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Third review of the Adaptation Fund

Technical paper by the secretariat

Summary

This technical paper provides information to support the third review of the Adaptation Fund in accordance with the terms of reference contained in the annex to decision 1/CMP.12 and taking into account the relevant deliberations and conclusions of the Subsidiary Body for Implementation at its forty-sixth session and the views on the third review referred to in decision 1/CMP.12, paragraph 3.

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I. Introduction

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its twelfth session, requested the secretariat, in collaboration with the Adaptation Fund Board secretariat, to prepare a technical paper on the third review of the Adaptation Fund, for consideration by the Subsidiary Body for Implementation (SBI) at its forty-seventh session.[1] This technical paper has been prepared in accordance with the terms of reference for the review,[2] and taking into account the relevant deliberations and conclusions of SBI 46. SBI 46 requested the secretariat, in preparing this technical paper, to take into account the submissions from Parties and observer organizations as well as other interested international organizations, stakeholders and non-governmental organizations involved in the activities of the Adaptation Fund and implementing entities accredited by the Adaptation Fund Board (hereinafter referred to as the Board), in the context of the aforementioned terms of reference.[3] In addition, SBI 46 recognized that the outcomes of the third review of the Adaptation Fund do not prejudge the negotiations under the Ad Hoc Working Group on the Paris Agreement on the Adaptation Fund serving the Paris Agreement, but will provide relevant information to enable Parties to take an informed decision.[4]

B. Approach and structure of the paper

2. The aim of this paper is to provide background information to facilitate the third review of the Adaptation Fund in line with the objective, scope and sources of information contained in the terms of reference for the review. This paper recapitulates the outcomes of the second review, where appropriate, as well as provides a summary of the findings of relevant reports and views of Parties and stakeholders on the progress made and potential opportunities for improvements in the operationalization and implementation of the Adaptation Fund. The focus is on the period from the completion of the second review (December 2014) to September 2017.

3. The areas for the review of the Adaptation Fund, identified in the terms of reference, are covered by this paper as follows:

(a) The provision of sustainable, predictable and adequate financial resources and the mobilization of financial resources to fund concrete adaptation projects and programmes that are country driven and based on the needs, views and priorities of eligible developing country Parties (chapter II);

(b) Lessons learned from:

(i) The application of the access modalities of the Adaptation Fund, including its operational policies and guidelines, including its streamlined accreditation process (chapter III);

(ii) The project approval procedures of the Adaptation Fund (chapter IV);

(iii) The results and impacts of approved adaptation projects and programmes (chapter V);

(iv) The readiness programme for direct access to climate finance, including the component aimed at increasing South–South cooperation between accredited national implementing entities (NIEs) and those seeking accreditation (chapter III, which also reports on discussions on access modalities);

(v) The pilot programme for regional projects (chapter VI);

[1] Decision 1/CMP.12, paragraph 4.
[2] Decision 1/CMP.12, annex.
[3] FCCC/SBI/2017/7, paragraph 73.
[4] FCCC/SBI/2017/7, paragraph 75.

(c) Programming and project coherence and complementarity between the Adaptation Fund and other institutions funding adaptation projects and programmes, in particular those under the Convention and the operating entities of the Financial Mechanism and its specialized funds (chapter VII);

(d) The institutional arrangements for the Adaptation Fund, in particular the arrangements with the interim secretariat and the interim trustee (chapter VIII).

4. Recognizing that the overall objective of the third review is to ensure the effectiveness, sustainability and adequacy of the Adaptation Fund and its operations, this paper focuses particularly on these three criteria in discussing the areas of strengths and constraints as well as lessons learned from the operationalization and implementation of the Adaptation Fund. Previous analysis of arrangements under and outside the Convention provides some context for understanding effectiveness, sustainability and adequacy in the context of the review. Without prejudging any interpretations to be used in the third review, for clarity this paper applies these terms in the following contexts:

(a) Effectiveness may be understood as the extent to which the Adaptation Fund has attained its objectives of financing concrete adaptation projects and programmes.[5] One possible indicator for assessing effectiveness is whether the Adaptation Fund has sought and developed ways to improve its operations over time, including taking into consideration environmental, social and gender issues, in order to meet its objectives;

(b) Sustainability may include the extent to which the Adaptation Fund and its operations will be able to continue to meet its objectives of financing concrete adaptation projects and programmes.[6] One possible indicator for assessing sustainability is the extent to which the Adaptation Fund has sought and developed sustainable financing and institutional arrangements or enacted policies to support its operations and the sustainability of its outputs;

(c) Adequacy may be the extent to which the Adaptation Fund has met the adaptation needs of developing countries. An assessment of the adequacy of resources that looks only at the Adaptation Fund will be misleading as it represents only one channel through which adaptation finance is provided to developing countries. Therefore, this criterion can examine more broadly the extent to which the Adaptation Fund contributes to adaptation efforts in developing countries.[7]

5. Finally, this paper has been informed by desk research and the review of the sources of information identified in the terms of reference for the third review, complemented by additional reports and inputs from the Adaptation Fund Board secretariat.

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5 The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD), in the context of evaluating development assistance, defines effectiveness as "a measure of the extent to which an aid activity attains its objectives" (OECD, n.d.). Similarly, the independent evaluation of the Adaptation Fund refers to effectiveness as the extent to which the Adaptation Fund "has attained or is likely to attain its objectives" (Adaptation Fund Board document AFB/EFC.17/3).

6 The Norwegian Agency for Development Cooperation, in its *Handbook in Assessment of Institutional Sustainability* (2000), defines a sustainable institution as one having "the strength to survive and develop to fulfil its functions on a permanent basis with decreasing levels of external support". This definition is also referred to in the independent evaluation of the Adaptation Fund (Adaptation Fund Board document AFB/EFC.17/3).

