mainly on food security and water issues, although recent trends show increasing interest in disaster risk management, coastal zone management and health.²⁶⁴

Table 2: Highlights of SCCF-approved projects, as of October 31, 2010.²⁶⁵

Special Climate Change Fund (SCCF) project highlights: 28 projects approved ²⁶⁶
Adaptation to Climate Change in Arid and Semi-Arid Lands (KACCAL) Kenya
Adaptation to Climate Change Through Effective Water Governance Ecuador
Adaptation to Climate Change in the Nile Delta Through Integrated Coastal Zone Management Egypt
Climate-Resilient Infrastructure Planning and Coastal Zone Development Vietnam
Design and Implementation of Pilot Climate Change Adaptation Measures in the Andean Region Bolivia, Ecuador, Peru
Integrating Climate Change Into the Management of Priority Health Risk Ghana
Integrating Climate Change Risks Into Water and Flood Management by Vulnerable Mountainous Communities in the Greater Caucasus Region of Azerbaijan Azerbaijan

Table 3: Description of two projects approved for SCCF funding

Special Climate Change Fund (SCCF): 28 projects approved ²⁶⁷
<p><i>Adaptation to Climate Change in Arid and Semi-Arid Lands (KACCAL)</i>²⁶⁸</p> <p>Kenya GEF project grant: USD 1,000,000 Co-financing: USD 1,357,000 Total amounts: USD 2,357,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Assist Kenya in adapting to expected changes in climatic conditions that otherwise threaten the sustainability of rural livelihoods in the country's arid and semi-arid lands. 2. Reduce the near-term vulnerability to current climate. 3. Strengthen the country's mid-to-long-term ability to address climate change impacts related to increased climatic variability and higher temperature, associated with changes of magnitude and frequency of extremes.
<p><i>Adaptation to Climate Change Through Effective Water Governance</i>²⁶⁹</p> <p>Ecuador GEF project grant: USD 3,350,00 Co-financing: USD 16,185,400 Total amounts: USD 19,535,400</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Reduce Ecuador's vulnerability to climate change through increased adaptive capacity for effective water resource management in a changing climate and improved access to timely and accurate climate data. 2. Facilitate the implementation of efficient water management practices (e.g., sound water governance arrangements, decentralization of climate-resilient water management, information management and dissemination, flexible financial mechanisms to promote local innovation in sustainable water management) to withstand the effects of climate change.

3. Review of Key Issues

Because the GEF’s governance structure applies to both the LDCF and the SCCF, the two funds share many key issues. To avoid repetition, please refer to Annex I for a discussion of the following key issues: transparency, accountability and equitable representation.

3.1. Timeline for disbursements

As of October 31, 2010, USD 99.6 million has been approved for 28 SCCF projects. This amount corresponds to approved projects, not necessarily disbursed funding.²⁷⁰

3.2. Access

Eligible countries

The SCCF provides funding to all non-Annex I parties. The fund puts geographical emphasis on the most vulnerable countries in Africa and Asia, as well as the small island developing states. Funding should combine both full- and medium-sized projects and small community-level projects that produce primarily local benefits.²⁷¹ Medium-sized projects require up to USD 1 million in funding, and full-sized projects require USD 1 million or more in funding.²⁷²

Project cycle

The GEF’s project cycle, as described in Annex I, applies mostly to the SCCF as well. The only difference is that SCCF procedure does not require a National Adaptation Programme of Action (NAPA) document, so the starting point of the SCCF project cycle is the submission of a Project Identification Form or a Project Preparation Grant request.²⁷³

Additionality

Like the LDCF, the SCCF funds activities that must focus on “additional costs” imposed by climate change on the development baseline, which means that activities that are considered part of the development baseline are ineligible for funding.²⁷⁴

Project eligibility

SCCF-financed activities are complementary to those funded by GEF trust funds. Adaptation activities to address the adverse impacts of climate change have top priority for funding. Technology transfer and its associated capacity-building activities are also essential areas that receive funding.²⁷⁵

SCCF projects must be country-driven; be cost-effective; be integrated into national sustainable development and poverty-reduction strategies; and take into account national communications, NAPAs, and other relevant studies and information provided by parties.²⁷⁶ They must focus on long-term planned response strategies, policies and measures, and should do the following:

1. Implement adaptation activities, where sufficient information is available to warrant such activities, in areas such as water resources management; land management; agriculture; health; infrastructure development; and fragile ecosystems, including mountainous ecosystems and integrated coastal zone management
2. Improve the monitoring of diseases and vectors affected by climate change, as well as related forecasting and early-warning systems, and in doing so improve disease control and prevention
3. Support capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning in particular, for droughts and floods in areas prone to extreme weather events
4. Strengthen existing national and regional centers and information networks for rapid response to extreme weather events, utilizing information technology as much as possible; establish new centers and networks where needed

The GEF Focal Points comprises government officials designated by member countries to ensure that GEF projects, including SCCF-funded activities, are country-driven and based on national priorities.²⁷⁷

3.3. Opinions on the SCCF

The SCCF has multiple funding windows, but the majority of its mobilized funds have been for adaptation.²⁷⁸ The SCCF, however, has a less pronounced message than the LDCF, which makes it less compelling for both LDCs and donor countries. Demand for SCCF funding is still high, especially because more countries and issues are eligible for SCCF funding than LDCF funding. The SCCF's funding of long-term adaptation measures distinguishes it from the LDCF. The SCCF's survival past 2012 depends largely on how much it will overlap with a new and potentially large-scale financial mechanism. Criticisms and concerns related to GEF operation, as addressed in the relevant section of Annex I on the LDCF, apply also to the GEF-administered SCCF.

ANNEX III—Adaptation Fund (AF)

1. Introduction

The AF was formally established in 2001²⁷⁹ to finance adaptation projects and programs in developing country parties to the Kyoto Protocol (KP) that are particularly vulnerable to the adverse effects of climate change. The AF became operational in 2008.²⁸⁰

In 2006, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP)²⁸¹ established a set of principles for the functioning of the AF. These principles focus on

1. balanced and equitable access to the fund;
2. funding on a full adaptation cost basis (i.e., no additional cost or incremental cost approach);
3. accountability in management, operation and use of funds;
4. short and efficient project development and approval cycles, and expedited processing of eligible activities; and
5. country-driven projects, taking into account existing national planning exercises and development activities.

Only after the CMP's third meeting, in Bali in 2007, did it begin more concrete work on the development of modalities to make the AF operational, such as the agreement to create the Adaptation Fund Board (AFB) structure. The AF became fully functional in 2009 when the AFB adopted Operational Policies and Guidelines for Parties, which explain how parties can access the AF's resources.²⁸²

The AF has at least five innovative elements as compared to other sources of adaptation financing:

1. A governing board comprising a majority of members from developing countries
2. The option for eligible countries to have direct access to AF resources
3. A relatively streamlined project cycle for accepting adaptation projects
4. Funds provided largely through sources independent of donor contributions (a levy on clean development mechanism projects)
5. A strategic mandate to prioritize the needs of particularly vulnerable communities within countries²⁸³

2. Governance, Funding and Current Status

2.1. Governance

AFB

The AFB was established in 2007²⁸⁴ and is the body that supervises the AF. The AFB consists of 16 members and 16 alternates. The majority of these members and alternates come from developing countries. The AFB breakdown is as follows:

1. Each of the five United Nations regional groups has two members, for a total of 10 representatives.
2. One member is a representative of the small island developing states.
3. One member is a representative of the least developed country (LDC) parties.
4. Two members are representatives from Annex I parties.

5. Two members are representatives from non–Annex I Parties.

The panel of alternates follows the same breakdown. Both members and alternates serve for a period of two years, which can be prolonged with another two-year term.²⁸⁵

The AFB’s functions include

1. supervision and management of the fund;
2. development of related strategies, policies and guidelines;
3. setting operational parameters; and
4. monitoring and reviewing the fund’s implementation.

The CMP has direct authority over the AF, and the AFB is fully accountable to it. The CMP approves certain documents of a strategic policy nature. The AFB currently meets at least four times a year and holds a vote if a simple majority of members are present. Decision making is done by consensus, but if consensus cannot be reached, votes are made by a two-thirds majority of the members present, using the “one member, one vote” rule.²⁸⁶ As such, developing countries cannot overrule developed countries, despite their majority. As of October 31, 2010, no voting has taken place.

When AFB members obtain information marked as proprietary or confidential from AF project participants, they are not allowed to disclose this information without the written consent of the provider of the information, except if national law requires disclosure.²⁸⁷

AFB meetings are, in principle, open to UNFCCC parties, the UNFCCC Secretariat and UNFCCC-accredited observers. So far, most AFB meetings have been open. When invited by the chair, and if no members present objection, an observer can participate, without a right to vote, in the meeting and give presentations.²⁸⁸

Committees

At its sixth meeting, in June 2009, the AFB set up two committees: the Ethics and Finance Committee (EFC) and the Project and Programme Review Committee (PPRC). The EFC provides advice to the AFB on issues of conflict of interest, ethics, finance and audit, while the PPRC assists the AFB with tasks related to project/program review and provides recommendations and advice on the basis of its reviews. General guidelines and terms of reference have been developed by the AFB for each committees as well as specific terms of reference for each committee. Both committees decide by consensus, but if the committee cannot reach consensus on a matter, it refers the matter to the AFB for decision.²⁸⁹

Accreditation Panel

The AFB created the Accreditation Panel to recommend accreditation of entities that implement AF-funded projects and programs. The panel comprises three independent experts and two AFB members who advise the AFB on accreditation issues,²⁹⁰ as guided by three fiduciary standards: financial integrity and management, institutional capacity, and transparency and self-investigative powers.²⁹¹

Implementing entities

In order for an entity to receive AF funding for a project, the designated authority of a country party eligible for AF funding must nominate it. The entity can be a national implementing entity (NIE) or a multilateral implementing entity (MIE). The entity must apply for accreditation, providing documentation that it meets the AFB’s fiduciary standards.²⁹² After review, the AFB grants or rejects the request. As of October 31, 2010, three organizations (Senegal’s Centre de Suivi Ecologique, the Planning Institute of Jamaica and Uruguay’s Agencia Nacional de Investigacion Innovacion [with the latter two approved in September 2010]) have been accredited as NIEs,²⁹³ and six organizations (the Asian Development Bank [ADB], International Fund for Agricultural Development [IFAD], United Nations Development Programme [UNDP], United Nations Environment Programme [UNEP], World Food Programme [WFP] and World Bank)²⁹⁴ have been accredited as MIEs. NIEs are accredited for five years, and the AFB is currently developing guidelines to simplify the accreditation renewal process.²⁹⁵

In most projects, NIEs and MIEs are not actually doing the work on the ground. Instead, they oversee the work and are accountable to the AFB regarding the appropriate use of resources. The national governments appoint executing entities, operating under the oversight of implementing entities, to carry out de facto implementation.²⁹⁶

Trustee

In December 2007, the CMP appointed the World Bank as interim trustee to manage fiduciary and administrative responsibilities for the AF. In December 2008, the CMP established Terms and Conditions of Services for the trusteeship²⁹⁷ and decided that it would review the Terms and Conditions at its sixth session, in 2010.

The Terms and Conditions expire automatically three months after the sixth session of the CMP, in March 2011, unless the CMP decides to extend the Terms and Conditions and the World Bank agrees.²⁹⁸

Secretariat

In 2007, the CMP appointed the GEF to serve as interim secretariat and to support and facilitate the AFB's activities. The CMP stated that the secretariat would work in a functionally independent and effective manner, with the head of the secretariat accountable to the AFB for the secretariat functioning.²⁹⁹ A dedicated team of officials serves the AFB within the GEF Secretariat.³⁰⁰ The AFB was asked to develop legal and administrative arrangements for secretariat services, and the CMP and the GEF Council finalized a memorandum of understanding in 2008.³⁰¹ The CMP reviewed the interim arrangement with the GEF at its sixth meeting, in Cancun in November 2010.

