

Financial Support to the Implementation of Adaptation Measures

Comparative Analysis of the Adaptation Fund and the Climate Investment Funds, and Implications for the Design of the Green Climate Fund

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Abstract

One of the key functions of the Green Climate Fund (GCF) will be to provide financial support for countries adapting to the adverse impacts of climate change. Yet designing a mechanism that can manage the wide range of cross-national adaptation needs will be challenging. This paper draws upon experiences with relevant funding mechanisms—the Adaptation Fund and the Climate Investment Funds/Pilot Program for Climate Resilience (CIF/PPCR)—to highlight issues central to structuring GCF capable of servicing those diverse needs. In particular, it focuses on 1) the support modality of these funds; 2) safeguard policies; and 3) treatment of additionality of adaptation impacts for the support provided. The paper finds that paper argues negotiators should aim for a mechanism that can support both project and programs (as well as the capacity building needed to formulate both projects and programs); balance resource allocation between direct and indirect access; secure a regional balance in project distribution with special consideration for the most vulnerable countries; offer flexibility in the mode of finance (including a balance between grants and loans); and ensure transparency in the decision making process. The paper also suggests that GCF could learn valuable lessons not only from the two funding mechanism but the Global Environmental Facility in creating safeguard policies for adaptation funding. Last but not least, the paper highlights an area where there are likely to be the greatest challenges moving forward, determining the additionality of adaptation finance.

Key words: adaptation, the Green Climate Fund, the Adaptation Fund, the Climate Investment Funds, additionality, safeguard policy

The views expressed in this working paper are those of the authors and do not necessarily represent those of IGES. Working papers describe research in progress by the authors and are published to elicit comments and to further debate.

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1. Introduction

Adaptation is defined as 'the adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities' (IPCC 2007). Because the capacity to adapt to the adverse impacts of climate change differs across countries, and there is a tendency for more vulnerable developing country Parties to face more severe impacts, the provision of support for adaptation for vulnerable countries will be critical for promoting comprehensive climate change actions. This is underlined by the fact that adaptation is one of the building blocks of a future climate regime, (UNFCCC 2007). Yet how to build an effective framework to facilitate development and implementation of adaptation measures while building resilience remains a challenge.

In the current climate regime, financial support for adaptation in developing country Parties⁴ is channeled through the Least Developing Country Fund (LDCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund under the UNFCCC regime, and also through bilateral and multilateral support outside the UNFCCC5 regime. Among these diverse support channels, this paper focuses on two funds specializing in supporting the implementation of adaptation measures: the Adaptation Fund which is under the UNFCCC; and the Climate Investment Fund/Pilot Program for Climate Resilience (CIF/PPCR) which is not under the UNFCCC. The paper conducts a comparative analysis of 1) the support modality of these funds, 2) safeguard policies and 3) treatment of additionality of adaptation impacts for the support provided. Based on the comparative analysis and lessons learned from the existing support activities under the two funds, this paper further develops recommendations for the adaptation support within the Green Climate Fund (GCF)

The paper concludes that in designing a mechanism within the GCF to support adaptation, negotiators would be well advised to aim for a mechanism that can support both project and programs (as well as the capacity building needed to formulate both projects and programs); ensure that there is balanced resource allocation between both direct and indirect access; work towards a regional balance in project distribution with special consideration for the most vulnerable countries, namely SIDs and LDCs; and incorporate flexibility in the mode of finance (including a balance between grants and loans); and enhance transparency in the decision making process. The paper also suggests that GCF could learn valuable lessons from the GEF in creating safeguard policies for adaptation funding. Last but not least, the paper highlights an area where there are likely to be the greatest challenges moving forward, determining the additionality of adaptation finance.

2. Institutional Background on Adaptation Fund and Climate Investment Fund

As background, the Adaptation Fund was established as an outcome of the COP7 Marrakesh Conference in 2001 together with the sister funds of the LDCF and the SCCF. While the LDCF and the SCCF have been placed under the UNFCCC, the Adaptation Fund has been placed under the Kyoto Protocol due to a unique resource generation mechanism that links its capitalization to a levy on Clean Development Mechanism projects. The Adaptation Fund has been mandated to support concrete adaptation projects/programs in developing countries that are Parties to the Protocol. The fund has been operationalized after policies and guidelines were established and the Board of the Adaptation Fund was conferred legal capacity conferred under the Government of Germany. As of November 2011, a total of 35 adaptation projects/programs are currently on the table (11 approved projects/programs, 24 programs/projects under review for approval).

On the other hand, the CIF/PPCR was approved in November 2008 under the pillar of Strategic Climate

⁴ Climate regime in this paper refers to the regime governed by the sets of rules and principles under the UNFCCC and Kyoto Protocol. This paper categorizes Funds under the UNFCCC regime, and support outside the UNFCCC regime.

⁵ Each of the three Funds established under the Climate Regime at the time of Marrakesh, LDCF, SCCF, and Adaptation Fund, have different mandate and supporting areas.

Fund (SCF) of the CIF, and was placed under the World Bank, with its aim to pilot and demonstrate ways in which climate risk and resilience may be integrated into core development planning and implementation⁶ with the goal of providing incentives for scaled-up action and transformational change. As of November 2011, two regional programs (Caribbean, Pacific) and nine country programmes have been selected for implementation CIF/PPCR.

3. Comparison of Support Modality for Adaptation Funds and CIF/PPCR

3.1. Features of Funds

While both the Adaptation Fund and the CIF/PPCR support implementation by underwriting adaptation projects and programs, they differ in terms of their design, approach and structure, as summarized in the Table 1.

Table 1. Features of Support Modality

Category	Adaptation Fund	CIF/PPCR
Projects /Programs Size	Approx \$3~7 million per Project/Program	Approx 30~60 million per program (budget further expands with MDB loan and co-financing)
Financial Cap	\$10 million per Country	No permanently fixed cap. Rather, it depends on the total pledge and number of piloting countries/regions ⁷
Source of Finance	Auto-financing from SoP/CDM Voluntary contribution	Voluntary Contribution of donors/MDBs
Number of Projects /Programs	11 Approved 24 Under review for approval	9 Country Program 2 Regional Programs (9 countries)
Type	Project Program (so far limited to national program)	Program (Country, Region)
IE's Engagement	One IE (NIE/RIE/MIE) per project/program	Multiple MDBs involved in one program One MDB involved in one program
Access Modality	Direct Access Indirect Access (through Financial Intermediary)	Indirect Access (through Financial Intermediary)
Approval Process	Proposals reviewed by Project Program Review Committee (PPRC), followed by approval by the Adaptation Fund Board Regular Sized Project/Program go through 2 step approval process (Concept, full project / program documents)	Approval by PPCR Sub-Committee Joint Mission conducted on Phase 1

⁶ <http://www.climateinvestmentfunds.org/cif/ppcr>

⁷ Although there is no cap that is permanently fixed, range of grant was indicated by the PPCR Sub-Committee as USD40-50 million/country and \$60-75 million/programme through a SPCR on June 23, 2010. As for concessional loans, the policy (CIF, 2009a) sets an initial ceiling as 20 % of the total available concessional finance amount per pilot program, but ultimately this number seems to vary according to the remaining budget.

Table 1. Features of Support Modality (Continued)

Category	Adaptation Fund	CIF/PPCR
Target Country	All (budget acquisition through competitive process through submission of proposals)	Apriori selection of target countries (drawn from Expert Group consultation)
Support Coverage	Project Formulation (NIE only) Implementation of approved project / program	Project Formulation (all) at Phase 1 Implementation of approved SPCR at Phase 2
Duration of Project / Program	3 ~ 5 years (depends on project / program)	Phase 1 3~18 months Phase 2 5 years (depends on program)
Support Channel	Grant	Mixture of Grant, Concessional Loan, co-financing
Relations with NAPA	Directly linked through Decision 5/CMP.2	Reference to NAPA
Supported Areas / Sectors	Water Resource, Food Security, Disaster Risk Reduction, Coastal Management, Community Development, Ecosystem, Urban	Water Resource, Food Security, Disaster Risk Reduction, Coastal Management, Community Development, Ecosystem, Urban, Infrastructure, Transport, Health, Tourism Industry, Private Sector
Additionality of Adaptation Impacts	Column on additionality in the proposal document	No specific Column set up for describing additionality of impacts
Operational Modality / Safeguard	Governed by Fund regulation	Governed by regulations of MDBs involved
Mainstreaming into development	Mainstreaming components available for some projects / programs	Mainstreaming in Phase 1
Monitoring and Evaluation	Evaluator: selected by IE Coverage: Small-sized projects subject to ADB's decision, all regular-sized projects / programs	Evaluator: Evaluation Division of MDBs involved Coverage: Subject to MDBs involved (all program ~ 50%)
Misc	No description of fund's operational period	Presence of sunset clause

Source: compiled from policy documents and project / program documents on two funds

Project / Program Size: A distinct difference is the budget size of the project / programme between the Adaptation Fund and the CIF/PPCR. For the Adaptation Fund, the size of project / programme is divided into two categories according to budget size; small-sized project / programme under \$1 million, and regular-sized project / programme above \$ 1 million. In addition to the fact that the Adaptation Fund distinguishes between small and regular sized

projects, it also caps the amount of money allocated per country to \$10 million (AFB decision B.13/23). This stands in sharp contrast to individual programmes supported by the CIF/PPCR which can range from \$ 30~60 million per programme along with additional financial resources flowing through concessional loans from MDBs and co-financing. In sum, the CIF/PPCR is potentially a much larger source of finance than the Adaptation Fund.

