# Institutional linkages and relations between the Adaptation Fund and other institutions under the Convention

## Submission to the Standing Committee on Finance

**May 2015**

Germanwatch welcomes the call for submissions by the Standing Committee on Finance and appreciates the opportunity to submit its views on possible future institutional linkages and relations between the Adaptation Fund and other institutions under the Convention. For the moment, we want to limit our deliberations to possible options for the interplay between the Adaptation Fund (AF) and the Green Climate Fund (GCF), recognizing that linkages and relations with other institutions and bodies under the Convention also need to be considered as part of the bigger picture.

Our views are the result of some initial deliberations and reflect aspects of an evolving debate that accompanies and is informed by the ongoing processes in the GCF. Ultimately, the option that is most suitable to meet the adaptation needs of the most vulnerable people and communities should be given precedence.

On possible future institutional linkages and relations between the AF and the GCF we identify the following three options, which we assess along different criteria: feasibility; legal constraints; safeguarding specialized foci; avoidance of overlaps; and maintaining flexibility and competition.

## Option 1: GCF and AF separate, but with a division of labour

The AF per its mandate is focused on the implementation of concrete adaptation projects and programmes (not on planning, capacity-building etc.). Though most projects contain de facto policy mainstreaming or capacity building elements (which also provide learning-by-doing), the major focus in the projects are concrete actions. In light of this, the AF's own readiness programme is an important signal and milestone in the recent history of the AF to tackle institutional support for accreditation and project development.

Furthermore, the scale of AF projects is small, because of the USD 10 million cap per country[1]. The GCF can formally support projects, programmes, policies and other activities[2], and treats proposals of up to 10 million USD as micro, the smallest project category. Its clear objective of supporting a paradigm shift signals a stronger focus on large-scale approaches, such as programmes, policies, etc. However, in smaller countries even a USD 10 million project can already result in transformational changes. In addition, a programmatic long-term large scale intervention may require that small, urgent and concrete sectoral interventions are addressed upfront. This is because long-term and large scale projects and programmes

[1] It is important to note that this cap was primarily implemented by the Adaptation Fund Board based on the forecasts of limited funds available, and not for not allowing bigger projects in principle, so this cap (per country and per project) could also be changed.

[2] Decision 1/CP.16

build on short-term concrete action or related learning. Therefore, a division of labour is more than needed, if the GCF is to achieve transformational change towards climate resilient development pathways.

Assessment of the option

Presumably, this option is relatively easy to implement, since it would not require significant institutional changes. However, activities under 10 million are de facto eligible for funding from the GCF, so it is also a question to what extent institutions accredited and governments will use the GCF for this category of projects. If the GCF would go into single project funding, further discussions might be necessary in order to promote complementarity (as mandated by the COP) and minimise overlaps, e.g. by encouraging institutions to refer to the AF for concrete small scale projects and use the GCF for adaptation planning and programming. Such a division of labour would require that the AF receives sufficient funding at least for its actual demand as well as for scaling up the AF's country cap, as to ensure that funding for smaller scale adaptation projects remains available.

Moreover, in doing so, it is critical to ensure a certain level of coordination and coherence among the two funds. For instance, this could be addressed through the development of harmonized adaptation, outcome and impact indicators, which could lay a strong foundation for the later implementation of transformational large scale programmes and plans to be funded by the GCF, while at the same time enabling recipient countries to increase their accessibility, particularly to the GCF. In certain areas, both funds already share similar indicators to some extent. For instance, one of the four adaptation result areas of the GCF addresses the "increased resilience and enhanced livelihoods of the most vulnerable people, communities and regions".[3] A focus on the most vulnerable communities is also a guiding element of projects and programmes under the AF. On some level, there are disparities however. In the GCF, there is now a very elaborate initial investment framework which looks different from that of the AF. Hence, some form of harmonization could be considered to increase coherence among the funds.

Furthermore, in contrast to the AF, the GCF can also support pure and more comprehensive capacity-building programmes related to climate change as well as policy development and planning in frame of its readiness activities (incl. beyond adaptation), whereas in the AF this is currently only happening as part of concrete projects. Under the assumption that the GCF does not focus on smaller scale projects, there would presumably not be much competition between the AF and the GCF. In case the AF does not have sufficient resources available, the GCF could still be allowed to fund smaller scale projects in order to allow for flexibility to respond to a change in needs.