7 The technical paper on the fifth review of the Financial Mechanism prepared by the Standing Committee on Finance describes adequacy as follows: "The assessment of the adequacy in quantitative terms would imply that the level of resources provided through the operating entities is commensurate to the financing needs of developing countries […] Moreover, it is to be noted that the operating entities of the Financial Mechanism represent only one channel through which developed country Parties can fulfil their financial commitments under the Convention. As a result, an assessment of the adequacy of the resources mobilized for developing countries, which looks only at the operating entities, will be misleading because of the narrow scope" (Standing Committee on Finance document SCF/TP/2014/1).

C. Possible action by the Subsidiary Body for Implementation

6. SBI 47 may wish to consider this technical paper in its deliberations on the third review of the Adaptation Fund.

II. Mobilization and provision of sustainable, predictable and adequate financial resources

A. Outcome of the second review

7. During the second review of the Adaptation Fund, the CMP noted with deep concern the continued issues related to the sustainability, adequacy and predictability of funding for the Adaptation Fund. To this end, CMP 10 underlined the urgent implementation of the resource mobilization strategy of the Board and requested the Board to consider options for addressing the diversification of revenue streams of the Adaptation Fund. In addition, CMP 10 encouraged the Board to consider options for addressing the predictability of resources, in particular: (1) the scale of resources; (2) regular estimates of the resources needed; and (3) continuous review of the status of projects.[8]

B. Progress made and lessons learned

1. Scale of resources

8. At its seventh session, the Conference of the Parties (COP) decided that the Adaptation Fund "shall be financed from the share of proceeds on the clean development mechanism project activities and other sources of funding" and that "Parties included in Annex I that intend to ratify the Kyoto Protocol are invited to provide funding, which will be additional to the share of proceeds on clean development mechanism project activities".[9] The mobilization and provision of sustainable, predictable and adequate financial resources can be considered on the results to date from the share of proceeds and other sources of funding, for example voluntary contributions.

9. The initial guidance adopted at CMP 1[10] on the basis of a COP 7 decision[11] noted that the Adaptation Fund "shall be financed from the share of proceeds on the clean development mechanism project activities and other sources of funding". CMP 8 decided to supplement these resources through a decision to augment the Adaptation Fund during the second commitment period of the Kyoto Protocol through proceeds from assigned amount units and emission reduction units.[12] It should be noted that, at the time of publication, the Doha Amendment had not yet entered into force and therefore additional revenue has not been made available to the Adaptation Fund.[13]

10. The share of proceeds from the Kyoto Protocol's clean development mechanism has not delivered the anticipated income owing to the price crash of certified emission reductions (CERs). While CERs were initially expected to deliver USD 160 million to 950 million by 2012 (Müller and Hepburn, 2006), depressed values had delivered only USD 197.1 million by the end of 2016.[14]

11. According to the Board's report to the CMP in 2017,[15] as at 30 June 2017 CER sales had generated revenues of USD 197.8 million. Receipts from the monetization of CERs amounted to USD 1.8 million for the 12-month period ending on 30 June 2017. As at 30 June 2017, 10.5 million CERs were still available to be sold, in accordance with the CER

[8] Decision 2/CMP.10.
[9] Decision 10/CP.7, paragraphs 2 and 3.
[10] Decision 28/CMP.1.
[11] Decision 10/CP.7, paragraphs 2 and 3.
[12] Decision 1/CMP.8, paragraph 21.
[13] See Article 21, paragraph 7, and Article 20, paragraph 4, of the Kyoto Protocol, and http://unfccc.int/kyoto_protocol/doha_amendment/items/7362.php.
[14] Adaptation Fund Board document AFB/EFC.20/6.
[15] FCCC/KP/CMP/2017/6.

monetization guidelines adopted by the Board. Funds available for new funding approvals amounted to USD 185.9 million as at 30 June 2017.

12. The revenue shortfall yielded by the market mechanisms, specifically from the share of proceeds from the clean development mechanism, has been met in part through voluntary donor contributions, reaching cumulatively USD 442.4 million as at 30 June 2017.[16]

13. The Adaptation Fund has been setting fundraising targets since 2012. The first fundraising target of USD 100 million for 2012–2013 was exceeded, with about USD 104 million pledged by the close of CMP 9. A subsequent target of USD 160 million, or USD 80 million per year, was partially met, with USD 64.6 million and USD 74.1 million pledged in 2014 and 2015, respectively.

14. At its 27th meeting, the Board decided to set its 2016–2017 fundraising target at USD 80 million per year.[17] Pledges made over the course of 2016 reached the 2016 target, and at the time of publication all pledged contributions had been transferred.

15. The issue of funding priorities has been under consideration by the Board since its inception and, at its 13th meeting, in order to help manage supply and demand, the Board decided to temporarily cap the amount of funding each country could receive from the Adaptation Fund at USD 10 million.[18]

2. Estimating resource needs

16. Financial resources available through the Adaptation Fund are, however, likely to remain below what is needed for the Adaptation Fund to fulfil its objectives. There continues to be high demand from countries for support from the Adaptation Fund, as exemplified in the Board's receipt of 31 concept and project proposals, the second largest number in the Adaptation Fund's history, for consideration at its meeting in October 2016 (Adaptation Fund, 2016a; Affana JPB, 2016). By August 2017 this figure had increased to 36 proposals, amounting to USD 219.4 million. Overall, there are signs of increasing demand for 2017–2018, which, according to the Board, is more than three times higher than the funding envelope to be approved on an annual basis.[19] Furthermore, a study projected that the near- and medium-term funding needs of the Adaptation Fund could be in the order of USD 130 million annually, even with the exclusion of the Adaptation Fund's regional programmes (Warnecke et al., 2017).[20]

17. Given the overall funding gap that exists between the amount of resources available for adaptation and the estimated costs of adaptation (see box 1), the Adaptation Fund's part in the need for increased financial support though its overall financial contribution compared with other multilateral climate funds is relatively modest, as shown in figure 1.

[16] FCCC/KP/CMP/2017/6, annex VIII.

[17] Adaptation Fund Board decision B.27/36.

[18] Adaptation Fund Board decision B.13/23.

[19] As footnote 14 above.

