

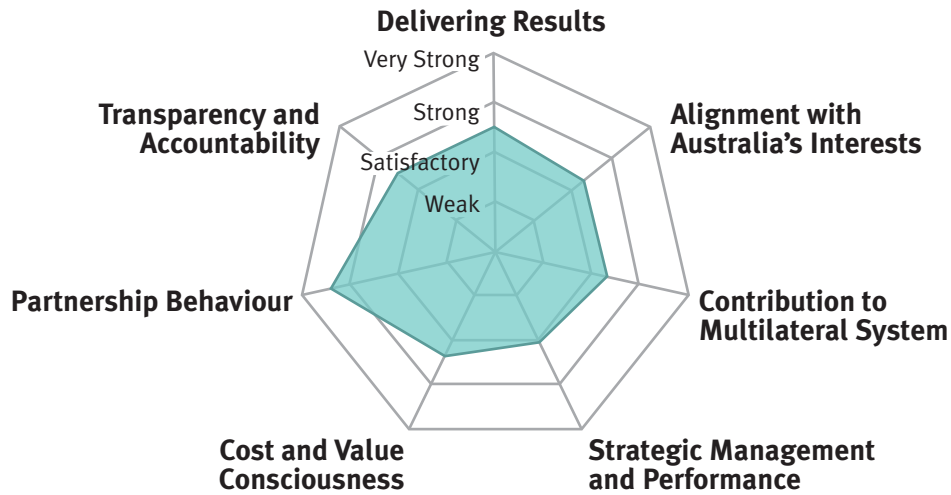


Australian Multilateral Assessment March 2012

Kyoto Protocol Adaptation Fund (AF)



OVERVIEW OF ORGANISATION RATINGS



ORGANISATION OVERVIEW

The Kyoto Protocol Adaptation Fund (AF) was established at the seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in November 2001. AF's goal is to support concrete adaptation activities that reduce vulnerability and increase capacity to respond to the impacts of climate change. Australia regularly attends AF Board meetings as an observer. AF is financed by a two per cent levy on certified emission reductions issued for clean development mechanism projects and ad hoc voluntary donor contributions. As of September 2011, total contributions received from donors amounted to US\$86 million and the fund's Trustee had generated US\$168 million through the sale of certified emissions reductions. Australia has pledged \$15 million to AF but has not yet begun to disburse this.

RESULTS AND RELEVANCE

1. Delivering results on poverty and sustainable development in line with mandate

STRONG

It is too early to measure AF's results because it has only been funding projects since September 2010.

AF has developed a results-based management framework that draws on the experience of other funding mechanisms, in particular the Global Environment Facility (GEF). AF focuses at outcome level and ensures project-level results are aligned and aggregated at fund level. At least one project outcome and output indicator must link to AF's overall strategic results framework, while other indicators are project specific. It is too early to assess whether this system will be effective, but it appears to be robust.

AF targets the poorest and most vulnerable when approving funds. Its strategic priority focuses on the most vulnerable communities and in project proposals applicants must outline how their project provides social, environmental and economic benefits, with a particular reference to vulnerable communities.

a) Demonstrates development or humanitarian results consistent with mandate

N/A

The AF has been funding projects for a little over a year and it is too early to measure results. The first projects were approved by the AF Board in September 2010 and project implementation commenced in February 2011. As of December 2011, 17 projects and programs had been approved for funding and 11 project and program concepts endorsed.

The AF Operation Policy states that activities should 'aim at producing visible and tangible results on the ground by reducing vulnerability and increasing adaptive capacity of human and natural systems to respond to the impacts of climate change, including climate vulnerability'. More time is needed to see whether or not activities meet this objective.

b) Plays critical role in improving aid effectiveness through results monitoring

SATISFACTORY

The AF developed a results-based management framework in 2010–11. This framework draws on experiences of other funding mechanisms, such as the Global Environment Facility.

