

# On the road to Bali: operationalising the Kyoto Protocol Adaptation Fund

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The Adaptation Fund was created under the Kyoto Protocol to support adaptation measures on the ground, particularly in very vulnerable countries. It is unique both in the way it is financed and in the potential scale of money generated. As such, we believe it will be best served with a 'stand-alone' operating entity and a decision-making format that genuinely guarantees the authority of the Protocol's Meeting of Parties over the Fund. This may mean a delay in setting up and running the Fund – but given the importance of getting its governance and management right, we feel this is an acceptable risk.

## A new kind of funding mechanism

The Adaptation Fund (AF) was discussed at the first Meeting of Parties of the Kyoto Protocol (COP/MOP1) in Montreal in 2005, and again at COP/MOP2 in Nairobi a year later. In Nairobi it was agreed in Decision 5/CMP2 that 'the Adaptation Fund should operate under the authority and guidance of and be accountable to the COP/MOP [Art 1(e)], and that the membership of the governing body of the Adaptation Fund shall:

- (i) be from Parties to the Kyoto Protocol
- (ii) follow a one-country-one-vote rule and
- (iii) have a majority of Parties not included in Annex I to the Convention'. [Article 3]

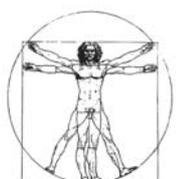
The AF is unique and, as such, its governance and management merit particular attention. Unlike the other UN climate change funds<sup>3</sup>, the AF does not rely exclusively on voluntary donations from industrialised countries. Instead it is currently envisaged that it will be funded mainly through an 'adaptation levy' on the credits generated by Clean Development Mechanism (CDM) projects carried out primarily by the private sector of both developed and developing countries. The 2 per cent levy is collected directly by an international body — the CDM Executive Board — and transferred to the AF for monetisation.

The adaptation levy is thus akin to an international tax on certain worldwide private sector activities. Because it does not flow through national treasuries, the money raised will by definition be additional to any Official Development Assistance (ODA). As the first instance of innovative international adaptation funding, it could potentially dwarf the amounts of money likely to be made available for adaptation through bilateral donations.

Moreover, there are other avenues of innovative funding for the AF that could and should be pursued — not least if the expected gap in adaptation funding is to

## KEY MESSAGES:

- **The Adaptation Fund of the Kyoto Protocol is a unique financing mechanism based on an international levy on mainly private sector projects under the Clean Development Mechanism.**
- **The Fund could potentially dwarf bilateral donations and become the main conduit for adaptation funding.**
- **The Fund will be best served with a 'stand-alone' governance and management structure featuring a new tailor-made expert executive body and a decision-making format that ensures the authority of the COP/MOP.**
- **While it would be ideal to set up such a structure without delay, speed is less important than getting the governance right, to achieve the purpose of the Fund.**



be filled. These include an extension of the adaptation levy to the other mechanisms of the Kyoto Protocol (possibly at a higher rate), and the inclusion of bunker fuel-based emitting activities, such as air and maritime travel.

This is why we are not convinced by the two main arguments put forward for operating the AF by the same entity as the other two UNFCCC funds — namely, that this would eliminate significant duplications in adaptation activities under the different funds, and prevent the unnecessary creation of a new body. We believe that the AF is in a league of its own, and that it is sufficiently different from the other funds to necessitate the creation of a ‘stand-alone’ governance structure with an entirely new operating body.

## Guaranteeing COP/MOP authority

The initial decision on the relation between the COP/MOP and the AF taken at Montreal was revisited at the very next session to assert the authority of the COP/MOP over the AF. This was a key assertion, not merely a redundant stylistic reformulation of the initial decision, and it must be adequately reflected in the governance structure of the AF.

We believe this means, at the very least, that the COP/MOP has ultimate authority over strategic decisions taken by the AF executive body, and that these decisions should be subject to approval by the COP/MOP. There are a number of features that would help to ensure this:

- Parties to the COP/MOP – which itself has to be explicitly designated as the voting constituency for the AF – must also be given the right to demand a vote on strategic decisions of the AF executive body.
- The COP/MOP decides which type of decisions by the executive body are strategic.
- Strategic decisions, once taken, must be ratified by the COP/MOP.
- The AF executive body must be responsible for making available information relevant to its decisions in a timely and transparent manner, in particular to the UNFCCC focal points.

## Operating the Fund

To avoid conflicts with the COP/MOP’s overall political authority, and at the same time to ensure competence and avoid undue political interference, we propose that the AF executive body be made up of financial and adaptation experts. These will be chosen by the COP/MOP and operate in their personal capacity and in strict adherence with Article 3 of the Nairobi Decision.

We think that this kind of ‘stand-alone’ operating entity can be successful, as the Montreal Protocol Fund has amply demonstrated. The expert model also has a proven track record: it is used in the world’s most influential financial

systems, in bodies such as the Board of Governors of the US Federal Reserve System, the Board of Directors of the European Central Bank, and the Monetary Policy Committee of the Bank of England.

We also believe that – apart from the non-Annex I majority mandated in the Nairobi Decision – the executive body should be made up of members reflecting not only the UN regions, but also the main interest groups: the most vulnerable countries, including the Least Developed Countries (LDCs) and Small Island Developing States (SIDS), as the intended recipients, and the largest CDM investors, representing the main source of funding. The key, as mentioned above, is that all the members of the executive body would be sitting in their expert capacity and not as government representatives.

The day-to-day running of the AF could then be delegated to a Secretariat, either housed within an existing organisation or even set up as a separate entity. This structure is essential for achieving the broad political acceptance of this key climate change fund and we believe it is worth investing the time needed to get it right, particularly since the value of the credits collected through the adaptation levy to date is still negligible<sup>4</sup>.

## Endnotes

<sup>1</sup> This opinion piece is based on a presentation by Enele Sopoaga on behalf of the Oxford Fellows to European colleagues during the 2007 ecbi Oxford Seminar (5-7 September). All authors are ecbi Fellows or Experts. For more on the ecbi see [www.EuroCapacity.org](http://www.EuroCapacity.org).

<sup>2</sup> The views expressed in this article are the authors’ personal views and do not necessarily reflect those of either their respective countries or negotiating Groups.

<sup>3</sup> The Least Developed Countries Fund and the Special Climate Change Fund.

<sup>4</sup> At the time of writing, the AF holding account contained 1.6 million CERs (see <http://cdm.unfccc.int>), which even under the most optimistic assumptions would not raise more than €32 million.

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