[20] This estimate assumes that the Adaptation Fund will accredit eight implementing entities per year and that these entities will submit project proposals. This estimate does not include the Adaptation Fund's regional programmes or any decisions that might alter the amount that each country can access from the Adaptation Fund. Such decisions have the potential to increase demand by as much as 50 per cent.

Box 1
Gaps in adaptation finance

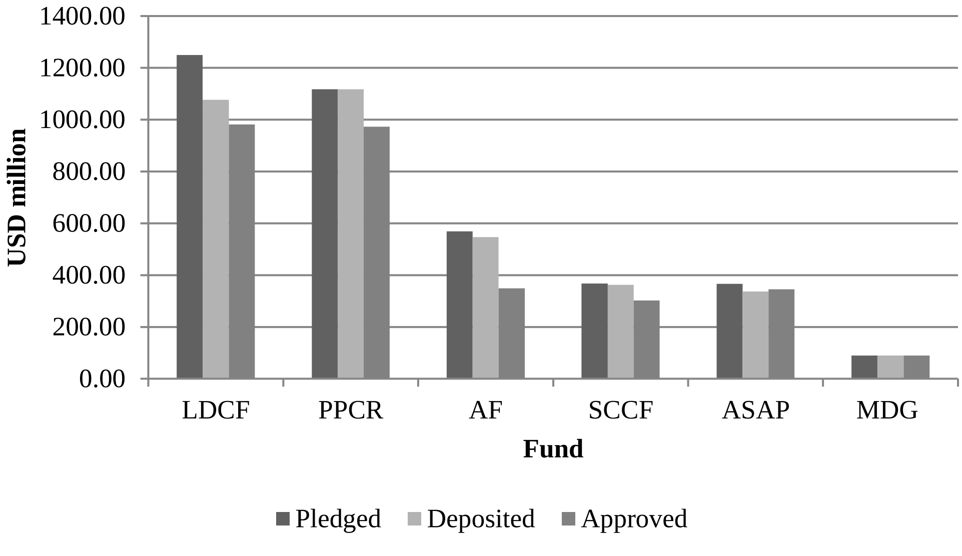
While international public finance available for adaptation has been increasing, reaching USD 27 billion in both 2013 and 2014 up from 4.4 billion in 2010 (Buchner et al., 2011; Mazza et al., 2015), it is far from meeting the level of the costs required. Furthermore, mitigation activities still attract the large majority of climate finance. Mitigation finance represented more than 70 per cent of the public finance in developing countries reported in 2013–2014, whereas adaptation finance accounted for about 25 per cent. The Standing Committee on Finance, in its summary and recommendations on finance in the 2016 biennial assessment and overview of climate finance flows, identified that more than 80 per cent of investments by multilateral development banks focused on mitigation and less than 20 per cent on adaptation (UNFCCC, 2016).

In fact, *The Adaptation Finance Gap Report* by the United Nations Environment Programme (2016) suggests that the current adaptation finance gap is likely to increase significantly over the period 2030–2050. Adaptation costs today are likely to be at least two to three times higher than the international public finance available for adaptation. Total finance for adaptation would have to be 6 to 13 times higher than current levels of international public adaptation finance to avoid a finance gap in 2030, and as much as 12 to 22 times higher in 2050.

Given this large finance gap, a variety of stakeholders and adaptation-related processes, including those under the UNFCCC, recognize the need for domestic resources and private finance in bridging the gap. Nonetheless, international public finance is still perceived as a key source of finance for adaptation, for example in the context of overcoming barriers to and catalysing investment in adaptation projects in developing countries.[a]

[a] For further discussion on the role of international public finance, see documents FCCC/CP/2012/3, FCCC/CP/2013/7, FCCC/CP/2014/5, FCCC/TP/2016/6 and FCCC/SBI/2016/18 and Adaptation Committee document AC/2015/14.

Figure 1
Financing to dedicated multilateral adaptation funds in 2016



Source: Climate Funds Update.
Abbreviations: AF = Adaptation Fund, ASAP = Adaptation for Smallholder Agriculture Programme, LDCF = Least Developed Countries Fund, MDG = Millennium Development Goals Achievement Fund, PPCR = Pilot Program for Climate Resilience, SCCF = Special Climate Change Fund.

18. Despite an apparent inadequacy in resources, the literature and stakeholders support the idea that the Adaptation Fund has demonstrated its effectiveness in meeting developing countries' needs in the broader context.

19. In some countries, the footprint of the Adaptation Fund has been significant. As shown in figure 2, in several countries, such as some in the Latin American and Caribbean region and some small island developing States (SIDS), projects supported by the Adaptation Fund are the only or largest adaptation projects financed through some of the main multilateral adaptation-focused funds.

19. Further, while the financial contributions by the Adaptation Fund are also relatively modest at an average project budget of USD 6.5 million (Adaptation Fund, 2015a), they have served as a basis for leveraging additional support and building capacities beyond the immediate project objectives. A number of Parties have highlighted the value of the Adaptation Fund in contributing to countries' adaptation needs by pioneering direct access to finance for 'concrete' projects and enabling national entities to directly finance and manage all aspects of projects, from design through to implementation and monitoring.[21] This can be seen as an important contribution to building resilience in countries through institutional strengthening.

20. Several experts have pointed out the institutional experience of administering innovative sources of finance as a comparative advantage of the Adaptation Fund with regard to resource mobilization (Sopoaga et al., 2007; Trujillo and Nakhooda, 2013; Nakhooda and Norman, 2014). For example, in South Africa an Adaptation Fund project supported a small grant facility for community-based and non-governmental organizations covering two districts and is expected to inform the creation of a small grant facility model for supporting adaptation that can be scaled up across more districts in South Africa and beyond (Adaptation Fund, 2014a). Another example in Costa Rica uses direct access for 40 individual projects based on proposals of more than 80 local, national and regional organizations acting as executing entities to enable localized solutions and reach at-risk communities.[22] These examples demonstrate the potential to scale up adaptation measures piloted through Adaptation Fund projects. In addition, Adaptation Fund funded projects in Georgia, Maldives and Pakistan have been successfully scaled up through project funding provided through the Green Climate Fund (GCF).