Financial Sources: The two funds also differ in terms of primary source of financing. While the Adaptation Fund employs an auto-financing arrangement to secure resources through the share of proceeds (SoP) from the Certified Emission Reductions (CERs) issued by CDM projects (based on Article 12.8 of the Kyoto Protocol), the CIF/PPCR relies on financial resources from voluntary contributions of donor countries. Due to the presence of a sunset clause⁸, however, the CIF/PPCR is not likely to play a permanent role in financing adaptation.

Type of Supported Activities and Implementing Entity: While the Adaptation Fund limits the types of supported activities to concrete projects and programmes, the CIF/PPCR supports programmes at both the country and regional levels. Moreover, since the Adaptation Fund also supports regional projects / programmes through a Regional Implementing Entity (RIE)⁹, as of November 2011 no regional programme has been developed and all the activities supported under the Adaptation Fund remain at the country level.

As for the engagement of a number of implementing entities for approved adaptation activities, while the Adaptation Fund engages one implementing entity (NIE/RIE/MIE) per project or programme, in the majority of cases multiple MDBs are engaged in one programme under the CIF/PPCR. In most cases, different MDBs take care of different components of the programme. But in some cases, there are CIF/PPCR programmes that involve only one MDB, as exemplified by programmes in Cambodia (ADB), St Vincent and Grenadines (World Bank), and Samoa (World Bank).

Access Modality: A unique feature of the

⁸ CIF/PPCR, through its sunset clause in Paragraph 57, 58 of SCF, defines itself to “take necessary steps to conclude its operations once a new financial architecture is effective” (CIF, 2008), contingent on the establishment of new financial architecture under the UNFCCC regime.

⁹ Access through RIE requires same approval process as MIE. RIE has been emerged fairly recently in the Adaptation Fund, and as of November 2011, there is only one regional entity, East Africa Development Bank (BOAD) having accredited as RIE. Resource allocation over RIE in the context of country cap is currently being discussed at the ad-hoc working group under the Ethics and Finance Committee.

Adaptation Fund is that the Fund adopts two different modalities of direct access through a National Implementing Entity and indirect access through a financial intermediary known as a multilateral implementing entity (MIE) to use fund resources. On the contrary, the CIF/PPCR channels its financial support through MDBs.

Approval Process: Both Funds also use different approval processes. The Adaptation Fund relies on the Project and Programme Review Committee (PPRC) to review submitted proposal documents (concept document, full project / programme document), followed by a decision of the Adaptation Fund Board (AFB) for the final approval. Different levels of stringency also govern the approval process depending on the budget size and category; while a small-sized project proposal uses a simplified, one-step process to approve a full project / program document, the Regular Projects and Programmes may undergo either a one-step or two-step approval process with concept documents followed by a full project / programme document. Up until now, however, no case on the small-sized project / program has been proposed nor adopted.

As for the CIF/PPCR, a decision over the budget disbursement for both the Phase I (development of Strategic Program for Climate Resilience (SPCR)) and the Phase II activities (implementation of the SPCR) of the selected country or region requires approval from the PPCR Sub-Committee.

Target Countries, Areas, and Project / Program Life: The scopes of support in terms of target countries, areas and duration of project / program cycle also differs between the Adaptation Fund and the CIF/PPCR. For the coverage of countries, while the Adaptation Fund provides equal opportunity to all developing country Parties to submit project / programme proposals and bases allocation of funds on a competitive process, the CIF/PPCR selects all 18 countries under the Country Program and Regional Program that will receive support, based on the results of analysis conducted by the Expert Group¹⁰ on different vulnerability criteria.

¹⁰ CIF2009

A slightly different emphasis on the support areas also separates the two funds. Although the Adaptation Fund supports the NIE's project formulation by providing a Project Formulation Grant (PFG), resources are limited to \$30,000 per proposal¹¹, and more resources and a greater emphasis are placed on supporting implementation of the approved project / programme. On the contrary, the CIF/PPCR, aside from its resource allocation for the Phase 2, emphasizes support for the project formulation stage by providing \$1.5 million for all the country and regional programs under Phase 1.

As far as the duration of approved project / programme is concerned, the CIF/PPCR adopts longer life for the program that it supports as compared to the Adaptation Fund; 3~18 months for the Phase I process, and 3~5 years of implementation of the Phase II process. The duration of the approved project / programme generally lasts from 3 ~ 5 years in the case of the Adaptation Fund.

Support Sectors and Support Channels: While water resources, food security, disaster risk reduction, coastal management, community development, ecosystems, and the urban sector are supported by both funds, the CIF/PPCR further extends its support to large infrastructure, transport, health, tourism and private sector engagement. The wider coverage of areas receiving support under the CIF/PPCR is partially attributable to its wider range of supporting options along with the ability to finance with grants, concessional loans and co-financing. In contrast, the Adaptation Fund focuses on supporting concrete adaptation projects and programmes solely on the basis of grants.

Relations with NAPA: Some of the project and program documents under the Adaptation Fund provide descriptions of the clear linkages with existing national plans and strategies by framing a project/program in terms of its relation to National Adaptation Plans and Actions (NAPAs) which are supported by the LDCF. Efforts to clarify linkages

with existing national plans and strategies are in line with the guidance for the activities under the Adaptation Fund stipulated by the CMP Decision 5/CMP.2). On the contrary, while activities under the CIF/PPCR provide a reference point for the national plans and strategies, including NAPAs, linkages are not made as explicit as activities under the Adaptation Fund.

Monitoring, Reporting, Evaluation: A different modality and settings are applied for the Adaptation Funds and the CIF/PPCR on monitoring and evaluation, and reporting aspects. As for evaluation, while the Guidelines for Projects/Program Final Evaluation are uniformly applied to all the projects and programs under the Adaptation Fund, the Pilot Program for Climate Resilience (PPCR) Result Framework established under the CIF/PPCR is not intended to be universally applied to all programs, but rather a guideline to be incorporated into the existing monitoring and evaluation modality adopted by individual MDB involved in the PPCR-supported activities. In other words, while the presence of a results framework ensures a certain level of quality over monitoring and evaluation in the CIF/PPCR, the stringency of such monitoring and evaluation framework differs from one MDB to another. These differences become particularly apparent when different MDBs are involved for different components under one programme.

As for the coverage of the evaluation, while all the funded activities falling under a category of regular-sized projects and programs are subject to evaluation in the Adaptation Fund, for the other small scale projects under the budget size of \$1 million, an evaluation is to be conducted at the discretion of the Adaptation Fund Board. In contrast, the coverage of the evaluation in the CIF/PPCR differs across MDBs due to different monitoring and evaluation policies; for instance, while the World Bank applies an evaluation to all of the supporting activities, the African Development Bank (AfDB) and the International Finance Corporation (IFC) conducts an evaluation on half of their supporting activities (ADB, 2008).

¹¹ So far, Uruguay and Jamaica have won PGF with \$30,000 for project formulation upon the approval of project / program concept document.

3.2. Comparison between Access Modality in the Adaptation Fund

In addition to the comparison between the support structures of the funds, another comparison could also be made by assessing projects / programmes under different access modalities. Due to the limited sample size of the approved activities under direct access modalities (Senegal for an approved full program, Jamaica and Uruguay for approved concept documents), the following section offers a preliminary comparison.

The comparison suggests that the programme approved under direct access modality tends to place a greater emphasis on the linkage with NAPA in accordance with the CMP decision by making the programme itself part of the implementation of NAPAs. While references to the NAPA are commonly observed for the projects / programs under the indirect access, linkages with NAPAs represent one feature of the direct access program.

As for the target sector, while more approved cases under the direct access modality are required for a meaningful comparison, in general the direct access programme tends to be localized with a greater emphasis on specific adaptation needs (i.e. coastal management in 3 coastal cities of Senegal program). In contrast, approved indirect access projects / programmes under MIEs concentrate on sectors more broadly related to national development and economic activities, such as food security (Equador, Solomon Islands), water resource management (Mongolia, Moldives, Turkmenistan, Nicaragua, Honduras), and disaster risk reduction (Pakistan).

Aside from the target sector, no substantial differences exist between the different access modalities over the quality of the project / project proposal documents, as well as the description of the approach for adaptation. Similarly, comparing programs supporting the same sectors (coastal management) by both direct and indirect access modalities, no distinct differences were found in approach: both cases emphasizes implementation of measures (including technical assessments) to build resilience against climate risks for sectors and livelihoods of the target community, capacity building for institutional building and adaptive capacity, as well as knowledge management.

A comparison of two different access modalities on the basis of project / programme proposal documents, however, has some limitations. Among the most important constraints are the difficulties in evaluation practical aspects of project management, stakeholder coordination, and fiscal management that can affect the quality of proposed projects and programmes. To get a closer view of the actual quality, a further analysis on the progress reports, and results of mid-term review and ex-post review should be conducted in the future.

4. Strength and Weaknesses: Adaptation Fund

While both the Adaptation Fund and CIF/PPCR support the implementation of adaptation measures, the two differ in terms of their approaches and support modalities. Based on these structural differences, the potential strengths and weaknesses from the comparison of the two funds are summarized in Table 2.