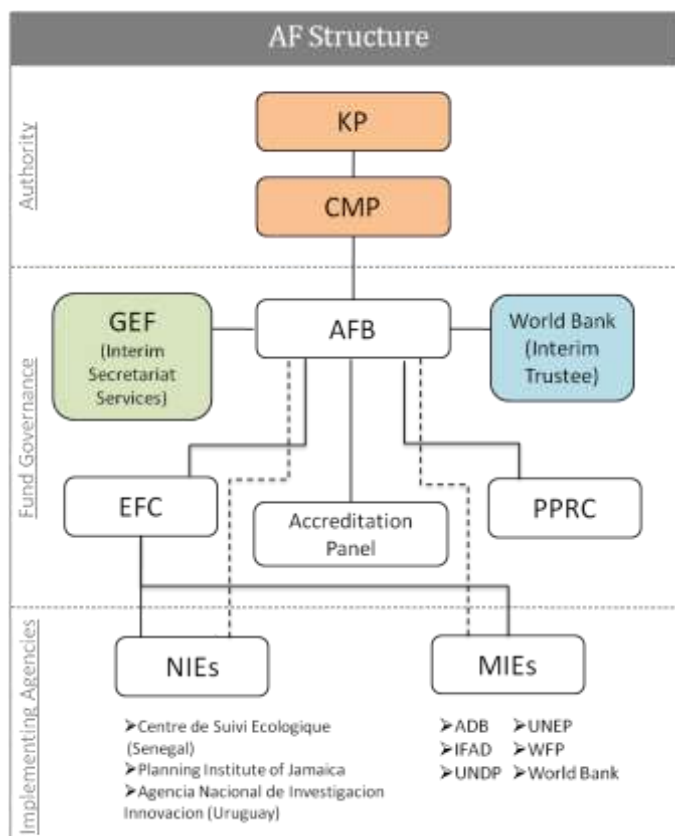


Figure 1: Overview of the AF structure

2.2. Funding mechanism

The AF is funded primarily by a 2% share of certified emission reductions (CERs) generated by certain clean development mechanism (CDM) project activities. CDM project activities in LDC parties, as well as small-scale afforestation and reforestation project activities (regardless of location), are exempt from channeling 2% of their CERs into the AF.³⁰² Funding can also come from unsolicited donations from both government and nongovernment entities. The CERs are subsequently monetized on the carbon market. As trustee of the AF, the World Bank monetizes and sells the CERs and manages the AF trust fund.³⁰³

When monetizing the CERs, the World Bank uses a three-tiered approach consisting of i) ongoing regular sales conducted on liquid carbon exchanges, ii) over-the-counter sales through dealers, and iii) requests for guidance from the AFB, under exceptional market circumstances.³⁰⁴

All AF funds are disbursed in the form of grants and cover the full costs of approved projects.³⁰⁵

2.3. Status

As of October 31, 2010, the AF held USD 160.43 million, with cumulative receipts of USD 197.32 million and operational expenses of USD 9.54 million.³⁰⁶ Total available funds are expected to be USD 250-350 million by 2012.³⁰⁷

In addition to the income generated by CER sales, Table 1 shows donor contributions made to the AF.³⁰⁸

Table 1: Voluntary contributions of developed countries to the Adaptation Fund, as of October 31, 2010

Contributing country	Amount pledged (USD)	Amount deposited (USD)
Finland	67,534	
France	53,340	
Germany	13,300,000	
Japan	5,693	
Monaco	12,197	12,197
Norway	87,700	
Spain	57,055,000	57,055,000
Sweden	13,750,000	
Switzerland	77,668	
Other	566	566
TOTAL	84,409,698	57,067,763

As of October 31, 2010, CER sales have yielded USD 112 million.³⁰⁹

Also as of October 31, 2010, the AFB has approved funding for two projects³¹⁰ (see Table 2), with an additional 14 proposals under review³¹¹ (see Table 3).

Table 2: AFB-approved projects

Adaptation Fund (AF): 2 projects approved ³¹²
<p><i>Adaptation to Coastal Erosion in Vulnerable Areas</i>³¹³</p> <p>Senegal USD 8,619,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Implement actions to protect the coastal areas of Rufisque, Saly and Joal against erosion from sea-level rise, with the aim to protect houses and the economic infrastructures threatened by the erosion. 2. Implement actions to fight the salinization of agricultural lands used to grow rice in Joal. 3. Assist local communities (especially women) in the coastal area of Joal in the handling of fish-processing areas in littoral districts. 4. Conduct awareness training and programs related to adaptation and its adverse effects.
<p><i>Addressing Climate Change Risks on Water Resources Increased Systematic Resilience and Reduced Vulnerability of the Urban Poor</i>³¹⁴</p> <p>Honduras USD 5,698,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Improve institutional capacities and tools for mainstreaming adaptation to climate change through the regulation and application of the new Water Law and the National Plan Law, which calls for inter-sectoral and landscape approaches that internalize climate change concerns. 2. Use complementary measures to address climate change impacts (e.g., existing water stress and projected increased water scarcity in Tegucigalpa and environs, flash floods due to extreme events) in both watershed and urban settings.

Table 3: Proposals under consideration as of October 31, 2010.³¹⁵

Country/region	Project title
Cook Islands	Enhancing Resilience of Communities of Cook Islands Through Integrated Climate Change Adaptation and Disaster Risk Management Measures
Ecuador	Enhancing Resilience of Communities to the Adverse Effects of Climate Change on Food Security in Pichincha Province and the Jubones River Basin
El Salvador	Promoting Climate Change-Resilient Infrastructure Development in San Salvador Metropolitan Area
Eritrea	Climate Change Adaptation Programme in Water and Agriculture in Anseba Region, Eritrea
Fiji	Enhancing Resilience of Rural Communities to Flood and Drought-Related Climate Change and Disaster Risks in the Ba Catchment Area of Fiji
Georgia	Developing Climate-Resilient Flood and Flash Flood Management Practices to Protect Vulnerable Communities of Georgia
India	Integrating Climate Risks and Opportunities Into the Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGP)
Maldives	Increasing climate resilience through an Integrated Water Resource Management Programme in HA. Ihavandhoo, ADh. Mahibadhoo and GDh. Gadhdhoo Island
Mauritius	Climate Change Adaptation Programme in the Coastal Zone of Mauritius
Nicaragua	Reduction of Risks and Vulnerability Based on Flooding and Droughts in the Estero Real River Watershed
Pakistan	Reducing Risks and Vulnerabilities From Glacier Lake Outburst Floods in Northern Pakistan
Papua New Guinea	Enhancing Resilience of Communities in Papua New Guinea to Climate Change and Disaster Risks in the Coastal and Highland Regions
Solomon Islands	Enhancing Resilience of Communities in the Solomon Islands to the Adverse Effects of Climate Change in Agriculture and Food Security
Turkmenistan	Addressing Climate Change Risks to Farming Systems in Turkmenistan at the National and Community Level

For more details, see <http://www.adaptation-fund.org/projectprogrammeproposals>.

3. Review of Key Issues

3.1. Transparency

Transparency is one of the AF’s main goals, according to its procedural documents:

The full text of all AFB decisions is made publicly available via the AF website.

AFB meetings are open to members, alternates and observers unless the AFB decides that a meeting or a part of a meeting will be closed to observers, which happens infrequently.

1. AFB meeting documents are published on the AF website, including documents relating to the PPRC, the EFC and the Accreditation Panel.
2. Committee recommendations and accreditation panel decisions are published on the website.
3. The World Bank publishes a financial overview of each AFB meeting on the AF website.

However, not all meetings in the context of the AF are open. Meetings of the PPRC and the EFC as well as meetings of the Accreditation Panel are closed, unless the AFB decides otherwise.³¹⁶

Stakeholders provide consultations to the AFB at two stages of the project cycle.³¹⁷

1. During project preparation, the implementing agency must consult stakeholders.
2. Once the AFB Secretariat receives a project proposal, the AFB publishes the proposal on the AF website and provides interested persons and entities with the opportunity to comment on the project.

3.2. Accountability

Accountability of MIEs and NIEs

The NIEs and MIEs, chosen by eligible Parties to implement projects and programs, are fully accountable to the AFB for the overall management of AF-financed projects and programs and for all financial, monitoring and reporting responsibilities. Annual status reports are submitted to the EFC, which in turn, provides annual report to the AFB on all ongoing projects and programs.³¹⁸

If monitoring or evaluation reveals that funds have been misappropriated or otherwise not spent as agreed upon, the AFB can, at the recommendation of the EFC, suspend or cancel the project or program and reclaim part or all of the funds allocated to the project. The AFB can also cancel the NIE’s or MIE’s accreditation, in which case the NIE or MIE can express its view on the suspension or cancellation of the project or on the reclamation of funds.³¹⁹

Accountability of the trustee

The World Bank, as trustee of the AF, is accountable to the AFB for the performance of its fiduciary responsibilities and in particular for the monetization of CERs in accordance with guidance provided by the AFB.³²⁰

If the World Bank were not to fulfill its responsibilities as agreed to in the Terms and Conditions of Services between the CMP and the World Bank, the issue would be solved by arbitration. The Terms and Conditions make no mention of the CMP reclaiming funds from the World Bank if the bank were to lose AF money through its own fault.³²¹

Accountability of the AFB

The AFB is fully accountable to the CMP for all of its activities and for the two committees and the panel that operate under its jurisdiction.³²²

3.3. Equitable representation

As mentioned above, the AFB has broad representation from all signatory countries to the Kyoto Protocol, with the majority of AFB members from developing countries.

3.4. Timeline for disbursements

The AFB aims to disburse funds in a timely manner, and for this reason it operates on a relatively simple project cycle, which is described below. As of October 31, 2010, the AFB has approved two projects for a total of USD 14 million in funding.³²³

3.5. Access

Eligible countries

Countries eligible for AF funding are “non–Annex I developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems.”³²⁴

Eligible projects and programs

Concrete adaptation projects and programs are eligible for funding. A concrete adaptation project is a set of discrete activities aimed at addressing the adverse impacts of and risks posed by climate change, with collective objectives and concrete outcomes and outputs that are narrowly defined in scope, space and time. A concrete adaptation program is a process, plan or approach for addressing climate change impacts and has a broader scope than does a project. Both projects and programs can address adaptation on community, national and transboundary levels.³²⁵

Project cycle

Funding takes place through a relatively simple project cycle.³²⁶

1. The proponent submits the authorized project or program to the AFB Secretariat, using AFB templates.³²⁷ All proposals are made publicly available on the AF website before approval and are open to stakeholder comments.³²⁸ Proposals can be submitted to the AFB three times a year or as often as the AFB decides.
2. The AFB Secretariat screens the project or program as soon as possible (within 15 business days) for consistency, cost-effectiveness, design and duplication of efforts. The proponent is given the opportunity to clarify, revise and respond to the Secretariat’s technical review before it presents a technical review of the proposal to the PPRC.
3. The PPRC reviews the project or program.
4. The AFB decides, based on the PPRC review, to
 - a. approve the project or program, or
 - b. reject the project or program (with explanation). The proponent can resubmit the project or program with the required changes.
5. Upon written instruction by the AFB and after the signing of a memorandum of understanding between the AFB and the MIE/NIE, the trustee disburses the funds to the implementing entity.

The AF distinguishes two categories of projects and programs:³²⁹

1. Small-sized projects and programs request up to USD 1 million.
2. Regular-sized projects and programs request USD 1 million or more.

Small-sized projects and programs go through the project cycle once, while regular-sized projects and programs go through it twice: first as a brief project concept, and then when the AFB approves the concept as a fully developed proposal.³³⁰ It is not, however, required that concepts be submitted before fully developed proposals.

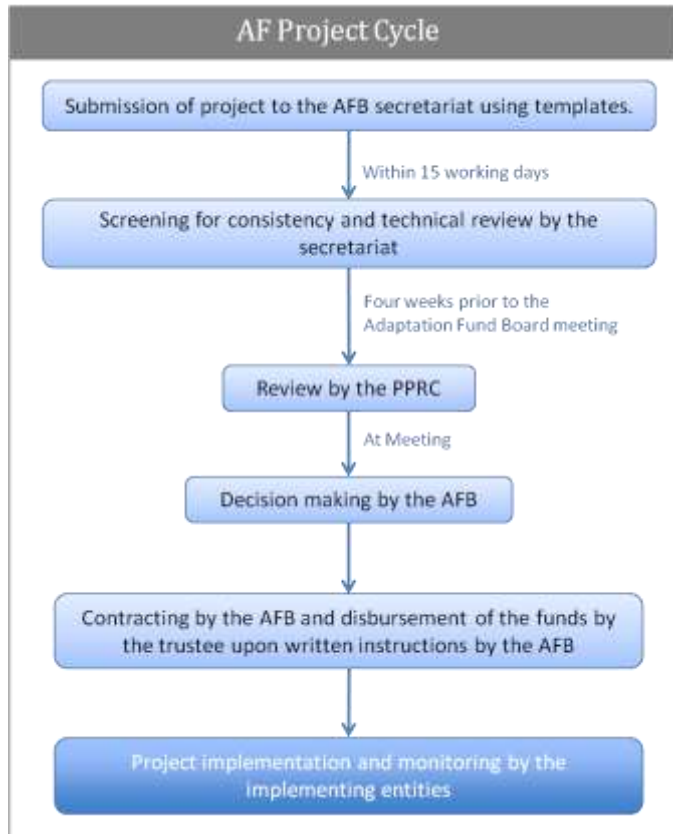


Figure 2: Overview of the AF project cycle

Allocation of resources

Because AF resources are limited, criteria were outlined in the “Strategic Priorities, Policies and Guidelines of the Adaptation Fund”³³¹ regarding how to prioritize projects and programs for funding:

1. The level of vulnerability
2. The level of urgency and risks arising from delay
3. The ability to ensure access to the fund in a balanced and equitable manner
4. The potential to capture lessons learned in project and program design and implementation
5. The ability to secure regional co-benefits to the greatest extent possible, where applicable
6. The ability to maximize multi-sectoral or cross-sectoral benefits
7. The adaptive capacity to the adverse effects of climate change

In order to best allocate the limited resources, the EFC, at the AFB’s 11th meeting, in September 2010, recommended the implementation of a cap on resource allocations per eligible host country, project and program. Based on the EFC’s recommendation, the AFB has decided³³²

1. to set a cap for a fee of 8.5% for all AF-funded projects and programs;
2. that implementing entities should provide a budget on fee use in project and program proposals, to be considered during project and program review; and

3. that the fee policy could be reviewed and adjusted after three years, or more specifically at the meeting of the board following the ninth session of the CMP.