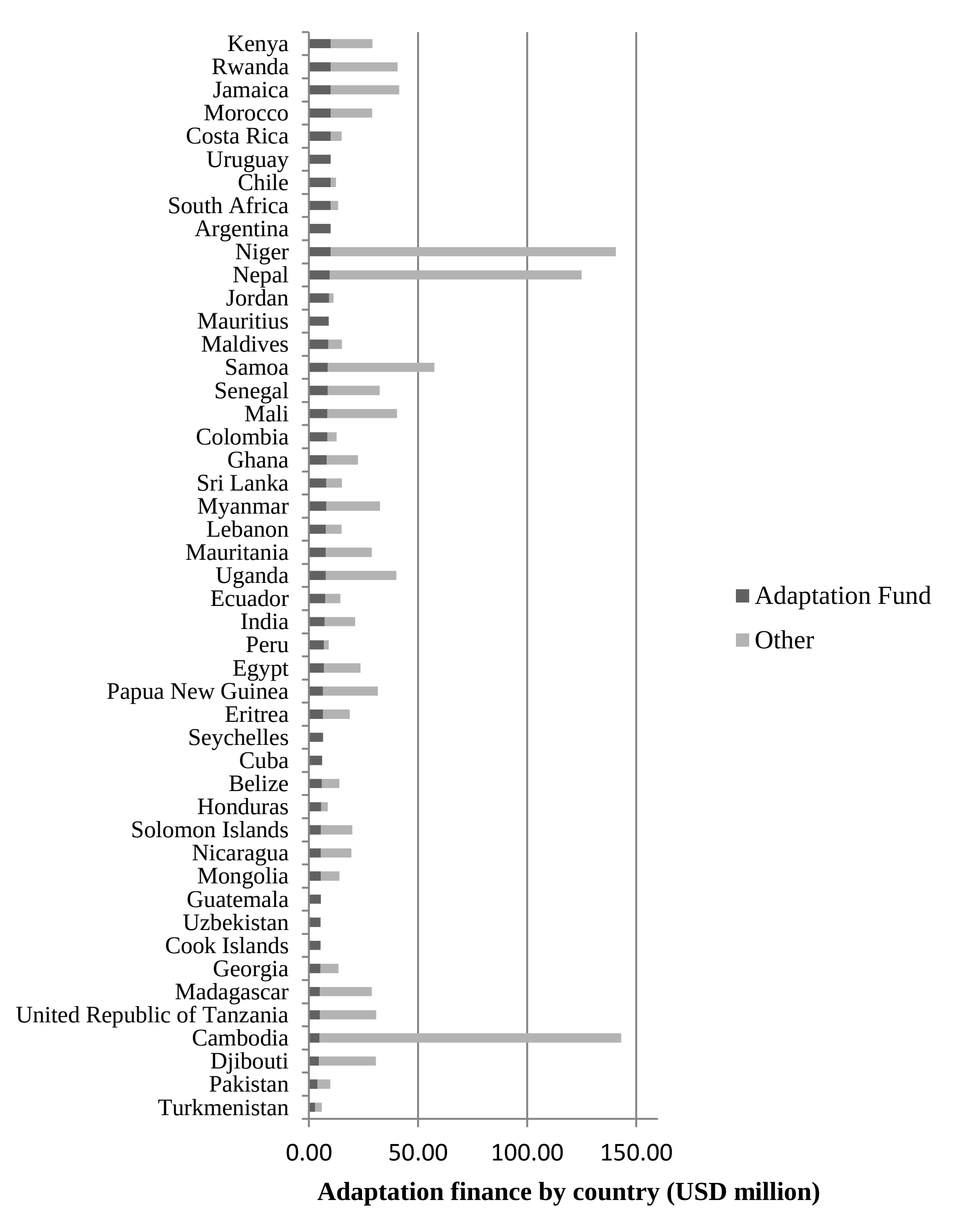
[21] FCCC/TP/2016/6, paragraph 72.

[22] See https://www.adaptation-fund.org/document/adaptation-story-costa-rica/.

Figure 2

Proportion of funding from the Adaptation Fund in countries with Adaptation Fund projects (2010–2016) based on selected multilateral adaptation funds

(Millions of United States dollars)



Source: This information was sourced from the Climate Funds Update website accessed in April 2017 and includes approved funds from the Adaptation Fund, the Adaptation for Smallholder Agriculture Programme, the Least Developed Countries Fund, the Pilot Program for Climate Resilience and the Special Climate Change Fund.

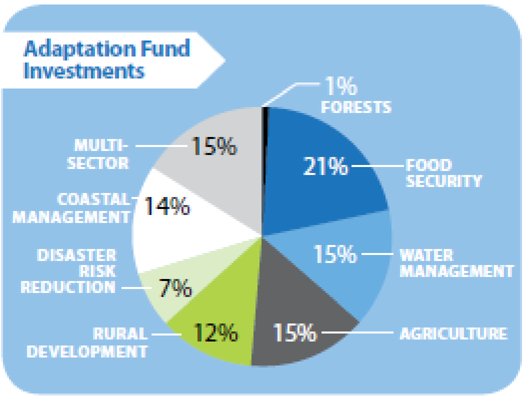
3. Continuous review of project status

21. The Adaptation Fund Board secretariat has continuously reviewed the status of projects and reports on the status of the active portfolio of approved projects/programmes by the Board in the Board’s annual report to the CMP. According to the Adaptation Fund Board secretariat, as at 30 August 2017 for example, 15 projects/programmes had not been started, 45 projects/programmes were under implementation and 6 projects/programmes had been completed. Since its inception, the Adaptation Fund has allocated USD 436 million to 66 concrete adaptation projects/programmes in 67 countries, including for 15 SIDS and 26 least developed countries (LDCs), and has benefited 5.4 million direct beneficiaries in the most vulnerable communities. By region, 38 per cent of the funding

approved has gone to Africa, followed by 35 per cent to Latin America and the Caribbean, 26 per cent to Asia-Pacific and 1 per cent to Eastern Europe.