The AF and GCF have both set up their own readiness programmes. The AF readiness programme aims to help strengthen the capacity of national and regional entities to receive and manage climate financing, particularly through the Fund's direct access. The GCF has identified its readiness programme as one of its strategic priorities following the objectives to help maximize the effectiveness of the Fund, and ensuring that developing countries are in the driver's seat in programming its resources[4]. Consequently, GCF and AF could undertake

[3] See http://gcfund.net/fileadmin/00_customer/documents/MOB201406-7th/GCF_B07_04_Initial_Results_Management_Framework__fin_20140509.pdf

[4] See http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_10_Revised_Program_Work_Readiness_fin_20141007.pdf

joint readiness activities, in particular for supporting NIE accreditation and project development by NIEs. GCF Board decision B.08/11 on “Revised programme for readiness and preparatory support” foresees for the coordination the option of signing MOUs with institutions involved in delivery of readiness support, including through information sharing and dialogues. This could be a good entry point for a partnership between the GCF and the AF. One could even assume that collaboration between the AF and GCF has already started, as the GCF secretariat has participated in all the workshops of the AF readiness programme.

Moreover, the AF has set-up a project cycle and application procedures to which Parties have got used to to a certain extent and which allows, depending on the quality of the project and the speed of domestic revisions, for a relatively quick approval of projects (on average within 6-8 months).

## Option 2: AF integrated in the GCF

Under this option, the AF would effectively become an integral part of the GCF. This possibility is also being discussed by the AF Board, recognizing that "[d]ifferent degrees of integration could be considered, ranging from the absorption of the Fund into the GCF to becoming a sub-fund or window under the GCF dedicated to concrete adaptation projects/programmes of a certain size, direct access, etc."[5]

With the AF becoming the GCF's "adaptation window" or at least part of it, experiences from the AF could be taken into account. The Adaptation Fund Board highlighted the following points as the particular strengths of the AF: (i) direct access modality; (ii) streamlined and efficient project cycle; (iii) results-based project implementation and disbursement; (iv) enhanced transparency; partnership with civil society, in particular direct engagement of civil society in project monitoring; and (v) ability to accommodate innovative funding sources.[6] Furthermore, an innovative feature of the AF is that it puts specific value and experience addressing the needs of particularly vulnerable communities. This is very critical particularly for adaptation projects. Given the fact that the GCF in its recently adopted initial adaptation logic model also puts some emphasis on building resilience for the most vulnerable communities, the GCF might benefit from particular experience of the AF in this regard. Where it comes to funding of concrete projects one could discuss applying with potential adjustments/improvements the provisions and procedures of the AF.

Assessment of the option

On whatever degree of integration one has to recognise that while it was decided that the GCF would have an adaptation window (and a mitigation window), it remains open what this actually means. As the GCF Board decided that the resources would be allocated 50/50 between mitigation and adaptation, a key issue is already clarified. However, it does not look likely and neither reasonable at the moment that the GCF would set up the windows as institutions within the GCF. This issue has not been taken up since the 7th GCF Board meeting, and there are also no compelling reasons for further institutionalisation (such as theme-specific committees or so).

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[5] See https://www.adaptation-fund.org/sites/default/files/AFB.B.25.Inf_.6%20Potential%20linkages%20between%20AF-GCF.pdf

[6] See https://www.adaptation-fund.org/sites/default/files/AFB.B.19.5 Strategic Prospects for the Adaptation Fund.pdf

The option is likely difficult to implement, as it entails institutional, political and legal implications. On the one hand, this is due to the fact that the AF is a fund under the KP and hence the question occurs whether non-KP Parties would agree on including it in the GCF.

This option would still allow pursuing the special focus of the AF of financing concrete adaptation projects and programmes, but would not be sufficient to fill the mandate of the GCF, which shall promote a paradigm shift towards climate-resilient development. Thus, while the experience of the AF could be very useful, the mandate of the AF would need to be broadened in order to also cover larger scale programmes and achieve climate resilient development. If the AF was (part of) the GCF adaptation window, a streamlined application process would be necessary for recipient countries in order to avoid different application processes for one fund depending on the specific focus of the project/programme. This could be based on the current application process of the AF and potentially being enhanced in order to reflect the necessary requirements for larger scale programmes.

Before the AF becomes part of the GCF, the question of the institutional linkages between and governance structure of both funds should be at the heart of the discussion. Very likely it would mean - in the longer-term - to close the AF, as the goal of this option is to transform the AF as an integral part of the GCF.

### Option 3: AF as disbursement channel of the GCF

In contrast to the previous option, the AF and GCF would remain separate funds but the AF would receive (part of) its funding from the GCF. This option would see the AF as a disbursement channel of the GCF, where the GCF would distribute parts of its resources to the AF to fund concrete small scale adaptation activities. This could for example happen by accrediting the AF as an intermediary, which according to recent GCF decisions is theoretically a possible option. An alternative would be a MoU between the AF and the GCF as to allow the AF to receive part of the GCF funding for adaptation.

