

## Equity and Efficiency in the Adaptation Fund: Prioritizing Among the ‘Particularly Vulnerable’

### Key Findings

- Given the great need and limited resources available to support adaptation to climate change impacts, it is crucial that funds be deployed equitably and efficiently. While the Adaptation Fund has several innovative features and has made quick progress in starting to disburse funds, the extent to which its allocation criteria have been applied to date is unclear.
- The Adaptation Fund’s record reflects the fact that while its mandate is to support countries that are “particularly vulnerable” to climate impacts, the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) have failed to define that term. The Adaptation Fund Board has chosen not to come up with its own definition.
- A review of the 48 proposals submitted as of June 2012, including 25 that were approved, shows countries with a wide range of socio-economic conditions and physical exposure to climate change have sought and obtained finance.
- While all proposals are subject to technical reviews of project quality, there is no formal and transparent methodology for allocating funds between countries or between projects at the sub-national level. It is left to project proponents to define vulnerability and estimate the economic, environmental and social benefits of the project. As a result, the proposals take very different approaches and cannot be easily compared with one another. This undermines the pursuit of both equity and efficiency.

### Meeting a critical need

Climate change impacts are increasingly visible around the world: from dwindling water supplies, to crop-damaging heat waves and droughts, to rising sea levels, to natural disasters. In this context, helping vulnerable communities adapt and protect themselves has been recognised as an increasingly pressing issue by the international community.

The Parties to the United Nations Framework Convention on Climate Change (UNFCCC) recognized this need early on, and as part of the Kyoto Protocol, adopted in 1997, they specified that a share of the proceeds (later set at 2%) from Clean Development Mechanism (CDM) activities should be used “to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation”, to be supplemented by voluntary contributions by developed countries.

In 2001, the Parties agreed to create an Adaptation Fund “to finance concrete adaptation projects and programmes”, and after a series of follow-up decisions, the fund became operational in 2007. It was innovative in several ways, most notably the composition of its board – with a majority of members from developing countries – and a new access modality, with national and regional institutions, not just multilateral entities, able to apply directly for support. The Global Environment Facility (GEF) serves as the fund’s secretariat, and the World Bank as its trustee, both on an interim basis, subject to an on-going review. After developing strategic and operational criteria and guidelines, the Fund issued its first call for project proposals in April 2010.



Nicaragua, one of the countries that has received finance from the Adaptation Fund, suffered severe flooding due to torrential rains in October 2011.

© CAPRA Initiative

This policy brief, based on two forthcoming papers by SEI, evaluates the allocation of Adaptation Fund resources to date in terms of equity and efficiency. It draws on in-depth analysis of the 48 submitted proposals and 25 projects approved by the Adaptation Fund as of June 2012.

### Whom does the Adaptation Fund benefit?

To qualify for support through the Adaptation Fund, a country must have “developing country” status, be a Party to the Kyoto Protocol, and be “particularly vulnerable” to climate change. The first two criteria are easily verified; 149 countries currently

meet them. Who is “particularly vulnerable”, however, is not clearly defined under the UNFCCC. As noted in earlier SEI work, the term has been applied to different sets of countries in various UNFCCC texts, articles and decisions, including Least Developed Countries (LDCs), Small Island Developing States (SIDS), countries with low-lying coastal areas, countries with areas prone to natural disasters, etc. However, there is no definite listing, and no categories of countries have been specifically excluded. This ambiguity poses a significant challenge to any UNFCCC fund in seeking to distribute scarce resources in a reasonable, fair and transparent manner.

In 2008, the Adaptation Fund Board adopted a set of allocation criteria to help it prioritize among eligible countries. Seven factors are to be taken into account:

- Level of vulnerability;
- Level of urgency and risks arising from delay;
- Ensuring access to the fund in a balanced and equitable manner;
- Lessons learned in project and programme design and implementation to be captured;
- Securing regional co-benefits to the extent possible, where applicable;
- Maximizing multi-sectoral or cross-sectoral benefits;
- Adaptive capacity to the adverse effects of climate change.



Farmers learn about climate change at a workshop in Senegal, one of the countries where the Adaptation Fund has supported projects.

Estimates of future adaptation needs and their cost suggest that there will be significant competition for limited resources. It is thus imperative to ensure that the Adaptation Fund’s support is going to those who need it most, and to projects that will truly reduce vulnerability. As a first step in gauging this, SEI looked at how the concepts of “vulnerability” and “adaptation benefits” have been applied in the fund’s guidance documents and in submitted and approved proposals.