22. Figure 3 shows that the largest share of the Adaptation Fund's resources address food security, followed equally by water management, agriculture and multisector projects, and then by rural development, coastal zone management, disaster risk reduction and forests.[23] These sectors are reflected also in Parties' intended nationally determined contributions, national adaptation plans[24] and national adaptation programmes of action.[25]

Figure 3
Adaptation Fund investments by sector



Source: Adaptation Fund, 2017a.

C. Potential opportunities for improvement

23. In an effort to diversify revenue streams and achieve sustainability, adequacy and predictability of funding, the Board adopted a resource mobilization strategy in October 2016.[26] The strategy includes:

(a) A resource mobilization target of USD 80 million for 2016–2017, and considers raising the target to USD 100 million per year for 2018–2020;

(b) Continued relationship-building with national governments for possible sources of revenue, including existing and past funders and potential new funders;

(c) Raising visibility with subnational governments to explore the potential to mobilize further resources;

(d) Communications also with foundations and the private sector for possible opportunities.

24. Furthermore, phase 1 of the independent evaluation of the Adaptation Fund,[27] conducted on the basis of an approval by the Board in October 2014, put forward recommendations and options for increasing the Fund's revenues. These are outlined below along with a summary of the management response[28] to the recommendations:

[23] See https://www.adaptation-fund.org/wp-content/uploads/2017/05/AF-Informational-Briefing-August-2017.pdf.
[24] See document FCCC/CP/2016/2.
[25] See http://unfccc.int/files/cooperation_support/least_developed_countries_portal/napa_priorities_database/application/pdf/napa_index_by_sector.pdf.
[26] See Adaptation Fund Board decision B.29/41, and the resource mobilization strategy, available at https://www.adaptation-fund.org/wp-content/uploads/2017/05/AFB_Resource_mobilization_strategy_for_posting.pdf.
[27] See Adaptation Fund Board document AFB/EFC.17/3.
[28] See Adaptation Fund Board document AFB/B.29/Inf.7.

(a) The evaluation recommended:

(i) A joint review with the GCF to explore the best modality for the Adaptation Fund to access a reliable stream of funding from the GCF. The management response highlights that this topic has been discussed continuously at the Board's meetings since the 25th meeting;

(ii) The development and implementation of a robust, multi-year resource mobilization strategy that specifies regular replenishment periods. The management response refers to related negotiations ongoing under the Ad Hoc Working Group on the Paris Agreement on the Adaptation Fund serving the Paris Agreement, which it notes may have consequences for the Adaptation Fund's resource mobilization model;

(b) The evaluation also referred to, inter alia, the option of utilizing co-financing to augment limited funds, while indicating that this would require a decision by the CMP and may jeopardize progress towards helping the most vulnerable countries.[29]

25. Moreover, a recent study assessed innovative financing options for the Adaptation Fund deriving from different carbon pricing instruments and approaches, including those mentioned in the Paris Agreement, and concluded that a range of operationally feasible potential sources of finance already exist for the Adaptation Fund, though they face varying degrees of political uncertainty (Warnecke et al., 2017). The potential sources discussed in the study include those detailed in table 1.

Table 1
Innovative financing options for the Adaptation Fund

Type of instrument	*Options for innovative adaptation finance*	*Revenue generation potential*
International instruments	1. Share of proceeds on international crediting (e.g. mechanism established by Article 6, paragraph 4, of the Paris Agreement) 2. Share of proceeds from international unit transfers (e.g. cooperative approaches described in Article 6, paragraph 2, of the Paris Agreement) 3. Contributions from International Civil Aviation Organization's Carbon Offsetting and Reduction Scheme	1. 0 to > USD 20 million (average annually) 2. 0 to high 3. 0 to USD 22 million (average annually)
National instruments	4. Earmarking auctioning revenues from national emissions trading schemes 5. Earmarking revenues from national carbon taxes	4. > USD 80 million (annually) 5. > USD 200 million (annually)
Instruments of non-state actors	6. Share of proceeds from voluntary carbon market 7. Earmarking auctioning revenues from subnational emissions trading schemes	6. >= USD 9 million (average annually) 7. > USD 20 million (annually)

III. Access modalities and readiness programme

A. Outcome of the second review

26. As an outcome of the second review of the Adaptation Fund, CMP 10 requested the Board to consider, under its readiness programme, the following options for enhancing the access modalities of the Adaptation Fund:[30]

[29] By decision 5/CMP.2, paragraph 1(d), it was decided that the Adaptation Fund shall be guided, inter alia, by the principle of funding on full adaptation cost basis of projects and programmes to address the adverse effects of climate change.

[30] Decision 2/CMP.10, paragraph 5.

(a) Targeted institutional strengthening strategies to assist developing countries, in particular the LDCs, in accrediting more national or regional implementing entities to the Adaptation Fund;

(b) Ensuring that accredited NIEs have increased and facilitated access to the Adaptation Fund, including for small-sized projects and programmes.

B. Progress made and lessons learned

1. Institutional strengthening for developing countries

27. The Adaptation Fund has an effective track record of building institutional capacity through its direct access (including enhanced direct access) and readiness programme. Through direct access, NIEs are able to directly access financing and manage all aspects of climate adaptation and resilience projects, from design through implementation to monitoring and evaluation.

28. The Adaptation Fund Small Grants Facility has also recently piloted "enhanced direct access", responding to calls from civil society to bring direct access closer to vulnerable communities, empowering them to determine how climate finance will be used (Adaptation Fund, 2014b; Small Grants Facility, 2015). Enhanced direct access can be distinguished from direct access by the stronger devolution of decision-making and management that takes place at the national level and is also used by the GCF (Climate & Development Knowledge Network, 2013; Overseas Development Institute and United Nations Development Programme, 2011).[31]

29. Furthermore, in response to an imbalance of applications submitted by multilateral implementing entities (MIEs) and NIEs in 2010, the Board implemented a funding cap that mandated a forward-looking 50/50 funding split between projects implemented by MIEs on one hand and by NIEs and regional implementing entities (RIEs) on the other.[32] As noted in phase 1 of the independent evaluation of the fund, comments indicate that the 50/50 cap has been "absolutely necessary" and has contributed to the success of the direct access modality (Adaptation Fund, 2015c, paragraph 94).