The framework focuses on the outcome-level. Under the framework, project-level results will be aligned and aggregated at the fund-level. At least one outcome and output indicator on the project-level must link to the fund-level strategic results framework, while other indicators can be project specific. This allows for flexibility. These project specific indicators may also be integrated by the AF in the future to give rise to new outcome indicators that will potentially contribute to the development of higher-level impact indicators. It is too early to assess whether this system will be effective, but it appears to be robust.

c) Where relevant, targets the poorest people and in areas where progress against the MDGs is lagging	STRONG
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The AF has a strategic priority to give special attention to most vulnerable communities.

According to its policy, decisions on allocation of resources should take into account the level of vulnerability and ensure access to the fund in a balanced and equitable manner.

In project/program proposals, applicants must describe how the project/program provides social, environmental and economic benefits, with a particular reference to vulnerable communities. This is also a factor that must be taken into account by the AF when reviewing the proposal.

2. Alignment with Australia’s aid priorities and national interests	SATISFACTORY
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Supporting AF aligns with one of the Australian Government’s climate change objectives of helping to shape a global climate change solution.

Its work also aligns with the aid program’s strategic goal of sustainable economic development, which states that the aid program should reduce the negative impacts of climate change and other environmental factors.

AF’s work does not explicitly target the most vulnerable developing countries.

AF takes a project-based approach, rather than a more strategic, programmatic approach.

Operational policies and guidelines have recently been updated to include gender considerations. Gender issues must now be addressed in all AF proposals and AF must consider gender issues when reviewing proposals and evaluating projects.

AF does not have a policy on people with disability.

The crosscutting issue of climate change is the core of AF’s mandate.

AF has funded some projects in fragile states. However, the different operating environment of fragile states is not a key factor in its decision making.

a) Allocates resources and delivers results in support of, and responsive to, Australia’s development objectives	STRONG
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The AF’s mandate and activities are closely aligned with Australia’s climate change objectives, including the objective of helping to shape a global climate change solution. It is also in line with those objectives outlined for the International Climate Change Adaptation Initiative, which is co-managed by AusAID and the Department of Climate Change and Energy Efficiency.

b) Effectively targets development concerns and promotes issues consistent with Australian priorities	SATISFACTORY
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In *An Effective Aid Program for Australia*, the government states that one of the strategic goals of the aid program is to support sustainable economic development. Under this goal, the government indicated that the aid program should reduce the negative impacts of climate change and other environmental factors. AF plays a role in addressing this goal. In particular, AF funded projects focusing on disaster risk reduction (for example, through early warning systems) and food security are intimately linked to responding to disasters and humanitarian crises. Other projects, such as ones on agriculture, coastal zone management and water resources management, foster economic development and livelihoods resilience of communities. The progress towards these goals is captured in the Annual Performance Report of the Fund.

AF takes a project-based approach, rather than a more strategic, programmatic approach.

AF's work does not explicitly target the most vulnerable developing countries.

c) Focuses on crosscutting issues, particularly gender, environment and people with disabilities	SATISFACTORY
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The AF Operational Policies and Guidelines were recently updated to include gender considerations. Gender issues must now be addressed in all AF proposals and AF must consider gender issues when reviewing proposals. In the project proposal, an applicant for AF funding must now describe how the project or program will provide economic, social and environmental benefits, including gender disaggregated data. The proposals must also include provisions for monitoring and evaluation through data, targets, and indicators disaggregated by gender. This should also be reflected in the results framework of the project or program. The applicant must also describe the consultation process and provide a list of stakeholders who were consulted during project preparation, with particular reference to vulnerable groups and gender considerations.

AF does not have a policy on people with disabilities.

The crosscutting issue of environmental sustainability is addressed as the core of AF's mandate.

d) Performs effectively in fragile states	SATISFACTORY
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AF does not have a policy directed at fragile states or provide specific considerations for implementing entities operating in fragile states. However, during the proposal review process, the needs of fragile states (in terms of vulnerability) and operational risks are considered. Fragile states are eligible to apply for funding from the AF and several projects in fragile states have already received funding.