Direct access to funds

One of the AF’s more innovative features is the option for eligible countries to have direct access to funds. Government-nominated, AFB-accredited NIEs can receive funding for approved projects or programs directly from the AF. The NIEs are responsible for implementation (through executing entities) as well as monitoring and reporting on the project or program³³³ (see figure 4 below). As of October 31, 2010, three NIEs have been approved for direct access: Senegal’s Centre de Suivi Ecologique, the Planning Institute of Jamaica and Uruguay’s Agencia Nacional de Investigacion e Innovacion, with the latter earning accreditation in September, 2010.³³⁴

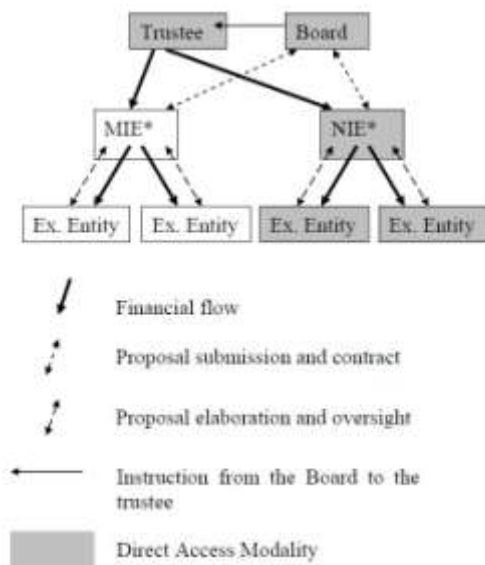


Figure 3: Modalities for Accessing Resources of the Adaptation Fund³³⁵

The AF also allows “classic” access to funds, through which an MIE is responsible for the project or program.

As of October 31, 2010, only four NIE applications had been forwarded to the Accreditation Panel for review. The Secretariat identified several sources that prevented the forwarding of applications to the AFB and initiated an awareness-raising program to help developing country applicants achieve accreditation. A briefing to the AFB explained that frequent barriers to application forwarding included the following:

“[...] a lack of clarity about what supporting documentation is needed to demonstrate each standard, language difficulties, and an ineffective and time-consuming communication and coordination process with the Secretariat and the AP. Overcoming these barriers requires considerable efforts and time, which may result in delaying, or ignoring, the option of direct access to the resources from the Fund [...]”³³⁶

“On the Fund level the secretariat detected a lack of clarity regarding the fiduciary standards, including confusion over the addressee—implementing entity or executing entity, too much attention on internal processes as opposed to activities relating to the project, and a too tight timeframe to respond to information requests from the Secretariat or the Panel.”³³⁷

Although the board is aware of these shortcomings, the AF’s objectives do not include finance capacity building. As such, the engagement of other bilateral and multilateral agencies in assisting country applicants is thus seen as a way to curtail the provision of direct access to an increasing number of countries.³³⁸

3.6. Opinions on the AF

Unlike the LDCF and SCCF, which fall within the scope of the UNFCCC, the AF was established under the KP. Because the AF is outside the US sphere of political influence (given that the US has not ratified the KP), some believe that the EU has taken on a particularly strong leadership role in negotiating the operational aspects of the AF for the Annex I countries.³³⁹

Many people interviewed for this report herald the AF for some of its most innovative features: direct access to funds, a board comprising a majority of members from developing countries and receipt of funds from the 2% levy on CDM credits (though others have criticized this last point).³⁴⁰ Most of these same people interviewed are skeptical of the amount of funds available and exposure to market volatility, stating that the current funds are not sufficient to fill adaptation needs in those countries that are most urgently in need of adaptation measures.³⁴¹

Recent AFB meetings have shown some qualifications to these initially positive views: The AFB is not completely transparent. Segments of its meetings are held behind closed doors, and though observers can attend meetings, they cannot ask questions or make comments. The closed-door segments of AFB meetings have been attributed to the politically and financially sensitive nature of some of the issues discussed, such as the rejection of specific projects, strategies to sell CERs and their effect on overall market prices, and concern over personal liability of AFB members for decisions they make.³⁴² It is reasonable to hold sensitive discussions on such topics behind closed doors, but the AFB’s failure to provide detailed written explanations for rejecting a project is inconsistent with commonly accepted principles of good governance and sound administrative decision making. Decision making and rationales need to be transparent and disclosed to allow verification that the decisions are consistent and based on sound reasoning. The AFB lacks procedures for an aggrieved party to request a review of an AFB decision if that party thinks a decision is unfair or incorrect.³⁴³ Even though it is possible for parties to submit projects an infinite number of times for AFB review, the board does not provide feedback or offer rationales, which makes improvement hard and inefficient – and in theory the AFB could reject it repeatedly regardless.

Finally, AFB members are political appointees who are not necessarily chosen based on technical expertise, so some members are not equipped to assess projects’ technical merits. The GEF, as secretariat, is supposed to perform initial project reviews, but capacity constraints within the GEF sometimes have not always resulted in adequate analysis.³⁴⁴ The AFB should be supported by sufficient technical experts to advise the AFB on the technical merits of projects, leaving the AFB responsible for higher level strategic planning and decision making. This would reflect the role of AF Accreditation Panel that assesses applications for the accreditation of implementing agencies.

ANNEX IV—Pilot Program for Climate Resilience (PPCR)

1. Introduction

The PPCR was established as part of the Strategic Climate Fund (SCF),³⁴⁵ one of two multi-donor trust funds within the Climate Investment Funds (CIFs). The Pilot Program for Climate Resilience (PPCR) was the CIFs' first program and gained the SCF Trust Fund Committee's approval in November 2008. It has been designed as a pilot program, covering a range of diverse countries and climate risks to provide lessons over the next few years that can be taken up by countries and regions, the development community, and a future climate change regime. The PPCR's activities in participating countries should be consistent with the following poverty reduction and sustainable development goals:³⁴⁶

1. Pilot and demonstrate approaches for integration of climate risk and resilience into development policies and planning. The PPCR's pilot programs should be country-led, build on National Adaptation Programmes of Action (NAPAs) and other relevant country studies and strategies, and be strategically aligned with activities funded by the Adaptation Fund (AF) and other donors in order to provide pilot finance in the short term, so as to teach lessons that will be useful in designing scaled-up adaptation financing.
2. Strengthen capacities at the national level to integrate climate resilience into development planning.
3. Scale up and leverage climate-resilient investments, building upon other ongoing initiatives.
4. Enable learning-by-doing practices and promote sharing of lessons at the country, regional and global levels.³⁴⁷

The PPCR complements other multilateral financial mechanisms, such as the Global Environment Facility (GEF) and the AF, as well as bilateral financing sources, and it seeks co-financing where appropriate.³⁴⁸

2. Governance, Funding and Current Status

2.1. Governance

Administrative Unit

The Administrative Unit supports the work of the CIFs, the Trust Fund Committees and other committees. It is housed in the World Bank Group's Washington, D.C., offices and consists of a small professional and administrative staff.³⁴⁹

Trust Fund Committees

The Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF) each have their own Trust Fund Committee. The SCF Trust Fund Committee approves the establishment of SCF programs and advises on strategic direction. SCF programs include the Forest Investment Program, PPCR and Scaling-Up Renewable Energy Program, all of which have their own subcommittee.³⁵⁰

“Active” observers from the United Nations, GEF, United Nations Framework Convention on Climate Change (UNFCCC) and civil society, as well as indigenous people and the private sector, are invited to participate in meetings of the Trust Fund Committees and Subcommittees. Decisions in Trust Fund Committees and Subcommittees are made by consensus.³⁵¹

SCF Trust Fund Committee

The SCF Trust Fund Committee has two co-chairs: one is elected from contributor and recipient countries, alternating from one term to another between recipient and contributor representative members, to serve a six-month term, and the other is the World Bank vice president for the Sustainable Development Network.³⁵²

PPCR Sub-Committee

The SCF established the PPCR Sub-Committee to oversee the operations and activities of the PPCR. The Sub-Committee is co-chaired by one developing country representative and one developed country representative. The PPCR Sub-Committee consists of the following members:³⁵³

1. Six representatives from contributor countries (or groups of such countries) that make the minimum contributions to the SCF identified through a consultation among such contributors (or potential contributors, in respect of the first year of SCF operations)
2. Six representatives from eligible recipient countries (or groups of such countries), identified through a consultation among interested eligible recipient countries; for the purposes of this paragraph, an “eligible recipient country” is any country that meets the eligibility criteria approved by any SCF Trust Fund Committee for funding under any of SCF programs
3. The developing country chair, or the vice chair of the Adaptation Fund Board
4. A representative of a country that is requesting PPCR funding may attend the PPCR Sub-Committee, during deliberations on that program

PPCR representatives serve one-year terms and may be reappointed. The PPCR Sub-Committee meets as often as it decides but at least once per year, at the same time as the SCCF Trust Fund Committee.

The Subcommittee has the following responsibilities:³⁵⁴

1. Approving programming priorities, operational criteria and financing modalities for the PPCR
2. Selecting countries to be funded under the PPCR, and approving PPCR financing for programs
3. Approving periodic reports to the SCF Trust Fund Committee on the operations of the PPCR; this is intended to transfer lessons learned through PPCR pilot programs to the SCF Trust Fund Committee, AFB, UNFCCC and other stakeholders
4. Ensuring that PPCR activities complement other development partners’ activities (including the GEF and the UN organizations), in order to ensure cooperation, maximize synergies and avoid overlap
5. Approving members of the Expert Group and providing guidance and information necessary for the Expert Group to perform its duties
6. Exercising other functions deemed necessary to fulfill the functions of the PPCR

Trustee

The International Bank of Reconstruction and Development (IBRD)—one of the five institutions that make up the World Bank Group—serves as trustee for the CIFs. With the approval of the Trust Fund Committees, the IBRD makes commitments and transfers of CIF resources. Each multilateral development bank (MDB) is responsible for the use of funds transferred by the trustee, in accordance with its own policies, guidelines and procedures, and the decisions of the Trust Fund Committees. The trustee must regularly provide reports on the financial status of the Trust Funds to the CTF and SCF Trust Fund Committees. The trustee is accountable to these committees for its performance.³⁵⁵

MDB Committee

The MDB Committee facilitates collaboration, coordination and the exchange of information, knowledge and experience among MDB partners.³⁵⁶

Expert Group

The PPCR Sub-Committee established the Expert Group to make recommendations on the selection of recipient countries, based on the following criteria:³⁵⁷

1. Transparent vulnerability
2. Country preparedness and ability to move toward climate-resilient development plans, taking into account efforts to date and willingness to move to a strategic approach to integrating climate resilience into development
3. Country distribution across regions and types of hazards, as appropriate

The PPCR Sub-Committee selects the eight members who make up the Expert Group. Members have a range of expertise, including scientific, economic, social, environmental, development, policy, and governance/institutional expertise, as well as climate-related knowledge in areas such as agriculture, forestry, fisheries and health.³⁵⁸

Voting

Representatives from contributor countries, recipient countries and the AF have voting rights in the PPCR Sub-Committee. The PPCR Sub-Committee invites a representative from a recipient country to attend a voting session when a program in that country is being considered. Invited observers are not granted voting rights.³⁵⁹

Decisions are made by consensus. Any representative can veto a decision or record a dissenting opinion. Decisions may be made electronically without a physical meeting.³⁶⁰