30. Various benefits of direct access have been identified, including (Adaptation Fund, 2017b; Adaptation Fund, 2015c; Schäfer et al., 2014):

(a) Enhancing national commitment to taking action on adaptation;

(b) Enhancing country ownership;

(c) Sustaining institutional knowledge, enhancing internal management and incentivizing strategic institutional reform;

(d) Promoting collaboration between the NIE and other in-country national and multilateral organizations;

(e) Amplifying stakeholder voices;

(f) Fostering transparency in project formulation;

(g) Improving visibility of the existence of capable and competent institutions with good governance standards and practices;

(h) Enabling NIEs to attract other sources of funding and to take on additional responsibilities beyond Adaptation Fund projects.

31. In 2014, the Adaptation Fund launched its Readiness Programme for Climate Finance, designed to strengthen the capacity of national and regional entities to receive and manage climate financing. The programme includes regional workshops, which has led to encouraging and enabling potential NIEs to begin the accreditation process. In addition, through recent changes to standardize South–South mentoring under the regular operations of the readiness programme, potential NIEs are able to progress in the accreditation process

[31] See chapter VII below for further discussion on linkages between the Adaptation Fund and the GCF.

[32] Adaptation Fund Board decision B.12/9.

as a result of precise advice provided by South–South counterparts on the basis of experience in overcoming similar challenges.[33]

2. Increased and facilitated access for accredited national implementing entities

32. The readiness programme has advanced efforts to increase the number of NIEs and the number of projects and programmes submitted by NIEs. The number of accredited NIEs increased from 13 in May 2014 to 25 by April 2017.

33. There has also been an increase in the number of project and programme proposals submitted by implementing entities each year, with 23 approved projects and USD 151.77 million committed to NIEs as at July 2017. The Adaptation Fund had an increase in the value of its climate finance readiness small grant portfolio from USD 200,000 in December 2014 to USD 700,000 in July 2017, and indications are that this will continue to grow, with increasing demand from NIEs. Eight LDCs and one SIDS received South–South cooperation grants and three LDCs and two SIDS received grants for technical assistance.

34. The Adaptation Fund has also demonstrated its ability to adapt its access modalities. When small entities in SIDS and other particularly vulnerable countries struggled to meet the accreditation requirements, the Board implemented a streamlined process for small entities, with a focus on mitigating the key fiduciary risks.[34] Since the approval of the streamlined process in April 2015, as at July 2017 three NIEs (out of the total 25 accredited NIEs) had been accredited through this process. More recently, in an effort to enhance effectiveness and efficiency, the accreditation process has been divided into phases, including a screening phase to identify missing information and areas that might hinder accreditation early in the process.[35] Also, the *Guidance on Accreditation Standards* was published in 2016, serving as a checklist of supporting documents that an implementing entity is recommended to submit along with its application accreditation.[36]

35. The Adaptation Fund's accreditation efforts have extended advantages beyond the fund. The GCF Board decided to fast-track accreditation of implementing entities accredited with the Adaptation Fund. Among the 17 NIEs and 10 RIEs accredited with the GCF as at June 2017, 10 NIEs and 5 RIEs were fast-track accredited by the GCF Board due to their prior accreditation with the Adaptation Fund. Moreover, further demonstrating the Adaptation Fund's ability to adapt its modalities quickly, the Board agreed to fast-track reaccreditation of implementing entities that are accredited with the GCF, if the reaccreditation application to the Adaptation Fund comes within four years of the GCF accreditation.[37]

C. Potential opportunities for improvement

36. While the independent evaluation of the Adaptation Fund (phase 1) characterizes the Adaptation Fund as having "effectively piloted and progressively improved" its direct access modality, it also notes that the high cost and workload involved in supporting NIE applicants poses a challenge to the Adaptation Fund.[38] There is, especially, rising demand for the readiness programme, with the administrative budget exceeding USD 86,000 in the 2014 fiscal year and slightly under USD 605,000 approved for the 2018 fiscal year. Although the accreditation process has become more standardized over the years, the total number of field visits by an Accreditation Panel expert and an Adaptation Fund Board secretariat member to carry through the accreditation process has remained at two to four visits a year in the fiscal year period 2013–2016 and one in the fiscal year 2017. Nevertheless, the time and effort needed to build NIE capacity may be perceived as

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[33] See Adaptation Fund Board decision B.27/38.
[34] Adaptation Fund Board decision B.25/17.
[35] Adaptation Fund Board decision B.27/27.
[36] Available at https://www.adaptation-fund.org/wp-content/uploads/2016/10/Guidance-on-Accreditation-Standards.pdf.
[37] Adaptation Fund Board decision B.28/38.
[38] As footnote 26 above.

warranted, as the direct access modality has not only been the defining characteristic of the Adaptation Fund but has also been credited with providing far-reaching benefits.

37. In relation to readiness programmes, an analysis highlighted the surge in the number of agencies and development partners working on climate finance capacity development in recent years and the resulting confusion among stakeholders in developing countries over the different support programmes being provided (Druce L, Grüning C and Menzel C, 2013). In this regard, the Adaptation Fund has been working closely with other funding channels in the implementation of its readiness programme, and regularly invites participation from the GCF, the Global Environment Facility (GEF) and the Climate Investment Funds.