3. Contribution to the wider multilateral development system	SATISFACTORY
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AF plays a limited role in coordinating adaptation efforts. It is one of several global climate change adaptation funds. It is the largest channel for adaptation financing within the UNFCCC. With a view to future efficiency and effectiveness, UNFCCC parties should consider the respective roles of the Green Climate Fund and AF and how they can effectively work together and complement each other’s mandate and operations.

AF has not yet provided large-scale financing or specialist expertise on adaptation. It contributed to the development of norms and standards for the delivery of climate finance through the development of a direct access model allowing national entities that meet robust fiduciary requirements to apply direct for funding.

AF has developed and trialled innovative approaches such as direct access and sourcing funding from the sale of certified emission reductions arising from clean development mechanism projects. Direct access is now being trialled in a limited way by the GEF and was considered as a model in the design of the Green Climate Fund.

a) Plays a critical role at global or national-level in coordinating development or humanitarian efforts	SATISFACTORY
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AF plays a limited role in coordinating adaptation efforts. It is one of several global climate change adaptation funds. It is the largest channel for adaptation financing within the UNFCCC. The fund is mandated to finance the full cost of concrete adaptation through stand alone projects and therefore does not coordinate with other efforts financially. The review of proposals emphasises that projects should avoid duplication of other efforts, and should instead build upon them with a view to be scaled up and replicated, and seek synergies during implementation. The AF also networks closely with other funds.

With a view to future efficiency and effectiveness, UNFCCC parties should consider the respective roles of the Green Climate Fund and AF and how they can effectively work together and complement each other’s mandate and operations.

b) Plays a leading role in developing norms and standards or in providing large-scale finance or specialist expertise	SATISFACTORY
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AF has not yet provided large-scale financing or specialist expertise on adaptation.

It has contributed to the development of norms and standards for the delivery of climate finance through the development of a direct access model, allowing national entities which meet robust fiduciary requirements to apply directly for funding. This includes the development and implementation of fiduciary standards. It also includes the lessons learned that the accreditation process brings to each participating country.

In addition to developing the direct access model, the AF (through the UNFCCC regional workshops) has undertaken efforts to raise awareness among beneficiary countries of this model, and has made available practical tools to utilise direct access. Participation in the accreditation process helps the applicants to focus on areas of development in order to meet the criteria, which catalyses strengthening of their institutional capacity.

c) Fills a policy or knowledge gap or develops innovative approaches	STRONG
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AF's key contribution to innovation in climate finance has been its direct access approach referred to above, which allows national entities that meet robust fiduciary requirements to access and manage funding directly rather than through multilateral implementing agencies. Accessing resources directly provides developing countries with greater ownership over AF-funded projects, and builds their capacity in developing proposals and managing implementation. Direct access is now being trialled in a limited way by the GEF, and AF's direct access arrangements were considered as a model in the design of the Green Climate Fund. The board has approved (at the fifteenth meeting) its Knowledge Management strategy and work plan, which emphasise the Fund's priority to share its experience on direct access as well as adaptation in a broader context through its projects. The strategy is currently being implemented. In addition, at project-level, it is mandatory to include a knowledge management component in all proposals submitted to the board.

The sale of certified emissions reductions (CERs) to fund adaptation activities is another innovative aspect of AF, although it has not delivered the level of funding originally anticipated due to the market price of CERs, which has been lower than expected due to global financial trends and uncertainties regarding the future of the Kyoto Protocol.

ORGANISATIONAL BEHAVIOUR	
4. Strategic management and performance	SATISFACTORY

AF has a clear mandate to support climate change adaptation activities. Its board developed the Strategic Priorities, Policies and Guidelines, approved by the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol. This document outlines AF's strategic priorities and states that decisions on funding allocations must take into account specific criteria. There is no evidence that AF has a clear, overarching strategic planning document. AF's Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund have information on policies and procedures.

The Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol has ultimate authority over AF. This has delayed implementation of some of AF's policies and procedures, as AF's board must forward certain policies and procedures to the conference for approval and the conference only meets once a year.

AF's board, comprising most developing countries, operates relatively effectively for its size. The working relationship between the board and AF's Secretariat has continuously improved. The board acknowledges the Secretariat's extensive and important workload and approved further positions within the Secretariat to strengthen its capacity.

In September 2011, the board decided the GEF's Evaluation Office would fulfil the role of AF's evaluation body for three years. The office and AF's Secretariat were asked to prepare the final version of the monitoring and evaluation framework. However, it is too early to judge how this framework will link to decision making.

Leadership and decision making by AF's board is sound. Its Secretariat is located in the GEF and is subject to GEF human resources policies. The GEF has been assessed by the

Australian Multilateral Assessment as having satisfactory human resource policies, with staff hired in accordance with World Bank procedures.

a) Has clear mandate, strategy and plans effectively implemented

SATISFACTORY

AF has a clear mandate to fund concrete adaptation activities that reduce vulnerability and increase capacity to respond to the impacts of climate change at the national and sub-national level.

The AF Board developed the AF's Strategic Priorities, Policies and Guidelines, which were approved by the Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol (CMP). In line with these strategic priorities, decisions on the allocation of resources in the AF must take into account the following criteria: levels of vulnerability; levels of urgency and risks arising from delay; lessons learned in project and program design and implementation; ensuring access to the fund in a balanced and equitable way; where applicable, securing regional co-benefits to the extent possible; maximising multi-sectoral or cross-sectoral benefits; and adaptive capacity to the adverse effects of climate change.

AF's Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund have information on policies and procedures. The AF does not appear to have a clear, overarching strategic planning document.

b) Governing body is effective in guiding management

SATISFACTORY

The CMP has authority over the AF. This can cause delays, and did so particularly during the transitional period in which the board developed the AF's operational policies and procedures, as CMP approval of documentation and decisions can be sought just once per annum. The operational aspects of the fund's management are dealt with by the Adaptation Fund board (AFB) that meets four times a year and has, whenever necessary, approved a number of intercessional decisions by email.

The AF Board is the governing body. It is composed of 16 members and 16 alternate members, including: two representatives from each of the five United Nations regional groups; one representative from the small island developing states; one representative of the least developed country parties; two representatives from Annex I parties; and two representatives from non-Annex I parties. The board comprises a majority of developing countries, which is unique amongst the climate change funds. It operates effectively, although alternate members are generally able to act as full members of the board, meaning the board is a larger and less nimble body than had originally been intended.

The AF secretariat sits within the GEF. The working relationship between the board and AF's secretariat has continuously improved. The board acknowledges the secretariat's extensive and important workload, and has recently approved further positions within the secretariat to strengthen its capacity.

c) Has a sound framework for monitoring and evaluation, and acts promptly to realign or amend programs not delivering results	SATISFACTORY
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At the fifteenth meeting of the AF Board in September 2011, a decision was made for the GEF's Evaluation Office to fulfil the role of AF's evaluation body for a period of three years. The GEF Evaluation Office and the AF Secretariat were also requested to prepare the final version of the Evaluation Framework. However, it is too early to judge how this framework will link to decision making.

The board has also approved guidelines for terminal evaluations (fourteenth meeting). The AFB has put in place a robust results-based management system, which includes monitoring of results at the project/program level and at the Fund level, and which is managed on a day-to-day basis by the AFB Secretariat. The GEF Evaluation Office will only be involved in the evaluation aspects.

d) Leadership is effective and human resources are well managed	SATISFACTORY
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Leadership and decision making by AF's board is sound. However, CMP decisions take into account both political and practical considerations, and therefore do not always provide sound, clear guidance for the board on operational and management aspects.