Procedures

The SCF Trust Fund Committee's rules and procedures apply *mutatis mutandis* to the PPCR Sub-Committee.³⁶¹

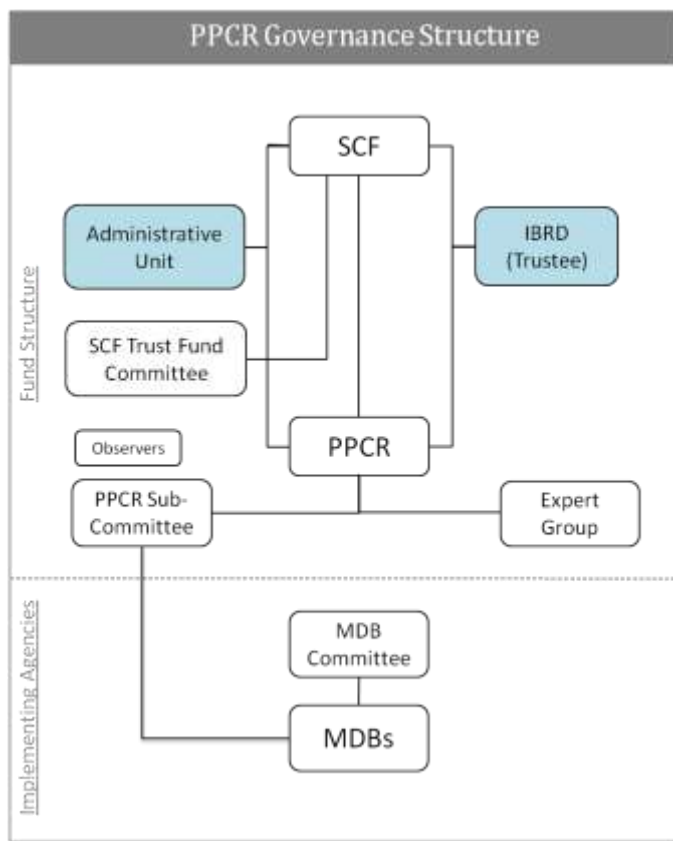


Figure 1: Overview of the PPCR governance structure

2.2. Funding

The PPCR is designed to provide both grants and highly concessional loans³⁶² to implement donor countries' Strategic Program for Climate Resilience (SPCR). This choice of financing options is expected to contribute to the broad range of financing instruments available through MDBs.³⁶³ The PPCR Sub-Committee cannot approve any new funding after the end of calendar year 2012.³⁶⁴

Funding structure

MDBs disburse all funding, and the PPCR delivers “additional”³⁶⁵ finance to countries for integrating climate risk and resilience into development planning and investments, including the blending of grants and highly concessional loans with domestic public and private financing. The PPCR may provide additional concessional lending that may be blended with existing concessional funding. The PPCR intends to blend its resources with other multilateral funding by, for instance, co-financing MDB loans and grants or providing additional financing of new components within ongoing investment operations.³⁶⁶

2.3. Status

The CIFs were designed as interim funding mechanisms to help developing countries fill financing gaps. Funding should complement and coordinate with existing bilateral and multilateral funding. MDBs that deploy SCF funding should also demonstrate what can be achieved when the additional SCF funding is combined with existing development finance. The PPCR provides short-term financing, and the Sub-Committee will not approve new PPCR financing after calendar year 2012.³⁶⁷

Table 1: PPCR pledges, as of October 31, 2010³⁶⁸

Contributor	Contribution Type	Currency (USD)	Amounts (USD million)
Australia	Grant	AUD	40
Canada	Grant	CAD	100
Denmark	Grant	DKK	76
Germany	Grant	EUR	50
Japan	Grant	USD	100
Norway	Grant	NOK	45
UK	Capital	GBP	225
US	Grant	USD	290
TOTAL			1,036

As of October 31, 2010, total funds held in trust (already deposited by donors) by PPCR total USD 161 million.³⁶⁹

Table 2: List of pilot countries and regions of the PPCR³⁷⁰

Country programs	Regional Caribbean program	Regional Pacific program
Bangladesh	Dominica	Papua New Guinea
Bolivia	Grenada	Samoa
Kingdom of Cambodia	Haiti	Tonga
Republic of Mozambique	Jamaica	
Nepal	Saint Lucia	
Republic of Niger	Saint Vincent and the Grenadines	
Republic of Tajikistan		
Yemen		
Zambia		

As of October 31, 2010, the PPCR has disbursed USD 9 million for Phase 1 funding of pilots programs in Bolivia, Cambodia, Mozambique, Tajikistan, Yemen and Zambia.³⁷¹ The PPCR has approved USD 225,000 to support Nepal's Phase 1 proposal preparation.³⁷²

Table 3: List of pilot programs approved for Phase 1 PPCR funding, as of October 31, 2010

Pilot Program for Climate Resilience (PPCR); 9 pilot countries and 2 pilot regions (containing another 9 countries)³⁷³
<p>PPCR in Cambodia³⁷⁴ Phase 1 Funding approved for Phase 1: USD 1,500,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Include consideration of climate resilience in planning, budgeting and investment proposals of key ministries. 2. Include climate resilience investments at the subnational level in local governance, local development and natural resources management. 3. Ensure more stable sources of income for vulnerable groups such as subsistence farmers and fishing communities. 4. Implement early-warning systems that provide daily weather predictions and reliable seasonal forecasts.
<p>PPCR in Tajikistan³⁷⁵ Phase 1 Funding approved for Phase 1: USD 1,500,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Assess Tajikistan’s institutional, technical and human capacities at the national and local levels in an effort to mainstream climate change considerations in key policy areas, with particular focus on the requirements for advancing the Strategic Program for Climate Resilience. 2. Assess Tajikistan’s ability to project future climate scenarios and their impacts on various sectors and resources, and help the country plan for further development and use of climate change information. 3. Hold events to raise policy makers’ and other stakeholders’ awareness of climate change impacts, vulnerabilities and adaptation, and hold “train the trainer” sessions in which people learn how to train others in future awareness-raising activities.
<p>PPCR in Yemen³⁷⁶ Phase 1 Funding approved for Phase 1: USD 1,500,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Under the fourth Five-Year National Development Plan (2010–2015), incorporate climate resilience as a smart growth strategy in key sectors. 2. Define strategies for key line agencies to mainstream climate resilience, based on in-depth institutional assessments, needs and gaps, including identification of priority actions. 3. Agree on a shared mechanism for climate information management already in place, and develop short-, medium- and long-term plans for Yemen to address climate information management as a foundation for response to climate change and climate variability. 4. Implement fully functioning mechanisms to address climate change at the policy, institutional and implementation levels.
<p>PPCR in Mozambique³⁷⁷ Phase 1 Funding approved for Phase 1: USD 1,500,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Assess climate vulnerability of the next Five-Year Development Plan. 2. Identify capacity-building needs in MPD/MICOA and in key line ministries (transport, agriculture, water). 3. Conduct a coastal cities vulnerability study. 4. Review public expenditures and conduct institutional assessments of the three poles (the Zambezi basin, where the main risks are floods and droughts; the Limpopo watershed, where the main risk is drought; and the coastal town of Beira or possibly an alternative vulnerable coastal town. 5. Conduct socioeconomic assessments, determine sector vulnerabilities and define climate resilience activities, such as strengthening of hydro-meteorological stations, in the three poles. 6. Analyze sector risks and barriers to adaptation in the port, urban water, tourism and forestry sectors; identify priority needs in these sectors; and conduct initial scoping on health and gender. 7. Conduct a Strategic Environmental Assessment and a Social Environmental Assessment of the SPCR investment plan.
<p>PPCR in Bolivia³⁷⁸ Phase 1 Funding approved for Phase 1: USD 1,500,000</p> <p>Program objectives:</p> <ol style="list-style-type: none"> 1. Have the Bolivian Strategic Program for Climate Resilience finance PPCR–Bolivia Phase 2, using funds from CIF and/or other sources. 2. Establish the National Plan of Social and Economic Development, which will integrate climate-resilient policies and strategies. 3. Fully assess climate change risk and the needs of institutional capacity building; for institutions in charge of the systematic climate observation networks and institutions responsible for generating knowledge and information, including the university system, strengthen strategies for climate resilience.

PPCR in Zambia³⁷⁹

Phase 1

Funding approved for Phase 1: USD 1,500,000

Program objectives:

1. Gather all relevant information on climate resilience.
2. Compile information about all country-level programs and activities, whether planned or already in place, that could be relevant to the PPCR.
3. Support the preparation of Terms of Reference for the joint mission and the development of the joint mission’s program and composition.

PPCR in Nepal³⁸⁰

Phase 1 preparation

Funding approved for Phase 1 preparation: USD 225,000

3. Review of Key Issues

3.1. Transparency

When the CIFs were created, civil society criticized them for inadequate stakeholder consultation in their design. The PPCR, however, attempts to achieve transparency in its program design. The development of a PPCR strategic program is meant to be an inclusive process and serves to strengthen the fund’s collaboration with other development partners working in the same country. During Phase 1 of the PPCR strategic program, partnering MDBs visit the recipient country on a joint mission led by the governments of the participating country. The mission’s goal is to ensure that various stakeholders—including relevant government agencies; NGOs and other civil society groups; private-sector groups found through the local business council, or strategic players; and country-based development partners such as UN agencies, bilateral donors, international finance institutions and regional development agencies—are involved and consulted during the mission to carry out complementary programs.³⁸¹ To ensure stakeholder involvement in practice, countries need to include in their Phase 1 proposal a list of all stakeholders consulted during program preparation.³⁸²

The presence of “active” observers from the UN, GEF, UNFCCC and civil society, as well as indigenous people and the private sector, enhances PPCR transparency at Trust Fund Committee and Sub-Committee meetings. The constituency concerned³⁸³ chooses who gets to observe and speak during committee meetings.

3.2. Accountability

The PPCR’s design purposely includes regular reporting mechanisms. Each MDB must report to the PPCR Sub-Committee, and the PPCR Sub-Committee must develop, “in consultation with interested governments, MDBs and other development partners, a robust performance measurement framework” to keep the SCF Trust Fund regularly informed of the results and lessons learned from the program.³⁸⁴

To enhance measurement, evaluation and reporting, the PPCR Sub-Committee established a Canada-chaired working group to develop a performance measurement framework. The working group comprised representatives from the PPCR Sub-Committee (Bangladesh, Canada, Samoa and the United Kingdom), MDBs (the African Development Bank and World Bank Group), the United Nations Development Programme (representing all UN agencies) and an NGO (the World Resources Institute).³⁸⁵ Participating countries are expected to develop their own performance measurement frameworks focusing on specific projects.³⁸⁶ This is all in addition to the relevant safeguards of the MDB implementing agencies which are applicable to PPCR funded projects.³⁸⁷

3.3. Equitable representation

The PPCR Sub-Committee invites the following observers to attend its meetings:

1. Four civil society representatives
2. Two indigenous peoples representatives
3. Two private-sector representatives
4. GEF
5. United Nations Development Programme
6. United Nations Environment Programme
7. UNFCCC

Unlike at UNFCCC and KP fund meetings, observers at PPCR meetings can ask questions and make comments. The indigenous peoples have not yet nominated any representatives, and the GEF has not attended any meetings, but civil society observers reportedly are active and vocal participants.³⁸⁸

3.4. Timeline for disbursements

Funding is disbursed in two phases: first for developing country SPCR, and second for implementation. Since its establishment in 2009, the PPCR Sub-Committee has approved Phase 1 funding of USD 1.5 million for six countries (Cambodia, Tajikistan, Yemen, Mozambique, Bolivia and Zambia) and USD 225,000 to support Nepal's Phase 1 proposal.³⁸⁹

3.5. Access

The PPCR aims to promote a participatory approach during the SPCR development process that is built on local experiences and consultation. Consultation is meant to involve a broad range of stakeholders from cross-sectoral government departments; nongovernment actors, including civil society groups and highly affected groups such as small farmers and women and other vulnerable groups) – and the private sector.³⁹⁰ Some civil society observers have seen little evidence of substantive consultation with national or local civil society organizations or affected communities in the preparation of the proposals. Nevertheless, with little debate, the Sub-Committee approved the maximum amount of Phase 1 funding for each country.³⁹¹

Eligibility

Country eligibility to receive funding is based on³⁹²

1. ODA eligibility (based on Organisation for Economic Cooperation and Development/Development Assistance Committee guidelines); and
2. The existence of an active country program of an MDB, such as a lending program or an ongoing policy dialogue with the country.