Table 2. Strengths and Weaknesses of Adaptation Fund and CIF/PPCR

	Adaptation Fund	CIF/PPCR
Strength	<ul style="list-style-type: none"> • Simple proposal processing procedure • Shorter duration for approval (3 months) • More flexibility for access modality with introduction of direct access • Relatively smaller management fee (<8.5%) • Financial predictability with auto-financing through SoP • Equal opportunity for all interested countries/entities for project / program proposals 	<ul style="list-style-type: none"> • Wider coverage of adaptation impact anticipated due to programmatic approach and larger budget per program • Wider supporting sectors and areas by utilizing mixture of mode of finance (grant, concessional loan, co-financing) • Ensuring certain level of quality with the application of MDBs' operational modalities and safeguard policies • Creating synergy by utilizing comparative advantages of different MDBs in one program, facilitating harmonization • Quality program ensured through adequate resource allocation for program formulation
Weakness	<ul style="list-style-type: none"> • Limited adaptation impacts due to project / program formulation and implementation in national scale • Limited areas/sectors of support due to fixed mode of finance • Uncertainty surrounding monitoring, evaluation and safeguard (esp direct access with NIE) • Relatively limited number of direct access projects / programs • Overall imbalance in resource allocation among MIEs • Neutrality in Evaluation process 	<ul style="list-style-type: none"> • Limited participation due to <i>apriori</i> selection of country / region to be supported • Limited access modality (indirect access) • Relations among adaptation priority, ownership and doner-drivenness • Payments for MDB Project Implementation Services (MPIS) approved on case-by-case basis • Voluntary contribution of donor countries and financial predictability • Difference between CIF / PPCR program involving one MDB and conventional MDB-supported program with its own budget

4.1. Adaptation Fund

4.1.1. Strengths

Shorter duration for approval process: The main strengths of the Adaptation Fund are that it has relatively straightforward approval procedures and takes less time for an approval. As described earlier, the small-scale project with the budget size less than \$1 million requires a one-step approval process, whereas the regular sized project / program above \$1 million requires a two-step approval processes with submission of concept documents, followed by full

project / program documents. At the moment, experience suggests that the proposed regular project / program could potentially be approved in as little as six months. While proposals submitted through direct access also follows the same procedures, additional time is required for the accreditation process of the NIE by the Accreditation Panel under the Fund before it can use the direct access modality. The time required for NIE to be accredited varies from one country to another, depending on administrative capacity (i.e. project management, fiscal management) and time required to prepare

necessary documents for accreditation.

Flexibility in the Access Modality: Building a direct and an indirect access modality into the Adaptation Fund creates flexibility that is helpful to recipient country that are still learning and planning how to access the Fund. While most of the NIEs are still in their early stages of development, the flexibility has the added value of enabling the recipient country to take a staged approach with fast-start access to the fund resources by project /programme implementation through MIEs, while at the same time formulating projects / programmes through NIEs utilizing the PGF.

Resource Allocation and Cap over Management

Fee: In the Adaptation Fund, the administrative fee that the implementing agencies could claim for project implementation is capped at 8.5% of the total budget (Decision B.11/16). Setting a ceiling on the administrative fee allows more resources to flow to the implementation of activities themselves.

New and Additionality, and Financial

Predictability: Compared to the CIF/PPCR and all the other existing funds under the current climate regime, the Adaptation Fund is unique in that it can secure its budget through the aforementioned auto-financing arrangement of SoP of CERs. This auto-financing arrangement when coupled with conventional voluntary contributions from donor countries creates greater financial predictability in the Fund.

Equal Opportunity over Accessing the Funds: Yet another of the Adaptation Fund's strengths is that it does not have an ex-ante selection process. Rather it provides equal opportunity and allows all interested developing countries to access the Funds by submitting proposals.

4.1.2. Weaknesses

Limited Coverage and Impact: Compared with the CIF/PPCR, thus far all the projects and programmes under the Adaptation Fund are limited to in-country projects and programmes. The implementation of

country projects and programmes with specific domestic beneficiaries (sectors and local communities) makes it difficult to generate transboundary adaptation impacts. How the forthcoming formulation and implementation of projects / programs by the Regional Implementing Entity (RIE) would address this limitation requires further consideration.

Mode of Financial Support and Target Sectors:

The Adaptation Fund, on the basis of the principles of the UNFCCC and the Kyoto Protocol, provides agreed full costs of implementation of concrete adaptation projects and programs on a grant basis. While the funds support many of the sectors crucial for building resilience against climate risks—including disaster risk reduction, coastal and water resources management, and food security—the current resource ceiling (\$10 million per country) and the mode of finance makes it difficult to tap other sectors such as transport, health and private sector engagement.

Uncertainty over Safeguard Policy: While a more detailed assessment of the safeguard policy follows in the next section, the infrastructure (i.e. agricultural canals) supported by the Adaptation Fund is generally small in scale due to its limited budget and does not contain conventional Category A large infrastructure projects. While implementation of small-scale infrastructure along with the PGF is limited to Jamaica, uncertainty remains over the appropriate implementation of the social and environmental safeguards along the project / programme cycle. Programs under the CIF/PPCR, on the contrary, ensure social and environmental safeguardd through the provision of support to all programmes in Phase 1.

Limited Direct Access Projects/ Programs

through NIE: While the flexibility over the access modality is a strength of the Adaptation Fund, there are only six NIEs accredited as of November 2011. Among the six accredited NIEs, only one has a program (Senegal) approved for implementation, and two projects/programs' (Uruguay, Jamaica) concept documents are approved. These figures are smaller

compared to indirect access projects / programs, modalities.
suggesting resource allocations between access

Table 3. Accredited NIEs and Project Formulation Stage under the Adaptation Fund

Country	NIE Organization	Status of Project / Program Formulation
Senegal	Centre de Suivi Ecologique(CSE)	Approved Full Program Documents
South Africa	South African National Biodiversity Institute	-
Jamaica	Planning Institute of Jamaica	Approved Concept Documents, PGF
Uruguay	Agencia Nacional de Investigacion e Innovacion(ANII)	Approved Concept Documents, PGF
Belize	Protected Areas Conservation Trust (PACT)	-
Benin	National Environment Fund	-

This imbalance in resource allocation underlines that there is a capacity gap between the NIEs and MIEs for project formulation needed to acquire funding. This is further illustrative of the fact that NIEs are still learning how to develop projects whereas MIEs are well-versed in project development due to many decades of developmental assistance. Evening the two access modalities under the Adaptation Fund will require an increase in the cases of project / program approval for NIEs, which might require an additional support mechanism to bridge the capacity gap. The proposed mechanism could focus on institutional building, project development, fiscal management and a range of other practical skill sets.

Resource Allocation within MIEs: The experience with the Adaptation Fund also reveals that there is an imbalance in resource allocations across accredited implementing entities when it comes to indirect access. For instance, MIEs with more hands-on experiences in project formulation and implementation propose more projects / programs and gain more approvals compared to other MIEs.

Neutrality over Project / Program Evaluation:

Securing an independent and a neutral framework for ex-post evaluation is essential for the quality of the evaluation of the target projects/ programs itself. While the Guidelines for Project/Programme Final Evaluations of the Adaptation Fund points to the importance of an independent evaluation process, the current arrangement of the Fund grants implementing agencies (IE) in recipient countries to select evaluators, which might run counter to the desired neutrality and independence. In the case of the CIF/PPCR, while ex-post evaluations are conducted in accordance with the internal policies of MDBs, the evaluation is being conducted through evaluation divisions/bureau of the MDBs which are held accountable to the upper decision-making body of the Board of Directors. While the placement of evaluation division within the MDBs does not provide full independence and neutrality, this process does not allow recipient country influence over the selection of evaluators.

4.1.3. Considerations for the Strengths/Weaknesses

Thus far, the strengths and weaknesses observed in the Adaptation Fund have been discussed. Nonetheless, some of the elements and features described above could be regarded as either a strength or weakness depending on one's perspectives. That they have both positives and negatives demonstrates the difficulty in categorizing.

From the strengths identified, the simple process and shorter duration for approval could address urgent adaptation needs facing a target community. On the other hand, uncertainty over the quality of the adaptation measures being implemented, and process of monitoring, evaluation and safeguards could prove problematic.

Financial stability acquired with the auto-financing by SoP of CERs could also be a drawback due to existing uncertainty over the future climate regime and carbon markets including CDM.

Likewise, the equal opportunity to access the Fund resources through submission of proposals by all interested countries, on the other hand implies that more advanced developing country have greater access to funding for proposed projects / programs in a competitive environment. To address the local adaptation needs, therefore, how to best design resource allocation mechanisms to avoid marginalization of more vulnerable countries from financial resources, while at the same time ensuring incentives of more capable developing countries requires further consideration.

4.2. Climate Investment Fund

4.2.1. Strengths

Programmatic Approach, Budget Size and Impact: As mentioned previously, the CIF/PPCR has a larger budget per program compared with the Adaptation Fund. In addition to the larger size of the budget, the CIF/PPCR includes regional programmes which involve multiple countries under the umbrella of one program, potentially creating a wider range of downstream impacts.

Mixture of Mode of Financial Support Tools:

Because the CIF/PPCR is located outside the UNFCCC regime, the support modality is not bound by the same sets of rules and principles. The freedom allows the CIF/PPCR to develop scaled-up support for a target program by applying and utilizing a mixture of the financial tools such as grants, concessional loans and co-financing. The mixture of modes of financial support tools not only provides flexibility, but also could be tailored to programs at different stages of development.

Operational Guideline and Quality Control over Safeguard:

Because the monitoring, evaluation and social and environmental safeguard policies of the engaged MDB are applied in the CIF/PPCR, this arrangement reduces uncertainty and ensures a certain degree of quality.

Harmonization among Implementing Agencies:

Involving different MDBs with different mandates and comparative advantages around a common objective provides opportunities for harmonization among MDBs and reduces overlap and competition, thereby creating efficiency and synergies among the MDBs.

Resource Allocation for Program Formulation Stage:

Unlike the Adaptation Fund, the CIF/PPCR provides \$150 million per program for its formulation stage at the beginning of the Phase 1, along with the implementation of joint in-country missions and domestic consultations. The provision of support measures for the preparatory stage are crucial to extracting local adaptation needs, ensuring local participation and reflecting back overall program design and formulation. In addition, capacity building over institutional strengthening of the domestic implementing entity is carried out under some of the CIF/PPCR (i.e. Zambia MBD/MICOA).