### Which countries are getting funds, and for what?

Our analysis suggests that the Adaptation Fund Board has so far prioritized concrete adaptation measures – as opposed to, e.g., analytical work, which was the purpose of National

Adaptation Programmes of Action (NAPAs). The most common sectors addressed in proposals are agriculture and water, followed by coastal management and disaster risk reduction. Most of the funded activities fall in the middle categories of the so-called “adaptation continuum”<sup>1</sup> (between pure adaptation and development): managing climate risk (13 of the 25) and building response capacity (11); one directly confronts climate change; none focuses on addressing the underlying drivers of vulnerability.

The regional distribution – in terms of both submitted and approved proposals – has been fairly even, with 16 submissions and 11 approvals in the Asia and Pacific region, 19 submissions and 8 approvals in Africa, and 13 submissions and six approvals in Latin America and the Caribbean. LDCs and SIDS combined account for 52% of applications and 56% of approved projects, similar to their share of total Adaptation Fund-eligible countries.

For two additional indicators of social vulnerability, we looked at how the World Bank classifies countries by per capita gross national income, and at the United Nations Development Programme’s 2011 Human Development Index (HDI) – which considers health, education and income together.

By the World Bank’s measure, five countries that have secured Adaptation Fund support qualified as “low-income” in 2011 (under \$1,025 USD); 11 as “low-medium income” (\$1,026–\$4,035), and eight as “upper-middle” income (\$4,036–\$12,475). By UNDP’s measure, nine countries ranked as low-HDI, eight as medium-HDI, and seven as high-HDI. (Neither classification system includes Cook Islands, a SIDS whose 2010 per capita GNI was \$9,749, according to UN data.) A comparison of submitted and approved projects shows low-HDI applicants were slightly less successful (53%) than medium- and high-HDI applicants (a combined 56%).

Lastly, Adaptation Fund projects were cross-checked against national vulnerability indices. It should be noted that those indices are controversial and measure vulnerability in very different ways, which leads to equally different rankings. One widely cited index, by Barr et al. (2010),<sup>2</sup> considers multiple dimensions of vulnerability and then groups countries by quartile based on an overall, combined measure. Five countries approved for Adaptation Fund support rank in the top (most vulnerable) quartile, nine in the second, four in the third, and six in the fourth (Cook Islands is again excluded). Comparisons with two additional indices also showed no particular pattern. Table 1 provides an overview of the 25 successful funding proposals.

### How does the Adaptation Fund evaluate proposals?

While the proposal review process is clearly set out and to a large extent transparent to external stakeholders, there is no clear method for how to apply the allocation criteria of the Adaptation Fund. Further, the deliberation by the Fund’s Project and Programme Review Committee is closed to observers. Applications are accepted and reviewed on a rolling basis, which

<sup>1</sup> See McGray, H., Hammill, A., Bradley, R., Schipper, E. L. F. and Parry, J.-E. (2007) *Weathering the Storm: Options for Framing Adaptation and Development*. World Resources Institute, Washington, DC. <http://www.wri.org/publication/weathering-the-storm>.

<sup>2</sup> Barr, R., Fankhauser, S. and Hamilton, K. (2010) ‘Adaptation investments: A resource allocation framework’. *Mitigation and Adaptation Strategies for Global Change*, 15. 843–58. doi:10.1007/s11027-010-9242-1.

**Table 1: Successful proposals to the Adaptation Fund (to June 2012)**

Country	LDC	SIDS	HDI	WB income	Barr (2010)
Cambodia	*		medium	low	2
Colombia			high	upper-med	3
Cook Islands		*	-	-	-
Djibouti	*		low	low-med	1
Ecuador			high	upper-med	2
Egypt			medium	low-med	2
Eritrea	*		low	low	1
Georgia			high	low-med	4
Honduras			medium	low-med	1
Jamaica		*	high	upper-med	3
Lebanon			high	upper-med	4
Madagascar	*		low	low	2
Maldives		*	medium	upper-med	4
Mauritania	*		low	low	1
Mauritius		*	high	upper-med	3
Mongolia			medium	low-med	4
Nicaragua			medium	low-med	2
Pakistan			low	low-med	2
Papua New Guinea		*	low	low-med	2
Samoa	*	*	medium	low-med	3
Senegal	*		low	low-med	1
Solomon Islands	*	*	low	low-med	2
Tanzania	*		low	low	2
Turkmenistan			medium	upper-med	4
Uruguay			high	upper-med	4

Abbreviations: Asia-Pac = Asia-Pacific; LAC = Latin America and Caribbean; LDC = Least Developed Country; SIDS = Small Island Developing State; HDI = UNDP 2011 Human Development Index; WB income = World Bank 2011 income rankings; for full Barr (2010) reference, see footnote on this page.

makes it difficult for the Fund's Board to maximize the efficiency of allocations by weighing the merits of proposals against one another. The proposals themselves differ considerably in how they describe the expected benefits.