GEF's human resource policies apply to the AF Secretariat, which is located within the GEF. GEF hires staff in accordance with World Bank procedures and has satisfactory human resource policies. The AFB secretariat team are recruited specifically for this purpose, with the other staff of the GEF secretariat providing cross-support in various areas.

5. Cost and value consciousness	SATISFACTORY
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When assessing project and program proposals, AF's board pay particular attention to cost effectiveness. However, it is difficult to assess if value for money is a regular focus because project proposals are reviewed at AF's Project and Programme Review Committee meetings which are closed to observers. While full board sessions are open, the substantive deliberations of the Committee are not discussed during board meetings (this issue is considered further under transparency considerations).

Cost effectiveness is a focus and AF policies require project and program proposals to be assessed for cost effectiveness. Implementing agencies applying for AF funding must outline their cost effectiveness measures, including comparisons with the cost of other possible interventions.

AF challenges partners to consider value for money through its funding application processes. However, there is no reference to value for money in the Model Legal Agreement between the board and implementing entities.

a) Governing body and management regularly scrutinise costs and assess value for money	SATISFACTORY
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When assessing project and program proposals, the AF Board gives particular attention to the cost effectiveness of projects and programs.

Project proposals are reviewed by the board’s Project and Program Review Committee prior to final decisions being taken by the board. The Committee discusses the proposals and makes recommendations to the board to approve, not approve, or reject. However, it is difficult to assess how well costs are regularly scrutinised or are an important factor in decision making because the sessions of the Committee are closed and minutes of meetings are not publicly available. While full board sessions are open, the substantive deliberations of the Committee are not discussed during board meetings (this issue is considered further in component seven: transparency and accountability).

b) Rates of return and cost effectiveness are important factors in decision making	STRONG
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The AF Strategic Policies adopted by the CMP state that the AF Board should give specific consideration to cost effectiveness when assessing project proposals.

Implementing agencies applying for AF funding must outline their cost effectiveness measures, including comparisons with the cost of other possible interventions (comparing, for example, the costs per unit and the number of beneficiaries). The proposals must also outline the extent to which they meet the full cost of adaptation.

c) Challenges and supports partners to think about value for money	SATISFACTORY
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The AF challenges implementing agencies to think about value for money through the project proposal template. However, there is no reference to value for money in the Model Legal Agreement between the board and implementing entities.

6. Partnership behaviour	STRONG
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Overall, AF works effectively with partners and relevant stakeholders. Partnerships are generally viewed as effective. Through a direct access model, partner governments can access resources without involving traditional multilateral implementing agencies. The accreditation process to become an implementing agency requires agencies to meet robust fiduciary standards. While some prospective agencies have found it difficult to meet accreditation requirements, AF’s internationally accepted fiduciary standards are needed to ensure integrity of the direct access model.

AF has no field presence so working with partners is key to operational effectiveness. The application of the accreditation process ensures AF selects effective implementing partners.

AF requires projects to align with country priorities. AF funded projects must align with national development plans, including adaptation plans. All AF project proposals must be approved by designated country authorities who confirm they are in line with country priorities.

AF provides a voice for stakeholders through its project design process. Project proposals must describe the consultative process and list stakeholder consultations undertaken as part of project preparation. AF is formalising civil society participation in its board meetings.

a) Works effectively in partnership with others	STRONG
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Overall, AF works effectively with partners. Under the direct access approach, national entities can access the AF's resources directly, without the need to apply through multilateral implementing entities. The accreditation process to become an implementing agency requires agencies to meet robust fiduciary standards. While some prospective agencies have found it difficult to meet accreditation requirements, AF's internationally accepted fiduciary standards are needed to ensure the integrity of the direct access model.

AF has no field presence, so working with partners is key to operational effectiveness. The application of the accreditation process ensures that AF selects effective implementing partners. AF is unable to fund capacity building for countries in relation to the accreditation process because this would not be considered 'concrete' adaptation activity and, therefore, would fall outside of AF's mandate. Regional workshops to facilitate developing countries' understanding of the accreditation process are currently taking place under the UNFCCC, in consultation with the AF Board.

