

05 ADAPTATION FUND

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ADAPTATION



The Adaptation Fund is a financial instrument established by the Parties to the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC). It is aimed at funding concrete adaptation projects and programmes in those developing countries that are Parties to the Protocol. The fund is largely financed with 2 per cent of the certified emission reduction (CERS) issued for the projects of Clean Development Mechanism (CDM).

Current funding mechanisms and the adaptation coffer

Unfortunately, there are no estimates about the quantum of money available – there is a huge gulf between pledges and commitments on climate-related aid, and also enough ambiguity about whether the climate funds are actually over and above the Overseas Development Assistance commitments made by the developed world to meet the Millennium Development Goals.

The UNFCCC has estimated that by 2030, poor countries would need between US \$28 billion and \$59 billion a year to adapt; the World Bank thinks between US \$20 billion and \$100 billion should do it; the European Union Commission puts the amount between

US \$10 billion and \$24 billion a year by 2020, and the African group of climate change negotiators have arrived at a sum of more than US \$67 billion a year (by 2020).

Although the amount of money flowing to developing countries for climate change-related projects and programmes is growing, it still covers less than five per cent of the estimated funding required, says a World Bank report.

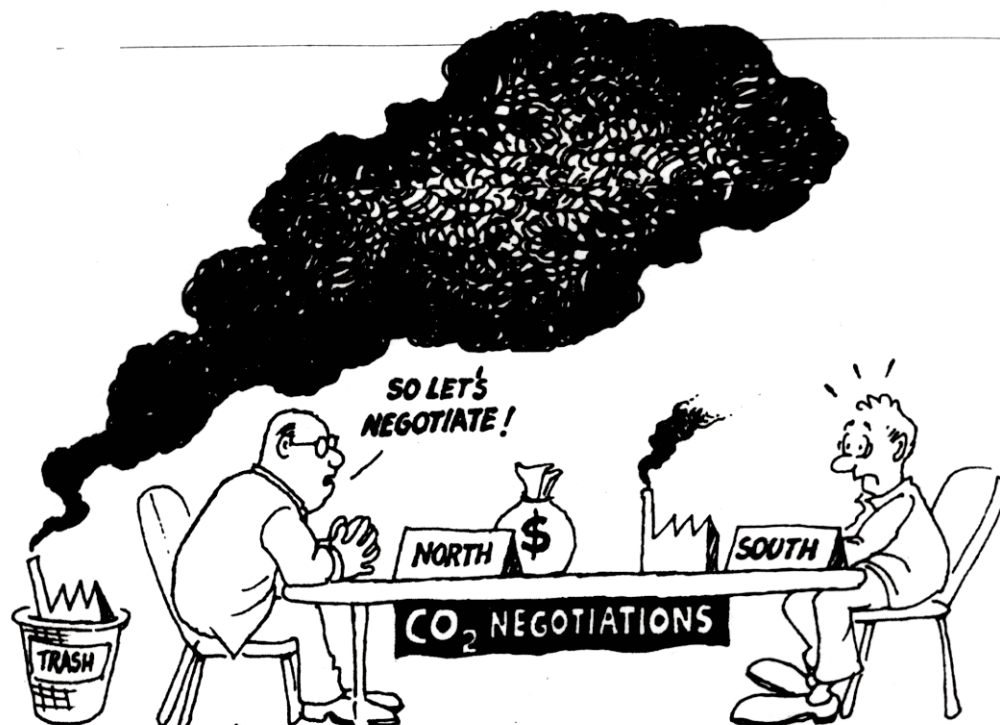
Until recently, many poor countries and think-tanks have looked to the UNFCCC's Adaptation Fund to provide most of the money. The World Bank feels that, depending on the performance and price of Clean Development Mechanism projects, the Adaptation Fund can only raise between US \$300 and \$600 million by 2012.

The Adaptation Fund is comprised of two main funds:

- Administrative Trust Fund
- Adaptation Fund Trust Fund

The Administrative Trust Fund

This fund was set up to cover the administrative costs and expenses of the AF Board and the AF Secretariat. The fund was composed by donations from various



countries, and amounted to a total of US \$3.287 million.