The PPCR agreed that countries could move forward individually where regional programs are not complete, so long as they could provide a brief description of how individual country proposals fit within their regional frameworks. This is expected to reduce delays. Nonetheless, some country representatives expressed concerns about the potential loss of benefits from cooperation and capacity sharing that regional programs are supposed to bring.³⁹³

Types of initiatives funded

The PPCR provides financing through MDBs to support technical assistance and programs described as³⁹⁴

1. technical assistance to help countries build upon existing national work to integrate climate resilience into national or sectoral development plans, strategies and financing; and
2. programs of public- and private-sector investments identified in national or sectoral development plans or strategies addressing climate resilience.

The PPCR gives priority to highly vulnerable LDCs, including small island developing states.³⁹⁵

The PPCR Sub-Committee, with advice from the Expert Group, identified a short list of recipient countries that can submit expressions of interest, and the PPCR Sub-Committee will select the pilot countries. A group of countries can propose a regional or sub-regional program as a single pilot.³⁹⁶

Project cycle

The PPCR program is based on pilot programs that are carried out in selected countries. After the pilot countries have been selected by the PPCR sub-committee based on the recommendations of the Expert Group, the pilot programs run through two phases:

*Phase 1: Development of a Strategic Approach for Climate Resilience*³⁹⁷

Phase 1 consists of a series of tasks in the pilot country, “including facilitation of a cross-sectoral dialogue process to arrive at a common vision of climate resilience in the medium and long-term, and formulation of a strategic approach for climate resilience. At the end of Phase 1, to support this strategic approach, an underlying investment program, a Strategic Program for Climate Resilience, will be developed.”³⁹⁸

The length of this phase is three to 18 months, depending on previous and ongoing efforts in the pilot countries. Phase 1 comprises four components: i) initial joint mission; ii) numerous analytic and awareness-raising tasks to draft the SPCR; iii) a second joint mission to finalize the draft; and iv) delivery of the final report, which outlines the government’s agreed-upon long-term vision to achieve a climate-resilient development trajectory and to establish a critical path to get there, including a performance framework. PPCR Sub-Committee endorsement of the report marks the transition to Phase 2.³⁹⁹

Phase 2: Implementation of the Strategic Program

Following PPCR Sub-Committee endorsement and financial approval, the participating country will have access to a preparation grant to enable detailed preparation of the components of the program. Preparation actions include supporting policy reform, institutional capacity building and scaling up investments in key sectors.⁴⁰⁰ The preparation and the implementation of the investment program follow the respective MDB procedures.⁴⁰¹

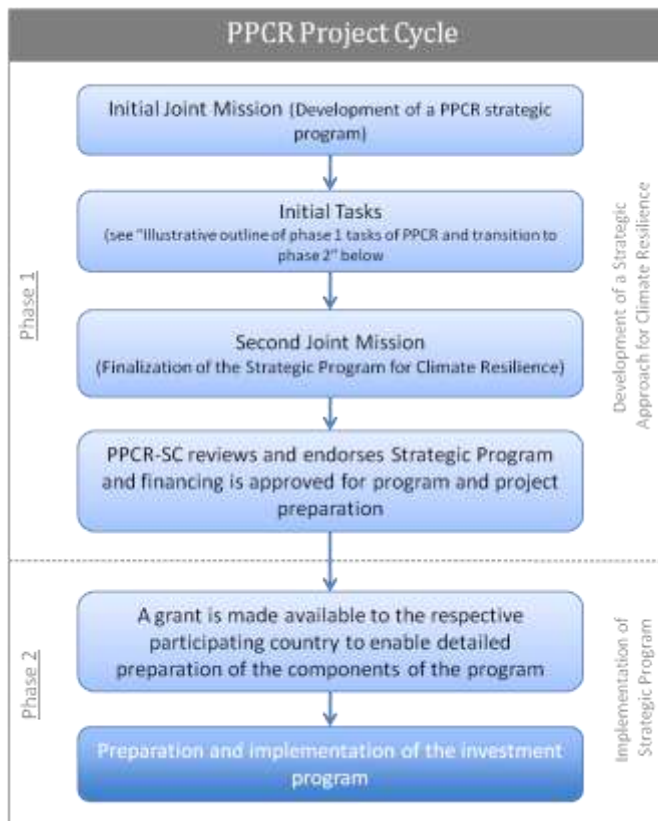


Figure 2: Overview of the PPCR project cycle

The immediate outcomes of an SPCR should include the following:⁴⁰²

1. An increased capacity to integrate climate resilience into country development strategies
2. A more inclusive approach to climate-resilient growth and development
3. An increased awareness of the potential impact of climate change
4. Scaled-up investments for broader interventions and programming related to climate resilience
5. Improved coordination among stakeholders regarding country-specific climate-resilient programs

3.6. Opinions on the PPCR

Civil society and developing countries criticize tCIFs and the PPCR were established specifically for their lack of stakeholder consultation⁴⁰³ and because their process of designing and implementing the proposals for the new CIFs has taken place outside the UNFCCC negotiating framework. As such, civil society and developing countries question the CIFs' legitimacy, because they do not provide an equitable distribution of income or representation across UNFCCC parties.⁴⁰⁴

In addition to these governance issues, financial aspects of the CIFs have come under criticism. Some groups fear that the CIFs may dwarf and divert away resources available under existing financing mechanisms of the UNFCCC and KP.⁴⁰⁵

The other main criticism regarding PPCR funding is the provision of adaptation funding via not only grants, but loans as well, unlike all the other adaptation funds, which offer funding only through grants. The PPCR is required to do so as the UK provided GBP 225 million (USD 419 million) in funding as loans that will need to be repaid in the future.⁴⁰⁶ This is from a capital grant that, once repaid to the CIFs, can be reinvested in other programs to help other developing countries. The PPCR points out that the loans are optional and the terms,

including interest rates, are more favorable than those of IDA loans. Civil society, however, has criticized the PPCR for providing any adaptation funding via any form of loan. Because adaptation funding should be seen as payment of climate debts, debts cannot be repaid via loans, thus making any repayment of adaptation funding objectionable.⁴⁰⁷

Table 4: Terms of PPCR loans⁴⁰⁸

	Maturity	Grace period	Principal repayments, years 11–20	Principal repayments, years 20–40	FY10–11 service charge a/	Grant element b/
Credit	40	10	2%	4%	0.10%	75%

Observers' increased participation in the PPCR, as compared to observers under the LDCE, the SCCF and the AF, has been viewed favorably, as have the consensus model of decision making and equal representation of donors and recipients on the PPCR Sub-Committee.

Endnotes

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² Decision 1/CP.13.

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⁴ Draft decision -/CP.15 (Copenhagen Accord), See <http://unfccc.int/resource/docs/2009/cop15/eng/107.pdf>.

⁵ Draft decision -/CP.16 (Cancun Agreements).

⁶ Ibid. Fifteen members of the Transitional Committee are from developed countries, and 25 members are from developing countries.

⁷ UNFCCC, Preliminary estimates of additional investments and financial flows needed for adaptation in 2030, available at:

http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/adaptation_presentation_joel_smith.pdf.

⁸ UNDP, Human Development Report 2007/08, Chapter 4: Adapting to the inevitable: National action and international cooperation, p. 194, available at: http://hdr.undp.org/en/media/HDR_20072008_EN_Chapter4.pdf.

⁹ ActionAid USA, Equitable adaptation finance: The case for an enhanced funding mechanism under the United Nations Framework Convention on Climate Change, available at: http://www.actionaidusa.org/assets/pdfs/climate_change/equitable_adaptation_finance.pdf.

¹⁰ See Table 1 for references.

¹¹ The practice of disbursing international financial assistance to address international environmental issues can be traced back to the 1987 Montreal Protocol on Substances That Deplete the Ozone Layer (26 I.L.M. 1550 (1987), September 16, 1987) – one of the first international treaties dealing with a global environmental problem.

¹² For a more detailed review of the creation of the GEF, see Charlotte Streck, "International Governance: Lessons from the Global Environment Facility."

¹³ The Group of 77 (G-77) was established on 15 June 1964 by 77 developing country signatories of the "Joint Declaration of the Seventy-Seven Countries" issued at the end of the first session of the United Nations Conference on Trade and Development (UNCTAD) in Geneva.

¹⁴ GEF, *The Pilot Phase and Beyond*, 1992, para. 1.02. Footnote 2.cited in Charlotte Streck, International Governance: Lessons from the Global Environment Facility p. 7.

¹⁵ The evaluation was conducted by three teams, each with its own coordinator and staff, reporting to senior evaluation managers in each of the three implementing agencies (the UNDP, UNEP and World Bank). An independent panel of experts provided strategic guidance and ensured the independence of the evaluation.

¹⁶ GEF, *Independent Evaluation of the Pilot Phase*, 1994, p. 15.

¹⁷ Charlotte Streck, *The Global Environment Facility – A Role Model for International Governance?* (2001) Global Environmental Politics, May 2001.

¹⁸ "Decisions of the Assembly and the Council shall be taken by consensus. In the case of the Council if, in the consideration of any matter of substance, all practicable efforts by the Council and its Chairperson have been made and no consensus appears attainable, any Member of the Council may require a formal vote." [...] "Unless otherwise provided in the Instrument, decisions requiring a formal vote by the Council shall be taken by a double weighted majority, that is, an affirmative vote representing both a 60 percent majority of the total number of Participants and a 60 percent majority of the total contributions."

Rules of Procedures for the GEF Council, available at: http://www.thegef.org/gef/sites/thegef.org/files/publication/11488_English.pdf.

¹⁹ Helen Sjoberg, "From Idea to Reality – The Creation of the Global Environment Facility", GEF Working Paper 10, 1994 and

"Restructuring the Global Environment Facility," GEF Working Paper 13, September 1999.

²⁰ Luiz Gomez-Echeverri and Benito Muller, ECBI policy brief, *The Financial Mechanism of the UNFCCC: a Brief History*, April 2009, p. 3, para. 2.

²¹ Joint Summary of the Chairs, GEF Council Meeting, December 5-7, 2001, para 37.

²² Charlotte Streck, *Financial Instruments and Cooperation in Implementing International Agreements for the Global Environment (2006) in: Multilevel Governance of Global Environmental Change*, Gerd Winder (ed.) Cambridge University Press, p.493-516.

²³ Personal communication with the authors.

²⁴ Decision 1/CP.4.

²⁵ FCCC/CP/2000/CRP.14.

²⁶ FCCC/CP/2001/MISC.1.

²⁷ S. Dessai, "The special climate change fund: origins and prioritisation assessment," *Climate Policy* 3 (2003) 295–302.

²⁸ Ibid.

²⁹ Ibid.

³⁰ Decision 5/CP.6

³¹ Decision 5/CP.7 and Decision 7/CP.7

³² Decision 10/CP.7 para. 4.

³³ Decision 7/CP.8 para. 4.

³⁴ Personal communication with the authors and S. Dessai "The special climate change fund: origins and prioritisation assessment," *Climate Policy* 3 (2003) 295–302.

³⁵ Decision 5/CP.9 paragraph 1(c).

³⁶ The SCCF has two additional funding windows: one for "energy, transport, industry, agriculture, forestry and waste management," and the other for "economic diversification." Neither window has ever been active, so they have not funded any projects.

³⁷ Decision 7/CP.7, para. 1 (c).

³⁸ Least Developed Countries Fund official website, see <http://www.thegef.com/gef/ldcf>.

³⁹ Special Climate Change Fund official website, see <http://www.thegef.com/gef/sccf>.

⁴⁰ Decision 1 CMP.3 paragraph 4.

⁴¹ Ibid.

⁴² Decision 1/CMP.3.

⁴³ Personal communication with the authors.

⁴⁴ See “Business as usual, direct access: giving power back to the poor?” Caritas and CIDSE discussion paper, June 2010 and “Equitable adaptation finance: the case for an enhanced funding mechanism under the United Nations Framework Convention on Climate Change”, ActionAid, 2009.

⁴⁵ G77/China proposal for Copenhagen, December 2010: Financial Mechanism for Meeting Financial Commitments under the Convention.

⁴⁶ See <http://www.accralhif.net>.

⁴⁷ World Bank Document SecM2008-0361 of August 26, 2008.

⁴⁸ See “Legal Status of the Adaptation Fund,” AFB/B.2/7, May 2008.

⁴⁹ Decision 1/CMP.4, para 11.

⁵⁰ R. Czarnecki and K. Guilanpour, “The Adaptation Fund after Poznan” in CCLR 1/2009, p. 79.

⁵¹ See annexes to AFB Document AFB/B.6.13 of June 5, 2009.

⁵² Pursuant paragraphs 20(a) and (c) of the Governance Framework for the Strategic Climate Fund.