Given that the Adaptation Fund's *raison d'être* is to support countries that are "particularly vulnerable" and "level of vulnerability" is also an allocation criterion, vulnerability is thus central to the equitable allocation of funds. In fact, it is arguably the measure by which funding requests should be prioritized, with the most vulnerable countries coming first.

Yet despite multiple discussions of vulnerability at Adaptation Fund Board meetings, no definition or set of indicators of "particular vulnerability" have been agreed upon. Instead, the Fund Board has decided not to adopt its own definition, but rather defer to the UNFCCC. The only effective decision taken so far (in 2011) that regulates countries'

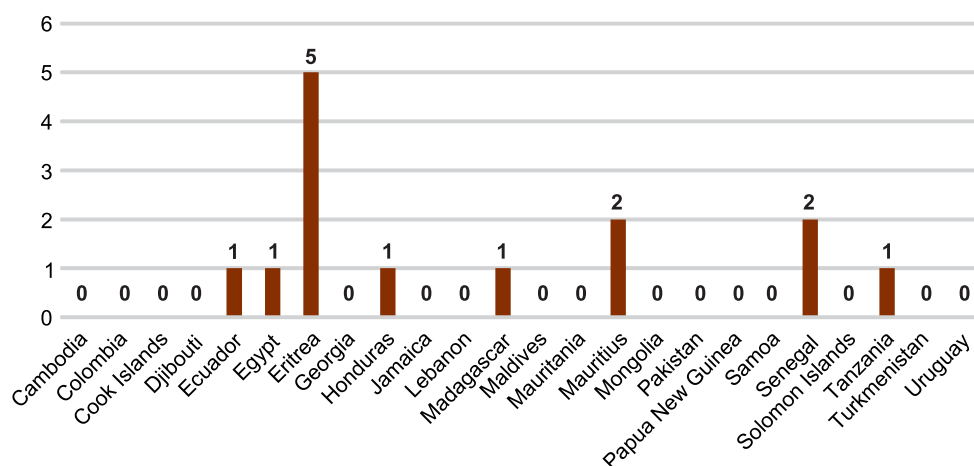
access was to cap awards at \$10 million USD, which treats all developing countries more or less as equal.

In the absence of a clear definition, the Fund Board has been assessing vulnerability on a case-by-case basis. The technical reviews of project proposals by the Secretariat were only made public in March 2012, and the Project and Programme Review Committee meeting reports have not conveyed any relative assessment of projects, so there has been little transparency in how proposals are compared with one another when it comes to vulnerability. The project documents show that applicants interpret and describe vulnerability in very different ways; more than half the approved proposals did not even mention that their target beneficiaries or host countries were "particularly vulnerable". Figure 1 shows how often the term was used in each proposal.

The approved projects all do discuss general vulnerability, and most put a greater emphasis on the imperatives of adapting to climate change and less on the underlying causes of social vulnerability. However, the proposals differ significantly in how they conceive vulnerability and how they identify the most vulnerable. There is no common ground what accounts as vulnerable, and who the vulnerable entity is. With no common definition or standards, it is thus impossible to systematically compare the merits of the proposals.

It should also be noted that under the Adaptation Fund's policies, vulnerability is also considered important at the sub-national level; eligible countries are directed to pay special attention to the needs of their most vulnerable communities. Yet there is no clear mechanism to demonstrate that attention in the project documents, possibly because projects should also be country-driven. The national government needs to endorse the proposal for it to be considered, but no one has to justify why a particular population is being targeted and why it is more vulnerable than another.

Yet another unresolved issue is whether the vulnerability of the host country as a whole or of the target population should carry most weight. For example, a large country might only face serious climate threats to a fraction of its territory (e.g., a low-lying coastal area), but there, vulnerability could be severe – especially if the local population is poor and marginalized. Would a proposal to help that population be more or less worthy than one from a small island surrounded by rising seas? The adaptation finance debate so far has focused on countries, and most



**Figure 1: Number of mentions of 'particularly vulnerable' in approved proposals**  
Numbers are based on a computerized count. Nicaragua is excluded because the format of its proposal did not allow text analysis.



vulnerability indices also rank countries, but the Adaptation Fund reviews projects. The two levels need to be connected better, in policy and in practice.