For administrative reasons, the Fund was closed down in June 2010, leaving behind a remaining unused balance of US \$0.698 million.

Some of the money that was left was pledged by its donors (Finland, France, Japan, Norway and Switzerland) to the Adaptation Fund Trust Fund, while others (Denmark, Netherlands and Sweden) decided to have it transferred to their Donor Balance Accounts maintained by the World Bank. The total amount transferred from the Administrative Trust Fund to the Adaptation Fund Trust Fund was US **\$0.292 million**.

The Adaptation Fund Trust Fund

Currently, this is the only fund that exists for climate change adaptation. It holds all the money from CER sales, besides the investment income, the money left from the Administrative Trust Fund, and further donations by other countries.

Table 1 shows the total amount of bilateral pledged and deposited donations made directly to the Adaptation Fund Trust Fund as of July 2010, including the funds that were pledged to be transferred from the Administrative Trust Fund. According to it, as of July 31, 2010, US \$112.470 million was deposited in the Fund on the basis of sales of 6.645 million CERS; US \$438,356 came from investment income.

Proceeds from CER sales: As seen in Table 2, the Trustee has generated revenues of US \$ equivalent 112.5 million through CER sales since the start of the CER monetisation programme in May 2009. Table 4 indicates the recorded proceeds from CER sales, and the average price per tonne of carbon.

Activities that will be supported by the Adaptation Fund include the following:

- Adaptation activities, where sufficient justification is made available to warrant such activities, in the areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management;
- Improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early-warning systems; in this context, improving disease control and prevention;
- Supporting 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;
- Strengthening existing and, where needed, establishing national and regional centres and

Table 1: Money pledged and deposited

Spain is the first country to make a voluntary contribution of US \$57,055,000. Monaco is the only other country that has deposited funds into the Adaptation Fund Trust Fund

Donor	Amount pledged	Amount pledged (US \$ eq)	Amount deposited (US \$ eq)
Finland	US \$67,534		
(from Admin Trust Fund)	US \$67,534		
France	US \$53,340		
(from Admin Trust Fund)	US \$53,340		
Germany	EUR 10,000,000	13,300,000	
Japan	US \$5,693		
(from Admin Trust Fund)	US \$5,693		
Monaco	EUR 10,000	12,197	12,197
Norway	US \$ 87,700		
(from Admin Trust Fund)	US \$87,700		
Spain	EUR 45,000,000	57,055,000	57,055,000
Sweden	SEK 100,000,000	13,750,000	
Switzerland	US \$77,668		
(from Admin Trust Fund)	US \$77,668		
Others	EUR 412	566	566
Sub-total		84,409,698	57,067,763
Sale of CERS	US \$112,470,000	112,470,000	112,470,000
Investment income	US \$438,356	438,356	438,356
TOTAL		197,318,054	169,976,119

Source: Financial status of the adaptation fund trust fund (as at 31 July 2010) Prepared by the World Bank as Trustee for the Adaptation Fund.



Table 2: CER sales

	CER sales	Average price (US \$/tonne of carbon)	Proceeds (US \$ millions)
2009			
May	600,000	17.15	10,290,000
June	520,000	15.88	8,260,000
July	10,000	15.00	150,000
August			
September	70,000	19.57	1,370,000
October	480,000	18.77	9,010,000
November	240,000	19.33	4,640,000
December	130,000	18.62	2,420,000
2010			
January	160,000	16.44	2,630,000
February	430,000	15.84	6,810,000
March	1,130,000	16.38	18,510,000
April	1,230,000	16.42	20,200,000
May	595,000	19.18	11,410,000
June	640,000	15.98	10,230,000
July	410,000	15.98	6,550,000
TOTAL	6,645,000		112,480,000

Source: Financial status of the adaptation fund trust fund (as at 31 July 2010) Prepared by the World Bank as Trustee for the Adaptation Fund.

information networks for rapid response to extreme weather events, utilising information technology as much as possible.