This option could bring about an additional subset of options:

a) The mandate of the AF stays focused on concrete adaptation projects and programmes. In this case all requests for specific programme funding coming to the GCF would be forwarded or directed to the AF for approval by channelling earmarked funding either to finance concrete adaptation activities, or to upscale the AF's resources for readiness. The GCF would direct funding to the AF for these activities. Other activities, such as larger scale programmes or capacity building and planning would be funded by the GCF directly.
b) The mandate of the AF would be expanded to cover all sorts of activities (and take the respective funding decisions) related to adaptation (programmes and policies, planning, capacity building) and the GCF would direct the funding for those activities to the AF. Thereby the AF would become the main channel where the GCF funds would be disbursed for adaptation.

<u>Assessment of the option</u>

As a first step, for Option a) and b), it would require all Parties to agree that the provisions of the AF are those that should be applied for parts of the adaptation projects (Option a) or all adaptation projects (Option b). Further, again, the fact that the AF is a fund under the KP might be a barrier to this, since it is not clear, whether non-KP Parties would agree that parts of the adaptation funding or all GCF adaptation funding should follow a structure and provisions, in which development they were not involved.

Further, para 5 of the Governing Instrument (GI) of the GCF might be another barrier, since it states that the GCF Board will have "full responsibility for funding decisions". This would bring about the discussion of whether the GCF Board needs to take all detailed funding decisions, or whether these decisions can be devolved to other institutions which operate under certain provisions and guidelines set up by the GCF. The decision on a "Pilot phase on Enhanced Direct Access" to be taken at the next GCF Board meeting will further address this issue. Yet even then, some oversight power of the GCF Board would presumably be necessary in order to make this option politically feasible.

In terms of streamlining application processes, Option a) would not necessarily offer a streamlined process, since the funding decision for different types of projects/programmes would still be taken by different funds. However, one could aim to align the AF procedures as far as possible to those of the GCF. Under Option b), the application process could presumably be streamlined, since the funding decision would be taken by one fund (the AF). Overlaps could presumably be well avoided, since Option a) would include a clear division of labour and Option b) would leave all funding decisions to one fund. If the GCF would devolve all or specific funding decisions to the AF Board, it would have to ensure that the decisions follow its guidelines. On first sight, no restraints on flexibility become evident, since in both options all funding would at the end be provided via the GCF and hence it should be able to respond to changing financing needs. However, as mentioned above, having all funding flowing through only one fund might also be perceived as reducing flexibility for recipients, since there is only one fund available where they could access funding.

The option could lead to a lot of bureaucracy if funding flows from the GCF to the AF and then to an implementing entity. Further the application processes would be rather bureaucratic. However, there may be some constellations that will help to avoid the increase of the overall administrative cost, at the expense of urgent projects needed in poor countries. According to a paper by the AF Secretariat, this can be addressed through an agreement between the principal (GCF) and the agent (the Fund). After all, it should be possible not to duplicate the processes, which means that over-all the sum-total of administrative costs should remain the same as if the projects were handled without an intermediary[7]. In this case, the AF Secretariat would not charge any additional fees, for screening, monitoring of the funds entrusted, as this already belongs to its core tasks. The management and execution fees would be charged by the implementing entities following the AF provisions.

## Conclusion

All options have their pros and cons. The specific option to pursue will also depend on the priorities given to the different criteria. Overall, it seems – which is not surprising – that the politically most feasible option and the option with least legal constraints would be the one where the status quo is maintained and the different funds co-exist next to each other. However, with a new fund entering the scene, it will then be important to clarify the specific tasks of the different funds, in order to avoid increasing overlaps between the funds. The question remains however, in how far this option would be in line with the task of rationalizing the financial mechanism to be undertaken by the SCF. In addition, the option of establishing a

[7] AFB/B.24-25/1 Potential linkages between the AF and the GCF

partnership between the AF and the GCF in frame of readiness activities seems to be pertinent - as mentioned above - and a good exercise to see how well both funds could work together, until the other options are implemented or the GCF becomes operational.

If the AF should be incorporated into the GCF, the point of time will be of crucial importance. It does not appear advisable to do so before the GCF is up and running. Otherwise this might hinder already functioning funds in pursuing their tasks, while the GCF cannot yet take up these tasks. However, if the AF should have to be incorporated in one way or another into the GCF, this might need to be reflected in the current set up of the governance structure. But discussing this already now bears the danger that donor countries would not provide further funding into the AF (which again would hinder them in pursuing their tasks), since they might argue that they rather wait until the fund is linked to the GCF and their future role is fully clear.

Thus the question when this discussion should take place can have great implications. The last review of the financial mechanism, which was concluded by COP20, was a missed opportunity to bring about the process of rationalization. Another option could also be to consider a potential rationalization after the GCF has been running for some time and first lessons learned in regard to the type of projects/programmes being funded by the GCF have been generated and experience from the co-existence of both funds have been made.