4.2.2. Weaknesses

Limited Participation: As the CIF/PPCR is a pilot program with selected countries and regions supported, there are not direct benefits for countries

and regions outside the selected areas. While the CIF/PPCR possesses the ability to generate a wider range of impacts, they are not shared outside supported countries and regions.

Limited Access Modality: Because the CIF/PPCR allocates support through a financial intermediary, there is less flexibility in the access modality than in the Adaptation Fund.

Administrative Cost: While the discussion over the appropriate level of administrative costs is outside the scope of this paper, there is no fixed cap of the administrative cost claimed by MDBs for program implementation under CIF/PPCR. Rather, costs are to be approved on a case-by-case basis with reference to adopted cost benchmarks (2011, CIF).

Differences with Conventional MDB Support: While this theme relates to the following section over the additionality of adaptation impacts, some of the programs under the CIF/PPCR only involve one MDB for the entire program in contrast to other programs where multiple MDBs are involved under the same program. In these cases, it is unclear how programs under the CIF/PPCR differ from the conventional MDB support program under their own MDB budget.

5. Safeguard policies of the Adaptation Fund and CIF/PPCR and Challenges

When deciding the modality of a fund, it is important to consider safeguard policies that ensure and evaluate both the environmental integrity and quality of projects supported by the fund. This section reviews and analyzes safeguard policies of the Adaptation Fund and the CIF/PPCR focusing chiefly on indirect access through international financial intermediary such as the UN agencies and MDBs. In addition to these two funds, the analysis also includes the safeguard policies of the GEF, the existing financial mechanism of the UNFCCC, to capture how safeguards are incorporated into the indirect access modality in the overall support arrangement.

The access modality is often discussed with the emphasis on direct access. Nonetheless, as shown in the Table 3, the Adaptation Fund, the CIF/PPCR and the GEF provides support to developing countries through the UN agencies and MDBs as intermediary (indirect access), but not directly to the governments of developing countries.¹² Hence, this section focuses on the safeguard policies of indirect access.

¹² There is controversy regarding the definition of direct access and indirect access. This paper refers direct access as cases where governments of developing countries directly receive support from a fund for measures to climate change, without any intermediary' and indirect access as cases where government of developing countries receive the support from a fund for measures to climate change through intermediary

Table 4. Agencies directly supported by the Adaptation Fund, the CIF/PPCR and the GEF

Adaptation Fund	<ul style="list-style-type: none"> • National Implementing Entities (NIE) : ministries, inter-ministerial commissions, government cooperation agencies • Multilateral Implementing Entities (MIE)¹³ : Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Industrial Development Organization (UNIDO), World Bank, World Health Organization (WHO), World Meteorological Organization (WMO), United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), World Food Programme (WFP), Inter-American Development Bank (IDB), African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD) • Regional Implementing Agencies / Sub-regional Implementing Agencies (RIE/SRIE) : West African Development Bank (BOAD)
CIF • PPCR	<ul style="list-style-type: none"> • MDBs : The World Bank Group, Asian Development Bank (ADB), Inter-American Development Bank (IDB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD)
GEF	<ul style="list-style-type: none"> • GEF Agencies: 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), Food and Agriculture Organization (FAO), Inter-American Development Bank (IDB), International Fund for Agricultural Development (IFAD), UN Industrial Development Organization (UNIDO) • GEF Project Agencies^{14 15}: national institutions, regional organizations, civil society organizations/non-governmental organizations, United Nations specialized agencies and programs and other international organizations.

Despite the strong opposition to the indirect access modality of these climate funds, the report prepared by the Technical Committee (TC) over the design of the Green Climate Fund suggested the modality of the GCF, including indirect access¹⁶ through accredited international entities, including United Nations agencies, multilateral development banks, international financial institutions, and regional institutions (UNFCCC, 2011).

The development of safeguard policies in supporting developing countries has been historically led by

financial institutions such as MDBs (and mainly by the World Bank), with gradual improvement of the policies. The central issue involved in the formulation safeguard policies has been, however, related to projects operated by project proponents—e.g. governments of developing countries and private companies that are historically the direct beneficiaries of financial support from MDBs. In this regard, safeguard policies for indirect access should also be considered and incorporated into the GCF.

5.1. Safeguard Policies of the Adaptation Fund

Most of support provided by the Adaptation Fund is for software such as capacity building and small

¹³ <http://www.adaptation-fund.org/sites/default/files/AGENCIES%20INVITED%20TO%20SERVE%20AS%20MULTILATERAL%20IMPLEMENTING%20ENTITIES.pdf>

¹⁴ http://www.thegef.org/gef/agencies_accreditation

¹⁵ These are approved to be agencies to be eligible to receive directly from the GEF in May 2011.

¹⁶ TC report refers 'international access,' not indirect access.

community-level projects.¹⁷ As such, there are no category A projects¹⁸ that tend to level the most adverse impacts as stipulated in the safeguard policies of the World Bank i.e. the OP 4.01 Environmental Assessment (World Bank, 1999). There are, however, some cases where projects / programmes of support for small-infrastructure projects need to be included to reduce the impacts of environmental and social factors of projects.

For instance, Jamaica's project¹⁹ under the Adaptation Fund involves the construction of two 350m-500m submerged near-shore breakwater structures in a coral reef, micro-dam and reservoirs, and flood-mitigation infrastructure. Though these investments are intended to make agricultural sector and coastal area more climate resilient, they could also have negative impacts on local ecosystem. In addition, although Egypt's project²⁰ is meant to support climate-induced immigration from the Northern part of Egypt to the Lake Nasser region, the proposal is currently under review because the project site includes Wadi Allaqui which is designated a Man and Biosphere Program (MAB) by UNESCO. According to the OP 4.10 of the World Bank, such projects are usually classified as a category B or category A depending on the location of the project and the scale of impacts. Moreover, both require environmental and social measures to avoid, minimize, mitigate and compensate for adverse impacts.

In the meantime, the Annex 1 of the Operational Policies and Guidelines for Parties to Access Resources of the Adaptation refers to including an impact assessment during the proposal review process, but does not provide specific steps,

¹⁷ While infrastructure has been rarely supported by the Adaptation Fund, Decision 5/CP.7 especially identifies areas to be supported by climate funds including the Adaptation Fund: water resources management; land management; agriculture; health; infrastructure development; fragile ecosystems including mountainous ecosystems; integrated coastal zone management.

¹⁸ Definition of Category A according to OP4.01 is 'A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented.'

¹⁹ The project name is 'Enhancing the Resilience of the Agriculture Sector and Coastal Areas to Protect Livelihoods and Improve Food Security'

²⁰ The project name is 'Building Resilient Food Security Systems to Benefit the Southern Egypt Region'

measures nor criteria to be referred to and assessed by the Board.

Even in absence of a safeguard policy in the Fund itself, however, environmental and social measures to avoid, minimize and mitigate adverse impacts could be ensured if implementing agencies have their own safeguard policies to fill the gap. For instance, in the case of the Egypt's project, if the implementing agency, WFP, has adopted its own safeguard policies, environmental and social considerations are said to be taken into consideration because these policies are applied to Adaptation Fund-supported activities.

Different sets of concerns remain in the case of direct access to an NIE. Since implementing agencies are government-affiliated institutions of the recipient country, the project / programme follows domestic environmental assessment policies or frameworks of the recipient country.²¹ While the environmental assessment for the project / programme might be implemented during the full project proposal formulation stage, the absence of criteria for safeguard policy from the Adaptation Fund Board is a cause for concern given that safeguards are likely to vary from one developing country to another.

In terms of safeguard policies adopted by international institutions, while the development and adoption of relatively well-structured safeguard policies are observed for MDBs, who have played a major role for providing support to large developmental projects including large-scale infrastructure projects such as mega hydro dams, the UN agencies do not possess as robust a safeguard framework as MDBs, and do not usually support such projects. The status of safeguard policy environment varies across UN agencies; some UN agencies have internal procedures and some are in the process of developing such policies and frameworks (GEF, 2011). For instance, among the GEF Agencies, aside from the MDBs, only the International Fund for Agricultural Development (IFAD) has established a safeguard policies based on

²¹ The Jamaica project is indirect access and the implementing agency is governmental institutions.

intergovernmental legislation adopted by the governing bodies of the UN system; other agencies such as UNDP, UNEP, UNIDO and FAO have not formally adopted safeguard policies (IFAD 2009, UN 2010). Take the case of UNESCO for instance. While the domestic safeguard policy framework of recipient country is applied in general, equipment and relevant technical specifications have to simultaneously comply with French regulations (UN, 2010). To address the variations in safeguard policies among UN agencies, a standardization process began in 2010 (GEF 2010, CIDSE and Caritas Internationalis 2010).

Hence, in the absence of clear safeguards from MIEs or NIEs in host countries without strong environmental policy frameworks, there is a real risk that the project / programme might cause environmental and social problems due to insufficient institutions (UNEP, 2010). Thus, given the absence of safeguard policies from the Adaptation Fund, the level of social and environmental safeguard will likely vary across the recipient countries.

5.2. Safeguard Policy of the CIF/PPCR

The CIF/PPCR has not explicitly established its own safeguard policies *per se*, but safeguards are expected to be incorporated both in the Phase 1 (Preparation of Strategic Programs for Climate Resilience (SPCR)) and the Phase 2 (Investment Programs/Projects in the SPCR). This section outlines how each phase incorporate safeguards.