⁵³ Climate Investment Funds, History, See <http://www.climateinvestmentfunds.org/cif/designprocess>.

⁵⁴ Personal communication with the authors.

⁵⁵ See, for example, press releases at the time: <http://uk.reuters.com/article/idUKZWE33022320080703>.

⁵⁶ Personal communication with the authors.

⁵⁷ Climate Investment Funds document, “The Pilot Program for Climate Resilience under the Strategic Climate Fund,” November 2008, p. 2, available at: <http://www.climateinvestmentfunds.org/cif/ppcr>.

⁵⁸ Strategic Climate Fund / PPCR Official pledges.

⁵⁹ Voting in the GEF Council is governed by the principle of a double-weighted majority, which requires a 60% majority of the total number of participating states, and a 60% majority of the total amount of contributions made. Source: ActionAid USA, Equitable adaptation finance: The case for an enhanced funding mechanism under the United Nations Framework Convention on Climate Change, see http://www.actionaidusa.org/assets/pdfs/climate_change/equitable_adaptation_finance.pdf.

⁶⁰ Final GEF-5 Programming Document, Available at:

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⁶¹ See the table on page 104, Ibid.

⁶² Ibid.

⁶³ Personal communication with the authors.

⁶⁴ Lattanzio R., *Global Environment Facility (GEF): An Overview*, Congressional Research Service, May 2010, available online at: <http://ncseonline.org/NLE/CRSreports/10Jun/R41165.pdf>.

⁶⁵ Operational Policies and Guidelines for the Parties to Access Resources from the Adaptation Fund, available at: http://www.adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf.

⁶⁶ Decision 3/CP.11 - http://unfccc.int/essential_background/library/items/3599.php?such=j&symbol=FC/CP/2005/5/Add.1#beg.

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⁶⁹ Programming and financing modalities for the SCF targeted program, the Pilot Program for Climate Resilience (PPCR), available at: http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Programming_Document_Final_16July_2009.pdf.

⁷⁰ Climate Funds Update, Adaptation Fund, see <http://www.climatefundsupdate.org/listing/adaptation-fund>.

⁷¹ Status report on the Least Developed Countries Fund and the Special Climate Change Fund, October 8, 2010, available at: http://www.thegef.org/gef/LDCF_SCCF_9_Inf2.

⁷² Ibid.

⁷³ Strategic Climate Fund / PPCR official pledges.

⁷⁴ Financial status of the Adaptation Fund Trust Fund (on July 31, 2010), available at:

http://www.adaptation-fund.org/system/files/AF_Financial_Status_Report_Jul%2031%202010%20-%20Final.pdf.

⁷⁵ Status report on the Least Developed Countries Fund and the Special Climate Change Fund, October 8, 2010, available at:

http://www.thegef.org/gef/LDCF_SCCF_9_Inf2.

⁷⁶ Ibid.

⁷⁷ Climate Funds Update, Pilot Program for Climate Resilience, available at: <http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience>.

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⁸⁰ Ibid.

⁸¹ Climate Investment Funds, Pilot Program for Climate Resilience official website: <http://www.climateinvestmentfunds.org/cif/ppcr>.

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⁸⁴ Ibid.

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- ⁹⁵ ActionAid, *Equitable Adaptation Finance: The Case for an Enhanced Funding Mechanism Under the UN Framework Convention on Climate Change*, September 2009, based on five principles established in ActionAid’s 2007 report *Compensating for Climate Change: Principles and Lessons for Equitable Adaptation Finance*.
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- ⁹⁹ *The Adaptation Fund: a model for the future?*
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http://unfccc.int/cooperation_support/least_developed_countries_portal/napa_priorities_database/items/4583.php.

¹²⁷ Decision 5/CP.9.

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¹⁴⁰ Personal communication with the authors.

¹⁴¹ See, for example, UNFCCC Articles 4.1(e), 4.4, 4.5 and 4.8.

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¹⁴³ Ibid.

¹⁴⁴ Ibid.

¹⁴⁵ It should be noted that some of the individuals interviewed stated that competition for funding can be positive if it keeps organizations “sharp and focused.”

¹⁴⁶ Draft Decision -/CP.16 (Cancun Agreements).

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¹⁵⁰ Ibid.

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¹⁵² For example, allowances given to companies with obligations to reduce their emissions under domestic cap and trade systems such as the EU Emissions Trading Scheme.

¹⁵³ JI projects are the projects that reduce or remove emissions in developed countries. Unlike with CDMs, a percentage of the credits generated under JI projects is not set aside to fund adaptation.

¹⁵⁴ Financing Climate Change Adaptation and Mitigation in Africa: Key issues and options for policy-makers and negotiators, The third financing for Development Conference on Climate Change, Kigali, Rwanda, Policy Brief, May 21-22, 2009, available at:

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¹⁵⁶ The World Future Council, *How to stop climate change with new Special Drawing Rights of the IFM*, available at

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¹⁵⁷ This could include highly polluting industry in middle income countries that have the capacity to contribute to adaptation funding. Many private sector actors in developed countries will also bear the burden of adaptation in their own countries.

¹⁵⁸ Decision 3/CMP.1.

¹⁵⁹ Guidelines for Completing the Project Design Document (CDM-PDD) and the Proposed New Baseline and Monitoring Methodologies (CDM-NM), Version 07 (EB 41, Annex I2), available at www.unfccc.int.

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¹⁶¹ One interviewee reported that although the SCCF and the LDCF considered weighted voting as a final decision-making option, decision making is carried out by consensus in practice.

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¹⁶⁴ Athena Ballesteros and Vivek Ramkumar, International Budget Partnership (2009), Accounting for Results: Ensuring Transparency and Accountability in Financing for Climate change, available at <http://www.internationalbudget.org/resources/briefs/brief9.pdf>.

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¹⁶⁸ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, para. 25.

¹⁶⁹ AFB, Initial Funding Priorities, September 16-17. http://adaptation-fund.org/system/files/AFB.B.11.5.Initial%20Funding%20Priorities.final_.pdf.

¹⁷⁰ Ibid.

¹⁷¹ Report of the 11th meeting of the Adaptation Fund Board, Decision B.11/16, September 16-17, 2010.

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¹⁷⁴ CIFs, The selection of countries to participate in the Pilot Program for Climate Resilience (PPCR), January 2009, available at: http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Report%20of%20the%20PPCR%20EG-Proposal%20for%20Selection%20of%20Pilot%20Programs2_kd.pdf.

¹⁷⁵ Additionality is used in climate change discussions in two other ways: in reference to developed country funding being “additional” to ODA, and in reference to emission reductions being “additional” to baseline emissions.

¹⁷⁶ Decision 5/CMP.2, para. 1 (d).

¹⁷⁷ Pilot Program for Climate Resilience, Financial Modalities, June 15, 2010.

¹⁷⁸ Adaptation Fund, Report on Fiduciary Standards for Implementing Agencies, available at: http://adaptation-fund.org/system/files/AFB.B.6.4_Fiduciary_Standards.pdf.

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¹⁸⁰ A. Ballesteros et al (December 2009), World Resources Institute, Power, Responsibility & Accountability, Rethinking the legitimacy of institutions for climate change, p. 31, available online at: http://pdf.wri.org/working_papers/power_responsibility_accountability_sliddeck.pdf.

¹⁸¹ Agency Progress on Meeting GEF Minimum Fiduciary Standards, available at:

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¹⁸² Ibid.

¹⁸³ Ibid.

¹⁸⁴ Another important issue that is beyond the scope of this paper, unfortunately, is a comparative analysis of safeguards (as opposed to fiduciary standards) across GEF agencies.

¹⁸⁵ How the Green Climate Fund, established under the UNFCCC, would relate to the AF, established under the Kyoto Protocol, is unclear. The US will be the key to any possibility of consolidating these funds.

¹⁸⁶ Decision 5/CMP.7. NAPAs provide a process for LDCs to identify priority activities that address their urgent and immediate needs to adapt to climate change—those for which further delay would increase vulnerability and costs.

¹⁸⁷ UNFCCC website, National Adaptation Programmes of Action (NAPAs), see http://unfccc.int/national_reports/napa/items/2719.php

¹⁸⁸ UNFCCC website, Least Developed Countries fund webpage, see http://unfccc.int/cooperation_and_support/financial_mechanism/least_developed_country_fund/items/3660.php.

¹⁸⁹ UNFCCC website, LDC Fund, See http://unfccc.int/cooperation_support/least_developed_countries_portal/ldc_fund/items/4723.php.

¹⁹⁰ “Accessing resources under the Least Developed Countries Fund,” Table 2, GEF/LDCF.SCCF.8, June 2010. For a more detailed overview, see also GEF LDCF programming paper, annex B (GEF/C.28/18).

¹⁹¹ The System for Transparent Allocation of Resources (STAR) is how the GEF under the fifth replenishment of the GEF (GEF-5), determines the amount of resources that a given country can access in a replenishment period. It replaces the Resource Allocation Framework (RAF) that was used during the fourth replenishment period of the GEF (GEF-4). For the fifth replenishment of the GEF (GEF-5), the STAR will determine the allocation of resources for the focal areas of biodiversity, climate change, and land degradation. Other focal areas and programs are not covered by the STAR under GEF-5. See http://www.thegef.com/gef/sites/thegef.org/files/publication/GEF_STAR_lowres.pdf.

¹⁹² Administrative Budget for the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), para. 1., see: http://207.190.239.143/uploadedFiles/Documents/LDCFSCCF_Council_Documents/LDCFSCCF6_June_2009/LDCF.SCCF.6.5%282%29.pdf.

¹⁹³ GEF website, SCCF, Governance of the Fund, see http://www.thegef.org/gef/SCCF_Governance.

¹⁹⁴ The list of current members of the Council can be found at http://www.thegef.org/gef/sites/thegef.org/files/documents/C.38.Inf_2-Council%20Members%20and%20Alternates_0.pdf.

¹⁹⁵ Rules of procedure for the GEF Council, available at: http://207.190.239.143/whats_new/GEF_Rules3.pdf.

¹⁹⁶ GEF website, Home, Participants, Assembly, see <http://207.190.239.143/participants/assembly/assembly.html>.

¹⁹⁷ Any State member of the United Nations or of any of its specialized agencies may become a Participant in the GEF.

¹⁹⁸ Assessing Resources under the Least Developed Countries Fund, LDCF/SCCF Council meeting, July 1, 2010, http://www.thegef.org/gef/sites/thegef.org/files/documents/Assessing%20Resources_.pdf, p. 31.

¹⁹⁹ Status Report on the Least Developed Countries Fund and the Special climate Change Fund, available at: http://www.thegef.org/gef/sites/thegef.org/files/Status%20Report%20on%20the%20Climate%20Change%20Funds%20-%20March%20meeting_v3.pdf.