IV. Project approval procedures

A. Progress made and lessons learned

38. The project approval procedure of the Adaptation Fund entails: (1) submission of proposals to the secretariat through the accredited implementing entity with the endorsement of the designated authority of the country in which the project/programme would take place; (2) screening and technical review of the proposal by the secretariat, followed by submission to the Project and Programme Review Committee (PPRC); (3) review of proposals by the PPRC followed by recommendations for submission to the Board; (4) decision by the Board at its meeting to approve, not approve or reject recommendations. The Adaptation Fund's operational policies and guidelines for Parties to access resources were amended by the Board in March 2016 and provide options to accommodate the varying needs of different project proponents and projects. Proponents can choose from a one-, two- or three-step (for regional projects) process. For example, in cases where a proponent prioritizes speed and is confident of their proposal, a fully developed proposal is submitted. When proponents prefer to receive early Board feedback to further develop full projects, for example through a technical review, a concept is submitted for further development. Project formulation grants for NIE and RIE proposals are also available upon Board endorsement of (pre-)concept submissions.[39]

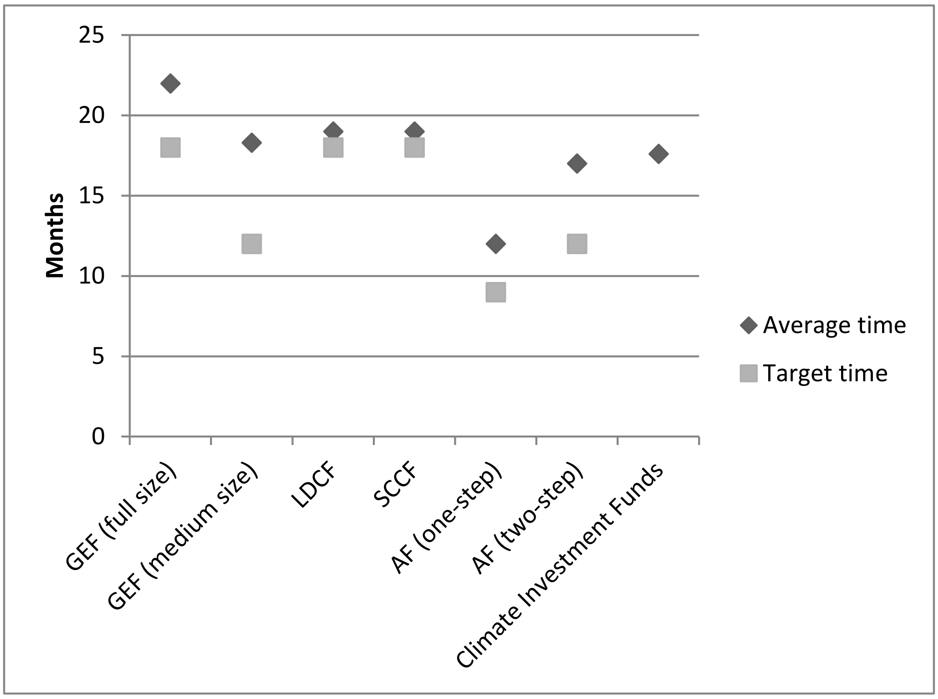
39. The project approval procedure of the Adaptation Fund described above has been relatively effective. The Adaptation Fund takes an average of just 12 and 17 months to approve one-step and two-step projects, respectively. While this exceeds the Adaptation Fund's set target of 9 and 12 months, respectively, the process is the most efficient compared with other climate change funds, as shown in figure 4. Moreover, the Adaptation Fund Board secretariat continually met its goal of reviewing project/programme proposals within two months of receipt over the fiscal year period 2011–2016.[40] In addition, the Board has taken measures to increase its efficiency in considering projects and, in 2014, approved an intersessional project/programme review cycle annually to reduce potentially long wait times and maintain efficiency in the process.[41] A recent analysis of climate change funds noted that developing country stakeholders see the Adaptation Fund's speed as an advantage (Amerasinghe et al., 2017).

[39] See https://www.adaptation-fund.org/wp-content/uploads/2015/03/Approval-and-operations-procedures-5.12.pdf.

[40] See Adaptation Fund Board documents AFB/EFC.19/3 and AFB/EFC.15/3.

[41] Adaptation Fund Board decision B.23/15.

Figure 4
Time needed for project approval across climate change funds



Sources: (1) Global Environment Facility, 2016; (2) Global Environment Facility document GEF/LDCF.SCCF.20/04; (3) Adaptation Fund Board document AFB/EFC.19/3; (4) IFC International, 2014.

Abbreviations: AF = Adaptation Fund, GEF = Global Environment Facility, LDCF = Least Developed Countries Fund, SCCF = Special Climate Change Fund.

40. The transparency of the Board has improved over time through the evolution of the operational procedures and policies of the Adaptation Fund, the adoption of a zero-tolerance policy on corruption and the establishment of an Ad Hoc Complaint Handling Mechanism (Elges, 2017). The transparency of the Adaptation Fund was already at a high level, with the International Aid Transparency Index ranking the Adaptation Fund as the highest among climate funds in 2012, and it was the first climate fund to join the Transparency Index in 2013.[42] The complaint handling mechanism was created as complementary to the Adaptation Fund's risk management framework, with the purpose of assisting in responding to complaints raised against projects/programmes funded by the Adaptation Fund through a participatory approach. Civil society representatives welcomed the establishment of the mechanism and several noted its fundamentality to risk management and possible synergies with civil society (Adaptation Fund, 2016). An update of the information on the grievance mechanisms of implementing entities will be completed soon.[43]

B. Potential opportunities for improvement

41. The average time for approval of one-step projects increased from 10.1 months in 2015 to 21.4 months in 2016, while the average time for two-step projects increased from 18.4 months in 2015 to 31.2 months in 2016. While a continued slowdown in operations would be a cause for concern, the delays appear to coincide with the introduction by the Board of the environmental and social policy, compliance with which has been added to the requirements and funding criteria. According to the Adaptation Fund Board secretariat, this has required some adjustment by implementing entities. The launch of this policy has been accompanied by support from the Adaptation Fund Board secretariat to implementing

[42] See https://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/adaptation_fund_inputs_to_the_biennial_assessment_final.pdf.

[43] See https://www.adaptation-fund.org/projects-programmes/accountability-complaints/complaint-handling-mechanisms-implementing-entities/.

entities to assist with the adjustment. This has taken place notably through the readiness programme, by producing guidance documents, raising awareness and providing technical support on building institutional capacity to comply with the policy. It is expected that the time taken to get through the project cycle will reduce once again in 2017.