Safeguard Policy in Phase 1: Phase 1 provides technical assistance to get to Phase 2 wherein a Strategic Program for Climate Resilience (SPCR) is developed by conducting an analysis of climate risk, institutional strengthening, awareness-raising, capacity building, consultations, and setting up definitions of priority action needs (CIF 2010). Among the priority needs are eligible grant activities that include environmental and social impact assessments (CIF 2010). It follows that Phase 1 is supposed to entail preparatory studies, including safeguard measures. In addition, because MDBs that

have safeguard policies are involved in any programmes of the CIF/PPCR, the programme preparation follows safeguard policies of each MDB (CIF 2009a, CIF 2008).

Safeguard Policy in Phase 2 (from SPCR appraisal to monitoring stage): The timing of decision-making as to whether to support a programme or not is at the SPCR appraisal stage. In other words, this stage is the final stage when a project can be green lighted or halted, and is also the last time safeguards can be introduced. However, given the lack of an explicit safeguard policy in the CIF/PPCR, the appraisal criteria for safeguard serves as the basis for considering safeguards. The CIF policy, however, stipulates that the projects will follow the MDB's policies and procedures for appraisal, the MDB Board approval and supervision (CIF 2009a, CIF 2008), and thus safeguard policies are assumed to follow the same procedures.

In general, in the case of the CIF/PPCR, instead of establishing their own explicit safeguard policies, safeguard matters are left to each MDBs based on their own policies. As a practical matter, however, certain degree of safeguard is ensured as MDBs such as the World Bank are always involved and projects that do not comply with safeguard policies and cause seriously adverse impacts cannot be approved. Nevertheless, the absence of an explicit safeguard policy allows decision-making to proceed without any clear safeguard-criteria, leaving room for improvement.

5.3. Safeguard Policy of GEF

Finally, the safeguard policy of the GEF, which has adopted the modality of indirect access support, will be outlined. Despite GEF's longer history, since 1991 compared with the Adaptation Fund and the CIF/PPCR, it was not until May 2011 that the GEF explicitly developed its safeguard policy with the issuance of the 'GEF Policies on Environmental and Social Safeguard Standards and Gender Mainstreaming' (GEF 2011).

The safeguard policy of the GEF was established

based on one of the operational policies of the World Bank, ‘OP 4.00 - Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects’. OP 4.00 was established to adopt the systems of recipient countries meeting the World Bank’s safeguard policies, instead of applying the safeguard policies of the World Bank, in the Bank-supported projects.²² Hence, OP 4.00 is not used to conduct appraisals of projects *per se*, but to employ the policies of recipient countries. It follows logically that the scope and target of the GEF’s safeguard policy is not on projects, but on implementing agencies, including the UN agencies who receive GEF’s fund.

The establishment of safeguard policies means that the GEF Partner Agencies²³ need to demonstrate that they have policies and systems that comply with all seven safeguard standards (GEF 2011). In other words, GEF Partner agencies are not necessarily required to have their own safeguard policies, but they must comply with the following;

1. Environmental and Social Assessment
2. Natural Habitats
3. Involuntary Resettlement
4. Indigenous Peoples
5. Pest Management
6. Physical Cultural Resources
7. Safety of Dams
8. Accountability and Grievance Systems

However, each GEF Partner Agency has a different comparative advantages; for instance, some GEF Agencies do not support nor implement projects that involve large involuntary resettlements. As such, because the Safeguard standards 1 ‘Environmental and Social Assessment’ is an umbrella policy and the Safeguard standards 2 is consistent with the GEF’s long-standing policy that GEF projects in one focal area do not cause harm to another focal area, these

two policies are applied to all the GEF Partner Agencies. Therefore, even if UN agencies lack safeguard policies that are required to go through a review process according to the safeguard policy of the GEF, environmental and social measures are taken in the case of GEF’s projects. This is unlike the Adaptation Fund.

One of the distinguishing characteristics in the GEF’s safeguard policy is that it has so-called ‘exclusion lists’, which specifies ex-ante the types of projects that the GEF does not finance (GEF 2011). They include industrial-scale forest harvesting or projects that convert or degrade forests and other natural habitats, the construction or rehabilitation of large²⁴ or complex²⁵ dams, projects that use persistent organic pollutants (GEF 2011). Having an exclusion list is significant for preventing environmental and social damages for the purpose of protecting climate change, considering the significant impacts on natural habitat and local people.

As the safeguard policies of the GEF was established in May this year, the assessment of implementation and application of the safeguard policy should be followed in the future. Nevertheless, the development of safeguard policy by the GEF may have implications for other funds considering establishing their own safeguard policy.

5.4 Safeguard Policy of Funds and Areas of Improvement

As discussed above, safeguards for the Adaptation Fund and the CIF/PPCR have not been disregarded and are even incorporated to a certain degree; the only type of infrastructure the Adaptation Fund supports is small-scale infrastructure; the Adaptation Fund Board is supposed to pay particular attention to arrangements for impact assessment in its appraisal; in the case of the CIF/PPCR, involvement of MDBs

²² The main difference between OP 4.00 and safeguard policies is that the subject of OP 4.00 is institutions, while that of safeguard policies are projects. The reason for the GEF to adopt OP.4.00 as a basis of its safeguard policy was that GEF supports institutions, not projects directly.

²³ The term ‘GEF Partner Agency’ encompasses both GEF Agencies and GEF Project Agencies.

²⁴ Large dams are defined as those of 15 meters or more in height

²⁵ Complex dams are those of a height between 10 and 15 meters that present special design complexities, including an unusually large flood-handling requirement, location in a zone of high seismicity, foundations that are complex and difficult to prepare, or retention of toxic materials.

ensures a certain level of safeguards by applying the safeguard policies of MDBs, especially after the CIF/PPCR approval. The absence of explicit safeguard policies for these funds poses the following two issues.

First, the absence of explicit safeguard policies adopted by the Adaptation Fund and the CIF/PPCR means there is an absence of criteria in the project / programme appraisal governing whether or not to approve a project based on potential environmental impacts. The lack of safeguards reduces the accountability for using these funds.

Second, for the Adaptation Fund there are some discrepancies between the UN agencies and MDBs in terms of safeguards during the implementation stage. While no practical issues are anticipated from the UN agencies if they adopt safeguard standards, the lack of robust safeguard policies might result in negligence over taking measures of avoiding, minimizing, mitigating and compensating for the potentially adverse impacts from supported projects.

In view of the above, the establishment of GEF's safeguard policies is a vital step forward.

6. Adaptation effectiveness (Additionality) in the Adaptation Fund and CIF/PPCR

It is important that the adaptation is actually achieved as an outcome of a project. This often comes to down to whether a project is effective or not. But what constitutes effectiveness has not been clearly defined in adaption projects. Clear indicators and explicit project approval criteria have not been established. But since effectiveness of a project is critical, this section reviews criteria or baseline to justify the approval of adaptation project in CIF/PPCR and Adaptation Fund, and examines the concept of additionality²⁶ as it relates to the

²⁶The background of required statements of "new and additional" is based on the opinion by developing countries who argue that the amount of aid for development purposes, such as the existing poverty reduction and economic development should not be reduced by climate change-related aid. However, there is no internationally agreed common understanding about the definition of "new and additional". This paper, in the field of adaptation, examines whether the "additionality" described as "adaptation effectiveness" is practically applied for a project approval processes, and contribute to

effectiveness of a funded project.

6.1. Adaptation effectiveness (Additionality) in the Adaptation Fund

As a prerequisite for gaining support from the Adaptation Fund, a project is required to be carried out by the host countries themselves and be targeted at meeting national priorities and needs (1/CMP.3)²⁷. The project also should be consistent with national or sub-national sustainable development strategies, national or sub-national development plans, poverty reduction strategies, national communications and adaptation programs of action (NAPA) and other relevant instruments (5/CMP.2)²⁸. Moreover, in the project application template, it stipulates that there needs to be a baseline and project justification to prove the effectiveness (additionality) of every component of a project²⁹.

6.1.1. Features of the Additionality

The followings considerations factor into additionality:

Baseline: in most projects, a proposal identifies the vulnerability to climate change in a country or area, and qualitatively describes the exposures to climate change risks and adverse affects of targeted communities or areas as a baseline (if basic data is available, quantitatively describe the effects) and then compares it to a case that climate change countermeasures are not taken.

Additionality: the project effectiveness or justifications are described as how the identified climate change risks and the implementation of a project can enhance a community's resilience against

international debate of "additionality".

²⁷ Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its third session, held in Bali from 3 to 15 December 2007 Addendum Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its third session

²⁸ Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its second session, held at Nairobi from 6 to 17 November 2006- Addendum-Part Two: Action taken by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

²⁹ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund

vulnerability.

However, while most of the time these descriptions can be used to demonstrate additionality, the differences between the expected outcomes and additionality do not necessarily indicate adaptation effectiveness. In fact, in the project proposals of the Adaptation Fund, there is a lack of uniformity in the descriptions in project justifications regarding additionality. The lack of uniformity reflects the absence of guidelines in the description of a baseline and additionality in the project application. Thus, in the Mauritius Islands, for instance, the baseline is a scenario where there has not been any action taken up until 2060 relative to a scenario where actions are taken to mitigate risks. This might seem lacking in detail, but in the case of Mauritius Island is unusual in how much detail it provides; most projects only qualitatively describe additionality as occurring from the implementation of project.

6.1.2. Relevant evaluation criteria and approval process of the Adaptation Fund

Approved projects in the Adaptation Fund are evaluated in line with Adaptation Fund Project Review Criteria. Project proposals submitted to the Adaptation Fund Board are reviewed by the project and program review committee (PPRC)³⁰, and a technical report is created.