There was some concern that all of AF's funds would be used through multilateral implementing agencies because it was taking time for national agencies to become accredited. To address this, the AF reserves 50 per cent of its funding for the direct access modality. As of December 2011, eight national implementing entities had been accredited.

b) Places value on alignment with partner countries' priorities and systems	VERY STRONG
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AF promotes country ownership and the alignment of programs with country systems through its direct access channel.

Projects funded by AF must be consistent with national sustainable development strategies, development plans, poverty reduction strategies, national communications or adaptation programs of action, or other relevant instruments. Although there is no requirement for projects to link to adaptation plans (as is the case, for example, in the Least Developed Countries Fund) when the country is a Least Developed Country, the link to national adaptation programs of action is considered during the project review process. A requirement for projects to align with and reference adaptation plans would further ensure coherence between AF funded projects and national adaptation priorities and strategies. All AF project proposals and applications for accreditation as a National Implementing Entity must be endorsed by designated country authorities who confirm that they are in line with country priorities.

Furthermore, all proposals for projects that will take place in a country must be endorsed by that country’s designated authority. It is the role of the designated authority to confirm that proposals are in line with the government’s priorities.

c) Provides voice for partners and other stakeholders in decision making	STRONG
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A voice for stakeholders is provided through the project design process. Project proposals must describe the consultative process and list stakeholder consultations undertaken as part of project preparation.

In terms of engagement with civil society, the AF is in process of formalising non-government organisation (NGO) dialogue through a session with board members where civil society can attend and raise views. GermanWatch, an NGO that has followed the progress of the AF over its three years of operations, has launched an AF NGO network.

7. Transparency and accountability	STRONG
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AF publishes most of its operational documents on its website. Reports on the meetings of the full AF Board are published. board reports include key outcomes from major committee meetings such as the Project and Program Review Committee, the Ethics and Finance Committee and meetings of the Accreditation Panel that recommends the accreditation of implementing agencies to the board.

AF has published criteria for allocating resources in line with its strategic priorities which must be taken into account when decisions on resources are made. The rationale for decisions on allocating resources is conveyed in board reports.

Transparency would be significantly enhanced if the default position for committee meetings was open to observers, with an option to close during sensitive discussions, as is the arrangement for full AF Board meetings.

The World Bank, as AF’s Trustee, operates with strong internal controls, sound fiduciary management and sound audit compliance. These are all applied to all AF funding. AF promotes transparency and accountability in its implementing agencies and agencies seeking accreditation.

a) Routinely publishes comprehensive operational information, subject to justifiable confidentiality	STRONG
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AF publishes most of its operational documents on its website. Reports on the meetings of the full AF Board are published. board reports include key outcomes from major committee meetings such as the Project and Program Review Committee, the Ethics and Finance Committee and meetings of the Accreditation Panel that recommends the accreditation of implementing agencies to the board.

b) Is transparent in resource allocation, budget management and operational planning	SATISFACTORY
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AF has published criteria for allocating resources in line with its strategic priorities which must be taken into account when decisions on resources are made. The rationale for decisions on allocating resources is conveyed in board reports.

Transparency would be significantly enhanced if the default position for committee meetings was for them to be open to observers, with an option to be closed during sensitive discussions, as is the arrangement for full AF Board meetings.

c) Adheres to high standards of financial management, audit, risk management and fraud prevention	STRONG
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The World Bank, as AF's Trustee, operates with strong internal controls, sound fiduciary management and sound audit compliance. These are all applied to all AF funding.

d) Promotes transparency and accountability in partners and recipients	SATISFACTORY
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The AF ensures that its implementing partners have the capacity to act transparently and in an accountable manner through its accreditation process. Fiduciary standards must be met by agencies seeking accreditation. These standards include financial integrity, transparency, and self-investigating powers.