- ²⁰⁰ GEF website, List of GEF agencies, see <http://207.190.239.143/interior.aspx?id=104>
- ²⁰¹ GEF website, Scientific & Technical Advisory Panel (STAP), see <http://207.190.239.143/interior.aspx?id=112>
- ²⁰² The GEF monitoring and evaluation policy, see http://207.190.239.143/uploadedFiles/Policies_and_Guidelines-me_policy-english.pdf
- ²⁰³ Climate Funds Update, Least Developed Countries Fund, see <http://www.climatefundsupdate.org/listing/least-developed-countries-fund>.
- ²⁰⁴ IIED Briefing, April 2009, National Adaptation Funding: Ways forward for the poorest countries, see <http://www.iied.org/pubs/pdfs/17054IIED.pdf>.
- ²⁰⁵ UNFCCC website, Funding Options for adaptation, Least Developed Countries Fund (LDCF), see http://unfccc.int/adaptation/implementing_adaptation/adaptation_funding_interface/items/4564.php.
- ²⁰⁷ Ibid.
- ²⁰⁸ Germanwatch, December 2008, Making the Adaptation Fund Work for the Most Vulnerable People, available at: <http://www.germanwatch.org/klima/adfund08.pdf>.
- ²⁰⁹ “Enabling Activities (EA) – NAPA preparation proposals of LDCs - under expedited procedures (up to \$500,000 in GEF financing, but varies across focal areas) do not need to submit a PIF. EA project document will be approved by the CEO and will be accessible on the GEF database through the GEF website. For EAs that are not under expedited procedures, processing is the same as full-sized projects.” Climate Funds Update, LDCF, <http://www.climatefundsupdate.org/listing/least-developed-countries-fund>.
- ²¹⁰ Progress Report on the LDCF and the SCCF, October 20, 2010.
- ²¹¹ IIED Briefing, April 2009, National Adaptation Funding: Ways forward for the poorest countries, see <http://www.iied.org/pubs/pdfs/17054IIED.pdf>.
- ²¹² Decision 3/CP.12, p.2, http://unfccc.int/files/national_reports/non-annex_i_natcom/submitted_natcom/application/pdf/3_cp.12.pdf
- ²¹³ GEF website, GEF project cycle, see http://207.190.239.143/interior_right.aspx?id=90.
- ²¹⁴ Mitchell, T. et al (December 2008), Principles for delivering adaptation finance, IDS, available at: http://www.preventionweb.net/files/7844_Adaptation20Finance20Briefingfinal11.pdf p. 2.
- ²¹⁵ Follow-up to the LDCF Evaluation (prepared by DANIDA), October 20, 2010, available at: <http://www.thegef.org/gef/sites/thegef.org/files/documents/Follow-up%20to%20LDCF%20Evaluation%20DANIDA%20mem%20b%20.pdf>.
- ²¹⁶ Letter from the Least Developed Countries and the Least Developed Countries Expert Group to the Members of the LDCF/SCCF Council, November 17, 2010.
- ²¹⁷ UNFCCC Guidance to the Global Environment Facility, see http://unfccc.int/cooperation_support/financial_mechanism/guidance/items/3655.php.
- ²¹⁸ Decision 6/CP.9 and Decision 3/CP.11.
- ²¹⁹ GEF LDCF programming paper (GEF/C.28/18).
- ²²⁰ Accessing resources under the Least Developed Countries Fund, para. 30, GEF/LDCF.SCCF.8.
- ²²¹ GEF LDCF programming paper, para. 52-54 (GEF/C.28/18).
- ²²² Step-by-step guide to the LDCF project cycle, see <http://www.thegef.org/gef/sites/thegef.org/files/documents/Step-by-Step%20Guide%20to%20the%20LDCF%20Project%20Cycle.pdf>.
- ²²³ Rules of procedure for the GEF Council, available at: http://207.190.239.143/uploadedFiles/External_Affairs/Publications/Rules_of_Procedure2007.pdf.
- ²²⁴ “Enabling Activities (EA) – NAPA preparation proposals - under expedited procedures (up to \$500,000 in GEF financing, but varies across focal areas) do not need to submit a PIF. EA project document will be approved by the CEO and will be accessible on the GEF database through the GEF website. For EAs that are not under expedited procedures, processing is the same as full-sized projects.” <http://www.climatefundsupdate.org/listing/least-developed-countries-fundgefonline.org/>.
- ²²⁵ Climate Funds Update, LDCF, see <http://www.climatefundsupdate.org/listing/least-developed-countries-fund>.
- ²²⁶ Climate Funds Update, Least Developed Countries Fund, see <http://www.climatefundsupdate.org/listing/least-developed-countries-fund>.
- ²²⁷ NAPA, *Enhancing Adaptive Capacity and Resilience to Climate Change in the Agriculture Sector in Mali*, available at: <http://www.adaptationlearning.net/project/enhancing-adaptive-capacity-and-resilience-climate-change-agriculture-sector-mali>.
- ²²⁸ LDCF, Enhancing Climate Risk Management and Adaptation in Burundi (ECRAMB) http://www.thegef.org/gef/sites/thegef.org/files/documents/document/07-08-2010%20ID3701%20-%20%20Council%20Letter_0.pdf.
- ²²⁹ See, for example, SBI 29, December 2008: FCCC/SBI/2008/MISC.8.
- ²³⁰ See decisions 5/CP.7, 7/CP.7, 27/CP.7, 28/CP.7, 8/CP.8, 6/CP.9, 3/CP.11 and 5/CP.14.
- ²³¹ Decision 5/CP.14.
- ²³² Accessing resources under the Least Developed Countries Fund, GEF/LDCF.SCCF.8.
- ²³³ Final GEF-5 Programming Document, available at: http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF_R5_%2025,%20Final%20GEF_5%20Programming%20Document,%20Feb%2012,%202010.pdf.
- ²³⁴ Decision 6/CP.7
- ²³⁵ Programming to implement the guidance for the special climate change fund adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Ninth session, see <http://www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf> p. 10.
- ²³⁶ Accessing financing under the Least Developed Countries Fund, October 26, 2010, see: <http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF.SCCF%20Accessing%20Resources%20Under%20LDCF%20DRAFT%2010.pdf>.
- ²³⁷ At this stage, a project preparation grant (PPG) request can also be submitted. A PPG is to be used for covering costs associated with the work necessary to prepare the fully developed proposal.
- ²³⁸ For medium-sized projects, there is an option at this stage to submit the full project document for CEO endorsement.
- ²³⁹ If a project preparation grant (PPG) was requested and the PIF has been approved, the PPG funding is released.

²⁴⁰ Projects are approved unless four or more Council members request that the project be discussed and approved at the next GEF Council meeting.

²⁴¹ GEF Project and Programmatic Approach Cycles, October 2010.

²⁴² UNDP, Evolution of UNDP Work with Least Developed Countries Fund and Special Climate Change Fund Resources, available at: http://www.undp.org/evaluation/documents/thematic/lcdf/LDCF-SCCF_Evaluation.pdf.

²⁴³ Ibid.

²⁴⁴ Climate Funds Update, LDCF, see <http://www.climatefundsupdate.org/listing/least-developed-countries-fund>.

²⁴⁵ In decision 27/CP.7, the COP requested that the GEF provide funding from the LDC Fund to meet the agreed full cost of preparing NAPAs. The GEF responded that it would do so with anticipated funds from contributions toward the LDCF. See Paragraph 15 (c) of the Joint summary of the chairs of the GEF Council meeting of December 2001.

²⁴⁶ LDCF support to adaptation projects is based on identifying and meeting additional costs. Activities that would be implemented in the absence of climate change constitute a project *baseline*, and the costs of achieving this development scenario are referred to as baseline costs or baseline financing. Costs of the baseline scenario are covered by existing financing. The additional costs associated with meeting adaptation needs imposed on the country by the effects of climate change that are additional to the baseline costs, will be supported by the LDCF.

²⁴⁷ Programming Paper for funding the implementation of NAPAs under the LDC trust Fund, para. 44 (GEF/C.28/18).

²⁴⁸ Programming Paper for funding the implementation of NAPAs under the LDC trust Fund, para. 50 (GEF/C.28/18).

²⁴⁹ Ibid.

²⁵⁰ Ayers, M. et al (2008), Supporting Adaptation to Climate Change: What Role for Official Development Assistance? Available at: <http://www.eed.de/fix/files/doc/DSA%20conf%2008%20paper%20Ayers&Huq1.pdf>.

²⁵¹ Follow-up to the LDCF Evaluation (prepared by DANIDA), October 20, 2010, available at:

<http://www.thegef.org/gef/sites/thegef.org/files/documents/Follow-up%20to%20LDCF%20Evaluation%20DANIDA%20mem%20b%20.pdf>.

²⁵² Letter from the Least Developed Countries and the Least Developed Countries Expert Group to the Members of the LDCF/SCCF Council, November 17, 2010.

²⁵³ Decision 7/CP.7, Funding under the Convention, para. 1 (c) <http://unfccc.int/resource/docs/cop7/13a01.pdf#page=43>.

²⁵⁴ GEF, SCCF official website, see <http://www.thegef.org/gef/SCCF>.

²⁵⁵ Programming to implement the guidance for the special climate change fund adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Ninth session, see

<http://www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf>.

²⁵⁶ Status Report of the LDCF and the SCCF, July 1, 2010.

²⁵⁷ GEF, Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF), available at:

<http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF-SCCF-22Feb2010.pdf> p. 2.

²⁵⁸ UNFCCC, Funding options for adaptation, Special Climate Change Fund (SCCF), see

http://unfccc.int/adaptation/implementing_adaptation/adaptation_funding_interface/items/4565.php.

²⁵⁹ Status report on the Least Developed Countries Fund and the Special Climate Change Fund, October 8, 2010, available at:

http://www.thegef.org/gef/LDCF_SCCF_9_Inf2.

²⁶⁰ Ibid.

²⁶¹ GEF Project Database, see: <http://www.gefonline.org/>.

²⁶² Status report on the Least Developed Countries Fund and the Special Climate Change Fund, October 8, 2010, available at:

http://www.thegef.org/gef/LDCF_SCCF_9_Inf2.

²⁶³ Report of the GEF to the Sixteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, (July 1, 2010), para 66.

²⁶⁴ Report of the GEF to the Sixteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, (July 1, 2010), para 67.

²⁶⁵ GEF project database at <http://www.gefonline.org/projectListSQL.cfm>. For a full list of approved projects see: <http://www.gefonline.org>.

²⁶⁶ Ibid.

²⁶⁷ GEF Project database at <http://www.gefonline.org/projectListSQL.cfm>.

²⁶⁸ SCCF, Adaptation to Climate Change in Arid and Semi-Arid Lands (KACCAL), available at:

<http://www.adaptationlearning.net/project/adaptation-climate-change-arid-lands-kaccal>.

²⁶⁹ SCCF, Adaptation to Climate Change through Effective Water Governance, available at:

<http://www.adaptationlearning.net/projects/ecuador-adaptation-climate-change-through-effective-water-governance>.

²⁷⁰ Climate Funds Update, Special Climate Change Fund (SCCF), see <http://www.climatefundsupdate.org/listing/special-climate-change-fund>.

²⁷¹ Programming to implement the guidance for the special climate change fund adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Ninth session, see

<http://www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf> p. 9.

²⁷² GEF, Medium-sized project proposals circulated for approval, see http://www.thegef.org/gef/gefmsp_2009.

²⁷³ UNDP, Evolution of UNDP work with Least Developed Countries Fund and Special Climate Change Fund Resources, July 2009, available at: http://www.undp.org/evaluation/documents/thematic/lcdf/LDCF-SCCF_Evaluation.pdf.

²⁷⁴ Programming to implement the guidance for the special climate change fund adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Ninth session, see

<http://www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf> p. 10.

²⁷⁵ Draft Decision -/CP.12, Further guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the Special Climate Change Fund, available at: <http://unfccc.int/resource/docs/2006/sbi/eng/133.pdf>.