Moreover, to maintain transparency of the approval process, the approval processes determining whether a project is approved is detailed in a report of the Adaptation Fund Board. Since the document of AFB/B.13/6, the reasons projects or project concept is endorsed, points which should be improved and considered for project approval are described. As background of the additionality description, in responding to the needs and request for disclosure and transparency of the approval process of PPRC, in the fifth meeting report (AFB/PPRC.3/L.2)³¹ a clear description was required.

³⁰ Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund

³¹ Report of the Fourteenth Meeting of the Adaptation Fund Board Adaptation Fund Board, Thirteenth Meeting, Bonn, March 17 to 18, 2011

On the other hand, as the Adaptation Fund guidelines for project review described in the report of the Adaptation Fund Board, the screening criteria are based on the following five criteria: 1) country eligibility; 2) project eligibility; 3) resource availability; 4) eligibility of NIE/MIE; and 5) implementing arrangements. The eligibility criteria for the project will be evaluated by whether the proposal meets these five criteria in light of the following items:

- Does the project / programme support concrete adaptation actions to assist the country in addressing capacity to handle the adverse effects of climate change and build in climate resilience?
- Does the project / programme provide economic, social and environmental benefits, particularly to vulnerable communities?
- Is the project / programme cost-effective?
- Does the project / programme meet the relevant national technical standards, where applicable?
- Does the project / programme have a learning and knowledge management component to capture and feedback lessons?

Although these criteria are properly positioned to justify the project, since they do not directly relate to the effectiveness of mitigating adaptation impacts, the criteria are not clear. Therefore, in addition to meeting these criteria, evidence of effectiveness could be also considered for project approval.

For example, the cases of NIE projects in Senegal, Jamaica, Uruguay (as of January 2011)³², although there is no clear description of a baseline in the application form, two out of three projects are approved and the concept note of the remaining project has already been approved. The NIE for these three cases, however, has presented some of the concrete results it anticipates will come from the project activities to justify the projects.

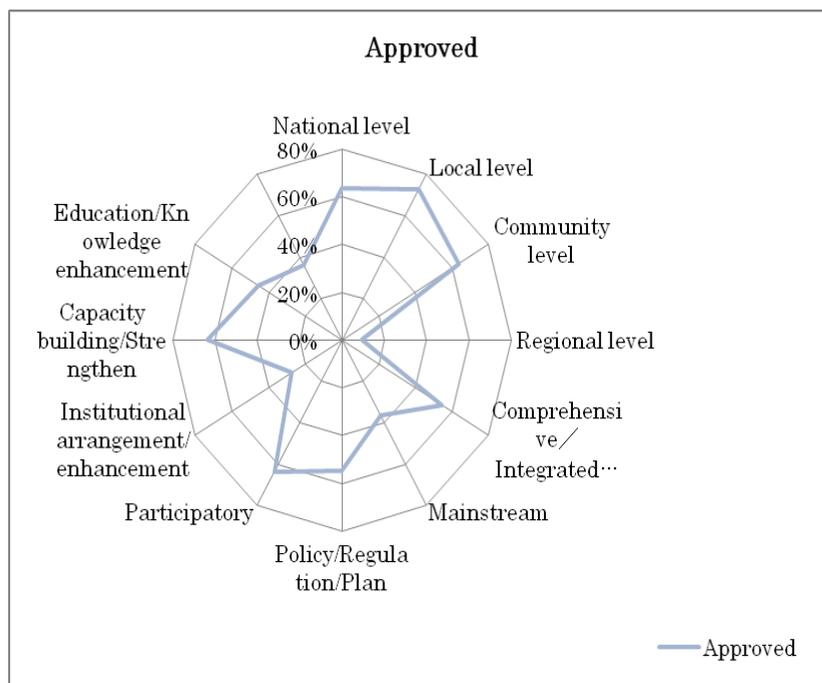
³² Adaptation Fund, Project/Programme Proposal

6.1.3. Comparison of the adaptation effectiveness (additionality) in approval and disapproval of projects

In approved projects (Mongolia, Maldives, Ecuador, Eritrea, Solomon Islands, Nicaragua, Pakistan, Senegal, Honduras, Mauritius, Jamaica³³, most projects use a comprehensive cross-sectoral approach (Figure 1) at the local level to demonstrate the effectiveness of implementing a project. To demonstrate additionality, eight out of 11 approved

projects list local level implementation in the project context. Adaptation measures to strengthen national resistance to climate change that enter into practice at the local level from the national level, and the policy and institutional design and the implementation activities at the local level are also noted. The projects also feature community-level implementation, and participatory monitoring and planning activities to empower the local community to demonstrate the effectiveness of an adaptation project.

Figure1. Stated items as additionality in the approved project proposal (framework)



Source: Author based on footnote 33

³³ Adaptation Fund, Project/Programme Proposal (MNG/MIE/EBA/2011/1, MDV/MIE/Water/2010/6 (AFB/MIE/Water/2010/6), AFB/MIE/Water/2010/1, AFB/MIE/Rural/2010/2, AFB/MIE/Food/2010/1, AFB/MIE/Water/2010/1, AFB/MIE/DDR/2010/1, AFB/NIE/Coastal/2010/1, AFB/MIE.2/4, MUS/MIE/Coastal/2010/2, JAM/NIE/Multi/2011/1)

Table 5. Framework used in the description of additionality of approved project

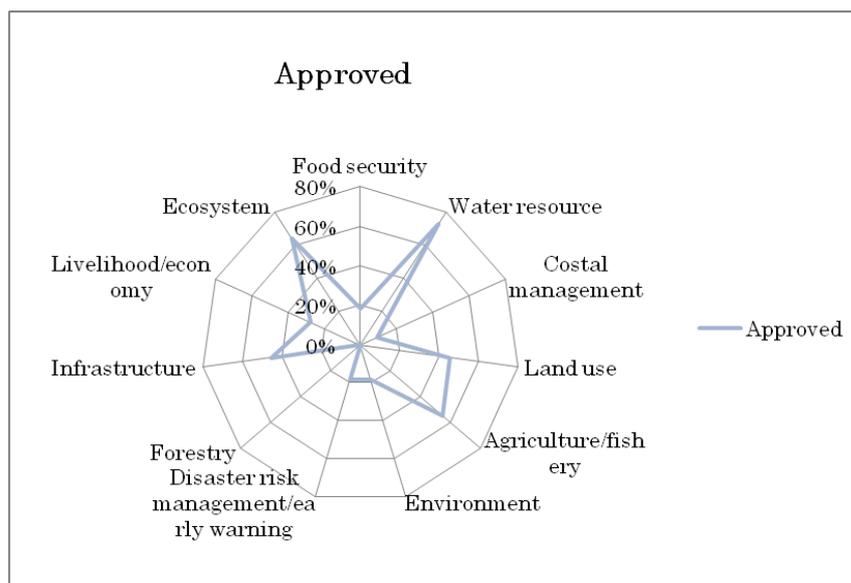
Country	Sector	Country level	Local level	Community level	Regional level	Comprehensive/Integrated/Cross sector	Mainstream	Policy/regulation/planning	Institutional arrangement	Capacity building	Platform/network	Monitoring/validation	Data collection & management/information	Education/knowledge enhancement
Mongolia	Water resource	●	●	●		●	●	●		●	●			
Maldives	Water resource					●								●
Ecuador	Water resource	●	●	●		●	●	●	●	●		●		●
Eritrea	Rural Development	●	●	●		●					●		●	●
Solomon Islands	Agriculture	●	●	●		●	●	●		●				
Nicaragua	Water resource	●	●	●				●	●	●		●	●	●
Pakistan	Disaster risk management	●	●	●	●	●			●	●	●		●	
Senegal	Costal management		●					●						●
Honduras	Water resource	●	●				●	●		●	●		●	
Mauritius	Costal management													
Jamaica	Multi			●						●				

Source: Author based on footnote 33

In looking at the implementation of approved projects and their adaptation effectiveness (see Figure 2), a number of projects are focused on sectors such as water resources management, agriculture, ecosystem and food security, indicating that the adaptation

effectiveness is expected to come from the cross-sector projects in Table 6. For example, the improvement of agricultural production and activities through water resources management can have implications for adaptation.

Figure 2. Stated items as additionality in the approved project proposal (sector)



Source: Author based on footnote 33

Table 6. Sector described as additionality of approved project.

Country	Sector	Livelihood/economy	Food security	Water resource	Coastal management	Land use	Agriculture/fishery	Environment	Disaster risk management	Forestry	Infrastructure	Biodiversity
Mongolia	Water resource			●		●						●
Maldives	Water resource			●				●				
Ecuador	Water resource		●	●								●
Eritrea	Rural Development			●			●				●	
Solomon Islands	Agriculture		●			●	●					●
Nicaragua	Water resource			●		●	●				●	●
Pakistan	Disaster risk management			●					●		●	
Senegal	Costal management	●					●				●	
Honduras	Water resource			●		●	●					●
Mauritius	Costal management	●			●			●	●		●	●
Jamaica	Multi	●		●		●	●					●

Source: Author based on footnote 33

Cases that focus exclusively on a specific sector or may be substituted with an existing development assistance project do not generally get approved. These projects typically do not meet the acceptance criteria and are generally turned down when a concept document is submitted. Especially for three projects in Sri Lanka, India and Uganda (as of January 2011)³⁴, there are reasons why these projects did not meet the acceptance criteria.

The followings are the common features of project proposals that have not been approved in the concept stage:

1) Difference from the existing projects-If there is duplication or replication of an existing projects, projects are not approved. For example, the Mahatma Gandhi National Rural Employment Guarantee scheme in India (MGNREPG) has already received support from a different fund³⁵. Thus, when the project was submitted to the Adaptation Fund, the Board denied the project and prohibited resubmission of the application (AFB.B.12/6)³⁶.