### Who should decide who is most vulnerable?

It seems clear that an ad hoc approach to defining and gauging vulnerability will be difficult to maintain should competition for funds increase. Countries around the world are increasingly recognizing the impacts of climate change, and this is boosting demand for adaptation finance. Amid growing competition for scarce resources, questions of equity and efficiency cannot be ignored. Yet who should answer them?

The proliferation of vulnerability indices – and the wide disagreements among them – shows just how difficult it is to agree on a systematic way to measure and compare vulnerability. Scientists have greatly advanced the understanding of vulnerability and its drivers, but at some point, value judgments have to be made. What is more important: How many lives are at stake? The potential economic losses (absolute or as a share of GDP)? The rate of poverty in a country? The country's financial resources and institutional capacity? As previous SEI work has stressed, *there is no objective and true answer* to the question, “Who is particularly vulnerable?”

This means that defining vulnerability for adaptation-finance purposes is a political choice – and in this sense, it is not unreasonable for the Adaptation Fund Board to expect the Parties to the UNFCCC to resolve the matter. There is also more at stake than this one fund: at COP15 in Copenhagen, countries agreed to scale up climate finance to \$100 billion per year by 2020, with a balanced allocation between mitigation and adaptation. The Green

Climate Fund, the new mechanism to distribute that money, is also supposed to give priority to “particularly vulnerable” countries, and it also lacks clear guidance on what that means.

### Concluding remarks

The need for a political decision within the UNFCCC does not preclude the Adaptation Fund Board from clarifying its own policies, however – and our analysis suggests there is a need to do this. More rigorous requirements for proposals, especially with regard to documenting vulnerability, and a more transparent and clear method for applying allocation criteria in the review process would help ensure a more equitable and efficient allocation of funds.

Another question is how non-state actors – most notably, the most vulnerable communities targeted by the projects – should be engaged in the writing and review of proposals. Responding to civil society concerns, stricter requirements have been introduced for documentation of how stakeholders were consulted in preparing projects, including how they influenced project design. Note, however, that such consultation refers to project design and not necessarily the choice of vulnerable community to be targeted within a country.

This policy brief was written by Elise Remling, Åsa Persson and Marion Davis. It is based on two forthcoming papers: *Equity and efficiency in adaptation finance: Initial experiences of the Adaptation Fund*, by Persson and Remling, and *Adaptation for whom? Governing equity and efficiency under the UNFCCC Adaptation Fund*, by Remling and Persson.

### Policy recommendations

- The Adaptation Fund Board should consider ways to make the justification of vulnerability in project proposals more systematic. Standardized measures such as national indices would likely be inadequate and/or unacceptable, but the Board could specify dimensions of vulnerability to be addressed, or provide a wide selection of indicators for proponents to choose from. Researchers and civil society could also ensure that their analytical work on comparative vulnerability is shared with the governments.
- Regarding targeting of the most vulnerable communities at the sub-national level, the Adaptation Fund could increase transparency and accountability by explicitly requiring proposals to justify their selected target regions and beneficiaries – documenting how they compare with the country as a whole and/or with other potential targets. However, such a requirement needs to be balanced with national sovereignty and the costs of rigorous project preparation to governments.
- The Adaptation Fund Board's decision to make the Secretariat's technical review of each project available to the public in advance of a funding decision is a positive step; a further improvement in transparency could be made by also opening meetings of the Project and Programme Review Committee to the public. Seeing how the committee interprets the allocation criteria would also help current and future project proponents understand what constitutes high-priority adaptation activities.
- As the Green Climate Fund takes shape, lessons from the Adaptation Fund should be used to inform decisions before the GCF's launch in 2014. Options for preventing unclear allocation criteria should be explored, to ensure that it is clear who is eligible for funding and why.

#### Published by:

Stockholm Environment Institute  
Kräftriket 2B  
106 91 Stockholm  
Sweden  
+46 8 6747070

**sei-international.org**

2012

Follow us on Twitter: @SEIclimate

#### Contact: Åsa Persson

asa.persson@sei-international.org

#### Communications contact:

Marion Davis

marion.davis@sei-international.org