- ²⁷⁶ Programming to implement the guidance for the special climate change fund adopted by the Conference of the Parties to the United Nations Framework Convention on Climate Change at its Ninth session, see <http://www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf> p. 8.
- ²⁷⁷ Final GEF-5 Programming Document, available at: http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF_R5_%2025,%20Final%20GEF_5%20Programming%20Document,%20Feb%2012,%202010.pdf.
- ²⁷⁸ GEF website, The climate change funds, linking adaptation to development, See http://207.190.239.143/interior_right.aspx?id=264.
- ²⁷⁹ Decision 10/CP.7.
- ²⁸⁰ The legal basis for the AF is Art. 12, para. 8 of the Kyoto Protocol.
- ²⁸¹ Decision 5/CMP.2.
- ²⁸² 5th meeting AFB, March 2009.
- ²⁸³ Although the aim to prioritize the needs of the most vulnerable communities and people is set out in the Adaptation Fund establishing documents, it has been called into question how effective in practice this policy has been. Source: Making the Adaptation Fund Work for the Most Vulnerable People, Germanwatch discussion paper.
- ²⁸⁴ See Decision 1/CMP.3.
- ²⁸⁵ The Adaptation Fund Board, see <http://www.adaptation-fund.org/theboard>.
- ²⁸⁶ Rules of Procedures of the Adaptation Fund Board, available at: <http://www.adaptation-fund.org/system/files/Rules%20of%20procedure%20of%20the%20Adaptation%20Fund%20Board.pdf>.
- ²⁸⁷ Ibid.
- ²⁸⁸ Ibid.
- ²⁸⁹ Adaptation Fund Board Committees, see <http://www.adaptation-fund.org/AFBcommittees>.
- ²⁹⁰ Adaptation Fund Accreditation Panel, See <http://www.adaptation-fund.org/AccreditationPanel>.
- ²⁹¹ Adaptation Fund: Fiduciary Standards, available at: <http://www.adaptation-fund.org/system/files/AF-FidStand-Presentation-04Dec09.pdf>.
- ²⁹² Adaptation Fund, Accreditation Process and Application, available at: <http://www.adaptation-fund.org/node/192>.
- ²⁹³ Adaptation Fund, Accredited National Implementing Entities, available at: <http://www.adaptation-fund.org/accreditedNIEs>.
- ²⁹⁴ Accredited Multilateral Implementing Entities, available at: <http://www.adaptation-fund.org/accreditedMIEs>.
- ²⁹⁵ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, available at: http://www.adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf.
- ²⁹⁶ Accessing resources from the adaptation fund, available at: <http://www.preventionweb.net/english/professional/publications/v.php?id=13786>.
- ²⁹⁷ Appendix to Annex III to Decision 1/CMP.4.
- ²⁹⁸ Terms and Conditions of Services to be Provided by the Trustee to the Adaptation Fund: Proposed Extensions, see <http://adaptation-fund.org/system/files/AF%20Trustee%20Amendment%20to%20Terms%20and%20Conditions.pdf>.
- ²⁹⁹ Decision 1/CMP.3, para 18 and 19.
- ³⁰⁰ Rules of Procedure of the AFB, para 17.
- ³⁰¹ Appendix to Annex II to Decision 1/CMP.4.
- ³⁰² Share of Proceeds to Assist in Meeting the Costs of Adaptation, Para 2 and 3, available at: http://unfccc.int/files/cooperation_and_support/financial_mechanism/financial_mechanism_gef/application/pdf/adaptation_sop.pdf.
- ³⁰³ Adaptation Fund Trust Fund Guidelines for Accepting Unsolicited Donations, available at: <http://www.adaptation-fund.org/system/files/GuidelinesforAcceptingUnsolicited%20Donations.pdf>.
- ³⁰⁴ Adaptation Fund, The Trustee, see <http://www.adaptation-fund.org/trustee>.
- ³⁰⁵ UNFCCC, Funding Options for Adaptation, Adaptation Fund, see http://unfccc.int/adaptation/implementing_adaptation/adaptation_funding_interface/items/4566.php.
- ³⁰⁶ Financial Status of the Adaptation Fund Trust Fund (31 July 2010), available at: http://www.adaptation-fund.org/system/files/AF_Financial_Status_Report_Jul%2031%202010%20-%20Final.pdf.
- ³⁰⁷ Adaptation Fund, How to Apply, see <http://www.adaptation-fund.org/howtoapply>.
- ³⁰⁸ Climate Funds Update, Adaptation Fund, see <http://www.climatefundsupdate.org/listing/adaptation-fund>.
- ³⁰⁹ Financial Status of the Adaptation Fund Trust Fund (31 July 2010), available at: http://www.adaptation-fund.org/system/files/AF_Financial_Status_Report_Jul%2031%202010%20-%20Final.pdf.
- ³¹⁰ Adaptation Fund news at www.adaptation-fund.org, The Adaptation Fund Board approves financing for projects, operationalizes the direct access modality, see <http://adaptation-fund.org/node/794>.
- ³¹¹ Adaptation Fund, Project and Programme proposals, see <http://www.adaptation-fund.org/projectprogrammeproposals>.
- ³¹² Adaptation Fund news at www.adaptation-fund.org. The Adaptation Fund Board approves financing for projects, and operationalizes the direct access modality, see <http://adaptation-fund.org/node/794>.
- ³¹³ AF proposal for Senegal, see http://adaptation-fund.org/system/files/AFB.PPRC_.2.4%20Proposal%20for%20Senegal.pdf.
- ³¹⁴ AF proposal for Honduras, see http://adaptation-fund.org/system/files/AFB.PPRC_.2.7%20Proposal%20for%20Honduras.pdf.
- ³¹⁵ Adaptation Fund, Project and Programme proposals, see <http://www.adaptation-fund.org/projectprogrammeproposals>.
- ³¹⁶ Adaptation Fund Board Committees, see <http://www.adaptation-fund.org/AFBcommittees>.
- ³¹⁷ See AF Project Cycle, Sect. 3.5.
- ³¹⁸ Operational policies and guidelines for Parties to access resources from the Adaptation fund, available at: http://www.adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf.
- ³¹⁹ Ibid.
- ³²⁰ See the “Terms and Conditions of Services to be provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund,” para 4 (Appendix to Annex III to Decision 1/CMP.4).
- ³²¹ Terms and Conditions of Services to be Provided by the Trustee to the Adaptation fund: Proposed Extensions, see <http://adaptation-fund.org/system/files/AF%20Trustee%20Amendment%20to%20Terms%20and%20Conditions.pdf>.

³²² UNFCCC, Adaptation Fund Board, see http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/4264.php.

³²³ Adaptation Fund news at www.adaptation-fund.org. The Adaptation Fund Board approves financing for projects, and operationalizes the direct access modality, see <http://adaptation-fund.org/node/794>.

³²⁴ Decision 1/CMP.4.

³²⁵ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, para 9-11.

³²⁶ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, see http://adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf.

³²⁷ There is also an option to first submit a concept for endorsement by the AFB.

³²⁸ The AF “Operational Policies and Guidelines for Parties to access resources from the Adaptation Fund” do not specify who is considered a stakeholder.

³²⁹ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, see http://adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf.

³³⁰ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, para 40 and 41.

³³¹ Decision 1/CMP.4.

³³² Report of the 11th Meeting of the Adaptation Fund Board, para 86, AFB/B.11/9 (Decision B.11/16), available at: <http://adaptation-fund.org/system/files/AFB%2011%20Report.pdf>.

³³³ Adaptation Fund website, Implementing Entities, see <http://www.adaptation-fund.org/node/9>.

³³⁴ For list of Accredited National Implementing Entities, see <http://www.adaptation-fund.org/accreditedNIEs>.

³³⁵ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, see http://adaptation-fund.org/system/files/AFB.Operational_Policies_and_Guidelines.pdf p. 7.

³³⁶ Briefing on the 11th Meeting of the Adaptation Fund Board.

³³⁷ Ibid.

³³⁸ Ibid.

³³⁹ Benito Muller, “The Nairobi Climate Change Conference: A breakthrough for adaptation funding” (2007, Oxford Energy & Environment Comment, available at: http://www.oxfordenergy.org/pdfs/comment_0107-1.pdf).

³⁴⁰ See, for example, ActionAid USA, Equitable adaptation finance: The case for an enhanced funding mechanism under the United Nations Framework Convention on Climate Change, available at:

http://www.actionaidusa.org/assets/pdfs/climate_change/equitable_adaptation_finance.pdf.

³⁴¹ Germanwatch and Brot für die Welt Discussion Paper, “Making the Adaptation Fund Work for the Most Vulnerable People” (December 2008); IIED Briefing “The Adaptation Fund: a model for the future?” (November 2009); Climate Action Network – International, “Views regarding the Terms of Reference for the Review of the Adaptation Fund” (March 22, 2010); German watch “The Adaptation Fund in the debate on the post-2012 financial architecture” (December 10, 2009).

³⁴² Personal communication with the authors.

³⁴³ It should be noted that the lack of review is also found in the CDM Executive Board.

³⁴⁴ Personal communication with the authors.

³⁴⁵ Pursuant para 20(a) and (c) of the Governance Framework for the Strategic Climate Fund.

³⁴⁶ Climate Investment Funds document “The Pilot Program for Climate Resilience under The Strategic Climate Fund” November 2008, at 2, available at: <http://www.climateinvestmentfunds.org/cif/ppcr>.

³⁴⁷ PPCR Results Framework (prepared by working group, chaired by Canada), available at:

<http://siteresources.worldbank.org/INTCC/Resources/PPCRResultsFrameworkApril24.pdf>, p. 4.

³⁴⁸ World Bank Group, African Development Bank, Asian Development Bank, European Development Bank, Inter-American Development Bank.

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Programming_Document_Final_16July_2009.pdf p. 18.

³⁴⁹ CIFs website, Administrative Unit, see http://www.climateinvestmentfunds.org/cif/Administrative_Unit.

³⁵⁰ CIFs website, Trust Fund Committees, see http://www.climateinvestmentfunds.org/cif/Trust_Fund_Committees.

³⁵¹ Ibid.

³⁵² Governance Framework for the Strategic Climate Fund, November 2008, available at:

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF_Governance_Framework.pdf.

³⁵³ Ibid.

³⁵⁴ CIFs website, Pilot Program for Climate Resilience official website, see <http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience>.

³⁵⁵ CIFs website, Trustee, see <http://www.climateinvestmentfunds.org/cif/trustee>.

³⁵⁶ CIFs website, MDB Committee, see http://www.climateinvestmentfunds.org/cif/MDB_Committee.

³⁵⁷ CIFs website, PPCR Expert Group, see http://www.climateinvestmentfunds.org/cif/ppcr_expert_group.

³⁵⁸ Ibid.

³⁵⁹ The Pilot Program for Climate Resilience under the Strategic Climate Fund, November 2008, available at:

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF_TFC_Decision_PPCCR_Governance_Jan_27_2009.pdf.

³⁶⁰ Ibid.

³⁶¹ Ibid.

³⁶² Concessional loan terms of the PPCR:

	Maturity	Grace Period	Principal Repayments Year 11-20	Principal Repayments Years 20-40	FY10-11 Service Charge a/	Grant Element b/
Credit	40	10	2%	4%	0.10%	75%

Source: Pilot Program for Climate Resilience (PPCR): Financing Modalities, available at:

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%20Financing%20Modalities%206%2029%202010%20REVISED_final_key_documents.pdf.

³⁶³ Programming and Financial Modalities for the SCF targeted program, the Pilot Program for Climate Resilience (PPCR), available at:

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Programming_Document_Final_16July_2009.pdf p. 12, 14.

³⁶⁴ Ibid.

³⁶⁵ "Both grants and concessional loans will be available to finance the additional costs necessary to make a development activity resilient to the impacts of climate change." Source: Pilot Program for Climate Resilience (PPCR): Financing Modalities, available at:

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%20Financing%20Modalities%206%2029%202010%20REVISED_final_key_documents.pdf.

³⁶⁶ Pilot Program for Climate Resilience (PPCR): Financing Modalities, available at:

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%20Financing%20Modalities%206%2029%202010%20REVISED_final_key_documents.pdf.

³⁶⁷ Strategic Climate Fund, June 3, 2008, available at:

http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Strategic_Climate_Fund_final.pdf.

³⁶⁸ Strategic Climate Fund / PPCR Official pledges.

³⁶⁹ Ibid.

³⁷⁰ CIFs website, PPCR, see: <http://www.climateinvestmentfunds.org/cif/ppcr>.

³⁷¹ CIFs website, Pilot Program for Climate Resilience official website, see <http://www.climateinvestmentfunds.org/cif/ppcr>.

³⁷² Climate Funds Update, Pilot Program for Climate Resilience, see <http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience>.

³⁷³ CIFs website, PPCR official website, see <http://www.climateinvestmentfunds.org/cif/ppcr>.

³⁷⁴ Cambodia: Proposal for Phase 1 funding, Available at:

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/cambodia%20Phase%201%20Proposal%20jdk.pdf>.

³⁷⁵ Tajikistan: Proposal for Phase 1 funding, available at:

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Tajikistan%20Proposal.pdf>.

³⁷⁶ Yemen: Proposal for Phase 1 funding, available at:

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Yemen%20Proposal%20614.pdf>.

³⁷⁷ Mozambique: Proposal for Phase 1 funding, available at:

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Mozambique%20Proposal%20jdk.pdf>.

³⁷⁸ Bolivia: Proposal for Phase 1 funding, available at:

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³⁷⁹ Zambia: Proposal for Phase 1 funding, available at:

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%203%20Zambia%20proposal%20for%20phase%201%20funding%20march%202010%20.pdf>.

³⁸⁰ Nepal Phase 1 preparation grant proposal, available at:

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%205%20NEPAL%20proposal%20for%20accelerated%20funding%20for%20phase%201%20activities.pdf>.

³⁸¹ Programming and Financial Modalities for the SCF targeted Program, the Pilot Program for Climate Resilience (PPCR), available at:

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³⁸² See PPCR country proposals for Phase 1 funding, footnotes for Table 4.

³⁸³ CIFs website, Observers, See <http://www.climateinvestmentfunds.org/cif/observers>.

³⁸⁴ Pilot Program for Climate Resilience under the Strategic Climate Fund, November 2008, available at:

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³⁸⁵ PPCR Results Framework (prepared by working group Chaired by Canada), Agenda Item 6, April 24, 2009, available at:

<http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCRResultsFrameworkApril24.pdf>.

³⁸⁶ Ibid.

³⁸⁷ PPCR Progress Report, January 16, 2009, available at: <http://siteresources.worldbank.org/INTCC/Resources/progressreportPPCR.pdf>.

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<http://siteresources.worldbank.org/INTCC/Resources/ppcrprogrammingdraftvers2april23.pdf> p. 4.

³⁹¹ Personal communication with the authors.

³⁹² The selection of countries to participate in the Pilot Program for Climate Resilience (PPCR), Annex 3, para 8. Available at:

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³⁹³ Personal communication with the authors.

³⁹⁴ CIFs website, Pilot Program for Climate Resilience official website, see <http://www.climateinvestmentfunds.org/cif/ppcr>.

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