Duplication is strictly assessed in the review process.

2) The difference between development projects and adaptation projects-If a project closely resembles a development assistance project, a clear explanation of the differences with a development project is needed. In Sri Lanka, for instance, a water resources management project that applied as forest conservation project was not approved because the project could be replaced by a similar project. The PPRC pointed out that the reason for disapproval was "many of the same issues addressed by the project have been attributed to loss of forest cover due to encroachment"(AFB/B.14/5)³⁷.

3) Tangible results and effects brought by the project implementation-In order for the project concept to be approved, the document needs to offer a clear description of the environmental, economical and social benefits from implementing the project. In Uganda, a "project on fragile ecosystems integrated approach to building climate regime"(AFB/B.11/9)³⁸, stated that status quo baseline is the foreign aid the

³⁴ Adaptation Fund, Project/Programme Proposal

³⁵ Mahatma Gandhi National Rural Employment Guarantee scheme in India (MGNREPG) project; <http://www.odi.org.uk/resources/download/5124.pdf>

³⁶ Report of the Fourteenth Meeting of the Adaptation Fund Board Adaptation Fund Board, Twelfth Meeting, Cancún, Mexico, December 14 to 15, 2010

³⁷ Report of the Fourteenth Meeting of the Adaptation Fund Board Adaptation Fund Board, Fourteenth Meeting, Bonn, June 20 to 22, 2011

³⁸ Report of the Fourteenth Meeting of the Adaptation Fund Board Adaptation Fund Board, Eleventh Meeting, Bonn, September 16 to 17, 2010

country receives for national ecosystem and natural resource management while the project is additional because of the additional funds obtained through from a new project. The rationale was not acceptable to the Adaptation Fund Board.

The analysis of the projects that were approved at the concept note stage but not the second approval stage of the review processes suggests following issues were behind the denial:

1) The local government and local communities is not specified as a target-If local communities and local governments are not involved in a project or are not included as beneficiaries of a project, it is unlikely to be approved. The PPRC, for instance, recommended that Fiji and Papua New Guinea should add community-based concepts in the project proposal (AFB / B.14 /5).

2) No clear linkages and synergies across the sectors-Projects where there are no clear indications of the synergies and cross-cutting linkages with other sectors are unlikely to be approved (AFB/B.13/6)³⁹. Therefore, cross-cutting issues such as the adaptation effectiveness need to be added into the project component and the project needs to reapply for finance.

3) No clear outcomes and effects-In three out of five adaptation projects, the reason why the concept note was approved and the overall project was rejected was the Adaptation Fund Board determined there were no clear impacts described in the project proposal (AFB/B.13/6, AFB / B .14 / 5). (AFB/B.13/6). For instance, for a project based in Uganda the Adaptation Fund Board/ PPRC decided that “The proposal should clarify what the expected outcome of the project is, given the multiple activities therein, including the actual quantified outputs that contribute to the outcome, the adaptation challenges (baseline) they are designed to overcome, and their contribution to the project level objective” This problem tends to arise most frequently for hardware projects such as infrastructure projects because there is no clear connection between local needs and projects outcomes. Meanwhile, the four approval states of the Adaptation Fund, “approved”, “non-approved concept”, “non-approved project” and “rejected”, can characterised as pattern of constancy of project approval status described in Table 7. From the Table 7, the following two features can be identified as key to project approval; 1) the project cannot be covered by other sectors, 2) the project shows there is additional value to existing project and clear expected outcomes.

³⁹ Report of the Fourteenth Meeting of the Adaptation Fund Board Adaptation Fund Board, Thirteenth Meeting, Bonn, March 17 to 18, 2011

Table 7: Comparison of project approval status; “approved”, “non-approved concept”, “non-approved project” and “rejected”

Rejected	Non-approved concept	Non-approved project	Approved project
Similar projects that already exists	Not enough justification of areas which should be carried out by the Adaptation Fund and other projects	Only additional cost described as additionality, and no concrete description of adaptation effectiveness	Mature and expanded similar project exist, but some areas cannot deal with the conventional project and cannot be covered, but expected to produce synergistic effect
e.g), India Integrating Climate Change Risks and Opportunities into the Mahtma Gandhi Nation Rural Employment Guarantee Programme (MGNREGP)	e.g) in Sri Lanka Reducing Vulnerability of Communities and Ecosystems to the Adverse Impacts of Climate Change in Critical River Basins of Sri Lanka	e.g), Tanzania Implementation of Concrete Adaptation Measures to Reduce Vulnerability of Livelihoods and Economy of Coastal Communities of Tanzania	e.g), Ecuador Enhancing resilience of communities to the adverse effects of climate change on food security, in Pichincha Province and the Jubones River basin.

Source: Author based on Adaptation Fund, Project/Programme Proposal in India, Sri Lanka, Tanzania, Ecuador

6.1.4. Regional and sectoral gaps of additionality in adaptation effectiveness

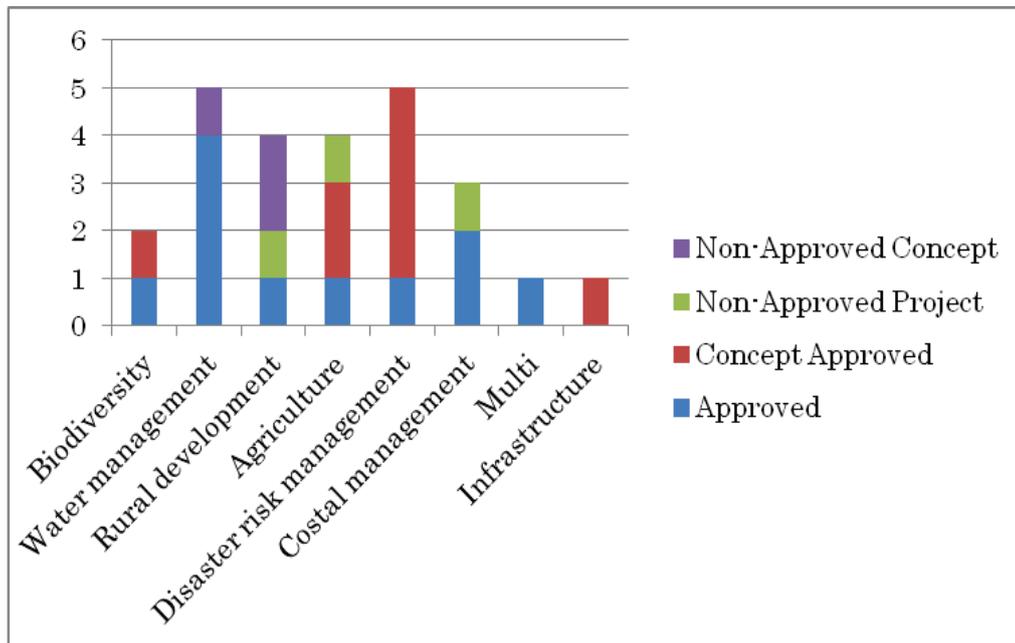
In analyzing adaption projects, sectoral coverage is an important determinant of effectiveness and additionality. While agriculture, coastal areas, and water management are generally deemed appropriate for an adaptation project, sectors such as rural development have a looser link with climate adaptation and thus raise more questions. Other areas that raise questions include forest conservation (which can be classified under agriculture improvements) and disaster risk management (which can be a comprehensive climate change countermeasure). Furthermore, the focus areas in NAPAs, including food security, coastal and marine ecosystems, early warning systems and disaster management, education and capacity building, energy, health, ecology, tourism and water resources⁴⁰.

Meanwhile, in terms of keywords to evaluate the “additionality” of a project, a cross-sector, community-based approach, data collection, sub-national activities and information sharing are often used to justify adaptation effectiveness. In the forest sector and rural development projects, these keywords are frequently used in conventional development projects. Thus, when considering duplication with development assistance, it may be difficult to demonstrate a project is additional above and beyond development assistance projects. Ultimately, projects that have the greatest likelihood of qualifying as an adaptation project are those not covered by development assistance, difficult to classify on a sectoral basis and not aimed chiefly at stimulating conventional development⁴¹.

⁴⁰ FRAMEWORK CONVENTION ON CLIMATE CHANGE – Secretariat, CONVENTION - CADRE SUR LES CHANGEMENTS CLIMATIQUES – Secrétariat, NATIONAL ADAPTATION

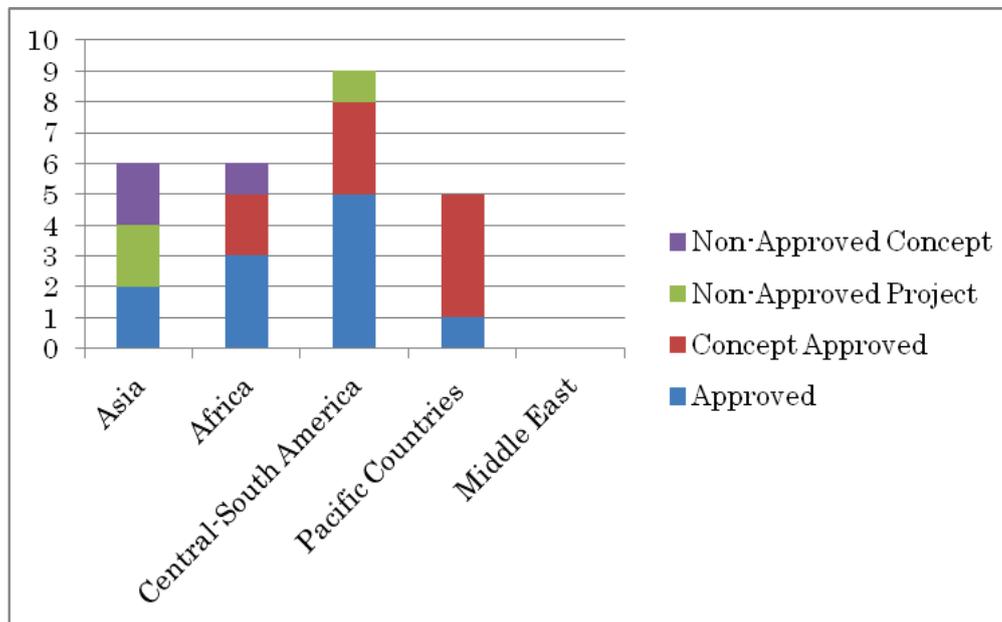
PROGRAMMES OF ACTION Index of NAPA Projects by Sector
⁴¹ Example can be observed from National Development Plan in India <http://www.ovta.or.jp/info/asia/india/pdf/files/03planning.pdf>

Figure 3. Sectoral issues



In looking at the cases of approved and declined projects in different regions, Latin America tends to have more opportunities while the Middle East has fewer projects. On the other hand, half of the projects applications in Asia have not been approved. Perhaps one of the reasons that Latin America has more approved projects is there is a greater emphasis on water resource management and there have been complementary efforts to mainstream climate change into the sector.