Disbursal mechanism

The Adaptation Fund Board, established under the Kyoto Protocol, has been authorised to develop modalities for countries to access financial resources from the Fund directly, without having to involve **Multilateral Implementing Entities (MIES)**.

Direct Access Modality

At the 7th Adaptation Fund Board meeting in September 2009, the Board took some key decisions to allow recipient countries direct access to its funds through **National Implementing Entities (NIEs)**. The Board

- approved the creation of a standing accreditation panel for accrediting the proposed NIEs and MIES;
- agreed to issue a call for experts to serve on the panel; and
- invited the Kyoto Protocol Parties to submit nominations for NIEs for accreditation and to access funds directly.

Keeping in mind the possibility that certain

Table 3: Disbursement details

Disbursements	Amount (in million US \$)
Reimbursement to donors	0.69
Trustee Administrative Budget FY09	1.33
Trustee Administrative Budget FY10	1.08
Trustee Administrative Budget FY11	0.91
AF Board and Secretariat Admin Budget FY10	2.29
AF Board and Secretariat Admin Budget FY11	2.72
Amendment to AF Board and Secretariat Admin Budget	0.07
Amendment to AF Board and Secretariat Admin Budget	0.37
TOTAL	9.5

Source: Financial status of the adaptation fund trust fund (as at 31 July 2010) Prepared by the World Bank as Trustee for the Adaptation Fund.

countries might need to enhance their institutional capacity to meet the requirements for accessing funds, the Board also decided to include an option for countries to use existing international development agencies to access the funds for implementation of adaptation projects in developing countries

Fast-start Fund and adaptation

At Copenhagen, developed economies committed us \$30 billion dollars in 'fast-start climate finance' to developing countries, with balanced support for both mitigation and adaptation. The total amount pledged to meet their adaptation needs – approximately us \$3 billion – represents a meagre 11 per cent of all promised fast-start climate funds.

Politics of Adaptation Fund

- Woefully short of need:** This is still a central concern regarding the Adaptation Fund. Marcia Levaggi, manager of the Adaptation Fund's board secretariat, was quoted in the press in September that the Fund had about us \$150 million – far short of the sum required, according to various estimates. The Adaptation Fund has a total pledge of us \$84 million, the fast start funding has pledged about us \$3 billion.
- Short term funds:** One of the major criticism on the adaptation fund is that there is money available in the short term for initial projects which could lead to irrevocable bottlenecks countries start with their adaptation projects and more countries get their national implementing entities approved, submit project proposals.



How much money does the Fund need?

There are various estimates. This is what they say:

- **UNFCCC:** US \$28-59 billion a year by 2030 for the South
- **World Bank:** US \$20-100 billion
- **European Union Commission:** US \$10-24 billion a year by 2020
- **African Group of climate change negotiators:** US \$67 billion a year by 2020

- (c) **What is Adaptation?** Nearly two dozen different definitions of adaptation can be found in the UNFCCC and national documents, and development agencies are creating a fragmented non system for determining what counts as adaptation. There is no clarity or direction on which efforts should 'adaptation' funds support. Many have argued that good adaptation simply means good development. To manage extreme weather event aggravated by the changing climate such as drought and flooding, many

societies simply need basic improvements: safe water, functioning legal systems and an educated public.

- d) **Balancing the funds:** There is no consensus on how a balance in funding be achieved which, for the donors, represents a major challenge. Should a 'balanced allocation' mean equal allocation for mitigation and adaptation? There are debates about whether adaptation funding be in the form of grants or loans.
- e) **Accountability:** Copenhagen Accord promised adaptation finance would be delivered through a fund whose governance gives equal representation to developed and developing nations – but some countries have dismissed this commitment. No other funding issue finds Southern countries so united as the call for funds to be administered by the UNFCCC and parties to the Kyoto Protocol. Yet most Northern countries have not specified how they will channel fast-start funds. Only US \$250.7 million in overall climate finance has been designated to go through UNFCCC channels.