Meanwhile, in Asia there have been fewer efforts to work on adaptation in the water management sector. Rather there is a tendency to focus on rural development and agriculture. Also, in Oceania, disaster risk reduction is focal area since it meets the needs to combat problems facing countries in Pacific. These projects are considered part of national adaptation plan and feed into measures designed to meet urgent development needs.

Figure 4. Projects in Regions

6.2. Additionality on Climate Investment Funds (PPCR/CIF)

In contrast to the Adaptation Fund, CIF/ PPCR is a mechanism to promote and channel new or additional climate change funding (Source: Climate Investment Funds (November, 2008) 'The Pilot Program for Climate Resilience Under the Strategic Climate Fund', Para 17). Thus the fund is limited to the additional financial support and there is no description of additionality as it relates to adaptation effectiveness. Also, since the assistance goes to a country that has already been selected for support, the projects approval process cannot be observed like it can in the case of the Adaptation Fund.

6.3. Summary

In sum, the Adaptation Fund can enhance adaption policy and actions. Because the Fund bases additionality on “what can be expected in the local community” or “what the actual effects” are “additional”, projects tend to be small scale, implemented at the local and sub-regional level, and planned at the national level. To help standardize

additionality criteria, some advantages associated with the current arrangements and areas for improvement are summarized below.

Advantages

Because of the clear statement of the reasons of disapproval in a report of the Adaptation Found Board (from thirteen report (AFB/B.13/6)), it is easy to follow what should be improved. The transparency of approval process also strengthened the credibility of the funding and equity of funding allocation.

Areas for Improvement

- Since there are no clear guidelines on the additional effects of adaptation projects in the application template, it is not clear how much additionality (adaptation effectiveness) is taken into account for project approval and how a project is justified for approval. Thus guidelines on project approval criteria are needed to define a baseline for additionality as a requirement for approval in the project application. The guidelines should include a standard baseline

definition, for example, setting the baseline as conditions in a given year without the project. This would be followed by a qualitative or quantitative description of how the project will change the situation. These guidelines can help host countries develop applications as well as ensure equity in allocation through clearer comparisons among projects.

- Also minimum approval criteria should be clearly stated to avoid placing an undue burden on host countries may submit a project application multiple times, due to lack of information needed to meet criteria of the Adaptation Fund review committee (as happened to Tanzania).
- Large gaps in coverage between sectors could be a problem. To bridge these gaps, components considered or included in the application should be listed as a guideline for approval criteria. The reason why more balance in sectors is needed relates to the variation in the challenges areas and priorities for different countries.
- Regional gaps in the number of approved projects can be observed, thus to avoid an uneven distribution of resource allocation from the Adaptation Fund, a regional cap needs to be considered.
- A lack of capacity to develop a proposal can also be an important issue. While in the case of Latin America, the project proposal is well written in the description with a well-conceived justification for expected outcomes and impacts, many project proposals in Africa lack empirically grounded descriptions of project baselines and additionality. In those countries with a shortage of capacity, additional support is needed to write a proposal. Also the same concern over capacity can be found with regard to the implementing agency. All three NIEs in the Adaptation Fund do not clear descriptions of the baseline and additionality or justifications of a project. Therefore, capacity building programs are needed for targeted project stakeholders.

7. Implications for the Adaptation Financing through the Green Climate Fund

On top of arrangements for adaptation financing in the existing climate regime, supporting adaptation measures will also be a critical element in the future climate regime.

In the design process of the GCF, the report prepared by the Transitional Committee (TC) for adoption at COP17 underlines this point. The document stipulates that the GCF initially operate with adaptation and mitigation windows (UNFCCC 2011). As far as adaptation financing in future climate regime is concerned, paragraph 100 of the Cancun Agreements adopted at COP16 also clarifies that a significant share of new multilateral funding for adaptation flows through the GCF (UNFCCC 2010).

Given the need for further clarity over the operational aspect of the GCF, this section provides recommendations for design elements to be incorporated or considered under the GCF based on the lessons learned from the comparative analysis of the Adaptation Fund and the CIF/PPCR.

7.1. Implications for Overall Design and Modality for Adaptation Financing

Adequate Input for Project / Program Formulation Stage

Drawing from the supporting design of the CIF/PPCR, adequate resource allocation for the preparatory stage, including support for project / program formulation and capacity building in NIEs in recipient countries, will be essential to ensuring the quality of financed adaptation measures. While the TC document on the design of the GCF refers to readiness and preparatory support, its scope is limited to support for national plan and strategies (such as NAPA and NAP) and institutional building. On top of supporting both mainstreaming and institutional strengthening, greater emphasis is needed on the project / program formulation process, including guidance on elements of support for the readiness stage, through appraisal missions and local

consultation processes.

Considerations for co-existing access modalities

The TC document also anticipates the co-existence of two access modalities for the operation of the GCF, direct access by NIEs and indirect access by financial intermediary, international and regional organizations. Drawing from the experiences of the Adaptation Fund, how to strike a balance between two access modalities remains a challenge, given the different levels of skills and experiences on project / program formulation and implementation between NIEs and RIEs/MIEs. Against this backdrop, along with the regional balance and special consideration for the most vulnerable countries such as LDCs, SIDs and Africa, resource allocation between access modalities should also be incorporated into the overall resource allocation guidelines of the GCF.

In the meantime, it is important to highlight that the Adaptation Fund at this stage applies the same cap for resource allocation for project / program at both the national and regional scale. Given that some of the adaptation impacts are anticipated to be transboundary in nature, larger mobilization of resources and flexibility should also be incorporated in the design of the GCF. This may include, for instance, differentiated cap setting in accordance with the project / program size and system boundaries.

Financial channel, target sectors/areas and boundary of adaptation impact

Given the placement of the GCF as an operating entity of the financial mechanism of the Convention, its design follows the principles of the Convention. While multiple sources are likely to play roles in the operationalization of the GCF to demonstrate its added value above and beyond conventional support arrangements—including the facility to promote private investment—adaptation financing is most likely to be based on a grant basis. The mode of finance is one of the sticking points in negotiations, with some Parties arguing that adaptation financing is reparation that developed countries Parties should pay for their historical contribution to climate change.

Nonetheless, purely from the perspective of implementation and impact generation, and in the comparison to the Adaptation Fund and CIF/PPCR displays, finding the middle ground on the mode of finance for adaptation finance beyond grants enables recipient countries to extend activities to areas such as infrastructure and engagement with the domestic private sector. Thus, in the design of adaptation finance in the GCF, flexibility on the mode of finance should be granted to MIEs allowing for the mixed use of grants, concessional loans and co-financing with the ultimate goal of maximizing impact generation.

Information Disclosure and Sharing of Lessons Learned

One of the strengths of the Adaptation Fund is its emphasis on ensuring transparency over approval process of proposed projects / programs. Aside from ensuring transparency of approved activities, it is crucial that transparency also be applied to rejected project / program proposals. This will provide opportunities for all stakeholders to extract lessons learned. Therefore, in order to make full use of knowledge management, similar levels of transparency applied to the GCF is recommended.

7.2. Considerations for Safeguard Policies

As concept of safeguard policies varies depending on the type of access modality, different sets of safeguard systems need to be established for both direct access and indirect access. Such design will not only avoid adverse impacts of the supported project / programme to be minimized and compensated for, but also to clarify the decision-making procedures of safeguard policies and to ensure accountability of supporting activities for the fund itself.

In examining safeguard policies for indirect access, GEF's safeguard policies will be helpful. To reiterate, the GEF's policy was established to appraise 'institutions' not 'projects'. However, the detail of how it should be specifically needs further analysis. In practice, OP4.00, the basis of the safeguard

policies of the GEF, is still in piloting stage as suggested by the name of the policy.

In addition, the clear reference to an exclusion list will be very helpful. Even though the mandate of the GCF does not include biodiversity conservation, such an exclusion list should be considered in designing the GCF (For instance, the GCF will not finance projects that do significant damage to an ecosystem service that contributes to water retention in forests and breakwater functions in a coral reef.)

Lastly, the TC document states the GCF will adopt best practice environmental and social safeguards. There will be different opinions over what constitutes ‘best practice;’ it would be critical how the voices of the most vulnerable to climate change and impacts of the projects are incorporated in the definition of ‘best.’ Lastly, related to safeguard is information disclosure and accountability mechanism, which are also a crucial to strengthening safeguards (related to the TC document, paragraph 11). Best practices should be also adopted here that drawing upon practices of international institutions.

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