42. The independent evaluation of the Adaptation Fund (phase 1) referred to the limited availability of relevant fund documents in non-English languages and the requirement that all materials be submitted in English as being one of the challenges faced by NIEs during the project approval procedure. In addition, the evaluation suggested delegating more responsibilities to the Adaptation Fund Board secretariat vis-à-vis the PPRC in project/programme approval, with a view to improving efficiency.[44]

V. Results and impacts

A. Progress made and lessons learned

43. The effectiveness of the Adaptation Fund in achieving results and impacts ultimately needs to be considered against the results framework set by the Adaptation Fund. The first Adaptation Fund project was launched in 2011 and there have only been six completed projects to date and 20 mid-term evaluations. In addition, phase 2 of the overall independent evaluation of the Adaptation Fund had not been completed at the time of publication, and therefore more extensive information on results and impacts of the Adaptation Fund is not available. All projects completed to date have received ratings of moderately satisfactory or above in their final evaluation report. Nevertheless, a review of selected experience illustrates the positive impacts that the Adaptation Fund’s projects and programmes are beginning to have, as discussed in the sections below.

1. Integration of adaptation into national priorities

44. Projects supported by the Adaptation Fund have demonstrated the potential to create space for the integration of adaptation into national priorities. For example, in Honduras a project supported by the Adaptation Fund spearheaded the initial incorporation of adaptation considerations into the national development and water policy through the development of a guide on mainstreaming climate change adaptation and disaster risk management into development planning (Adaptation Fund, 2010). Another Adaptation Fund project in Turkmenistan helped develop a new water code that expanded the authority over the management of the water resources, enabling increased community-based management and resilience to water scarcity.[45] Phase 1 of the independent evaluation of the Adaptation Fund concluded that the Adaptation Fund’s design and operational processes are largely coherent with UNFCCC guidance and national adaptation priorities. On the basis of a random sample of approved projects, the required coherence with national policies and strategies was found to be explained by the proponents more often in relation to environmental and natural resource issues than to broader economic, development and sectoral priorities (Adaptation Fund, 2015c).

2. Subnational-level engagement

45. Recognizing that the impacts of climate change are highly localized, the focus of the Adaptation Fund has been on engaging at not only the national level but also the subnational level. In fact, all or most of its approved projects include a subnational component, and these programmes have contributed to greater engagement of subnational governments in issues related to climate change. For example, in Solomon Islands an Adaptation Fund project has allowed greater participation of the provincial governments in the design of the national climate change policy (Adaptation Fund, 2011a). Also, in South Africa an Adaptation Fund project has increased resilience and adaptive capacity in rural and peri-urban settlements, engaging local municipalities, provincial governments and non-governmental organizations in guiding overall project execution, management and coordination.[46]

[44] As footnote 26 above.

[45] See https://www.adaptation-fund.org/turkmenistan-abdylvahyp-halimberdiev/.

[46] See https://www.adaptation-fund.org/project/building-resilience-in-the-greater-umngeni-catchment/.

3. Strengthening of legal and policy frameworks on climate change

46. Most Adaptation Fund projects have a component focused on enhancing policies, laws or regulations on climate change, representing another area of strength of the Adaptation Fund's portfolio. Studies have highlighted that addressing legal and policy frameworks in the context of climate change has helped to strengthen the adaptive capacity of countries (Nakhooda and Norman, 2014). An example is an Adaptation Fund supported project in Mongolia that includes a revision to the national guidelines for integrated water resources management to integrate principles of ecosystem-based adaptation.

4. Mobilization of private action

47. While mobilizing private investment is not an explicit objective of the Adaptation Fund, in practice many projects engage private sector actors. Some examples are highlighted in box 2.

Box 2
Engaging private sector actors[a]

Cambodia

Locally available microfinance and weather index based insurance products are surveyed and in-depth market assessments on commercial viability are conducted in order to find conducive results whereby business plans can be developed to expand market activities (Adaptation Fund, 2015b).

Georgia

This project implements a community-based weather index insurance component in collaboration with local private sector insurance firms. It also strengthens and diversifies sources of income for vulnerable people in targeted areas.[b]

Mauritius

The hotel and tourism industry became an important implementation partner in a project supported by the Adaptation Fund and the United Nations Development Programme on coastal restoration (Adaptation Fund, 2011b).

Papua New Guinea

This project focuses on climate disaster risk reduction in the coastal zone and river valley to establish and expand an early warning system. The project builds on an existing public–private partnership between the Office of Climate Change and Development and Digicel, a private telecommunications provider. Additional financing for expansion of coverage is sought from corporate social responsibility sources, and this model is planned also to be used in other countries (Adaptation Fund, 2012b).

Uzbekistan

Large-scale farmers are highlighted as an important target group due to the economic benefits of increased productivity as employers and agents of transformation, replication and upscaling (Adaptation Fund, 2014c).

[a] For a list of funded project proposals, see https://www.adaptation-fund.org/projects-programmes/.
[b] See https://www.adaptation-fund.org/adaptation-fund-georgia/.

5. Quantitative information on results

48. Monitoring and reporting of results are addressed at both the project level and the fund level. In terms of monitoring and reporting of projects, information is contained in annual project performance reports made available for public scrutiny every year on the Adaptation Fund website. Aggregation of results at the fund level is a challenge for the Adaptation Fund as it is for most funds of this type. The Board has evolved its approach to fund-level results frameworks over time, seeking to balance flexibility to accommodate the local nature of adaptation and the wide range of sectors covered by the Adaptation Fund.

However, the Board approved a set of core indicators and reporting practices that are applied across the project portfolio.[47]

B. Potential opportunities for improvement

49. Achieving good results and impacts is aided by a robust results framework that enables tracking of the progress of projects and programmes. As climate change funds develop, studies highlight the importance of consistent and transparent monitoring and reporting of results to enable a more robust understanding of achievements (Nakhooda and Norman, 2014; Global Environment Facility, 2010). The forthcoming completion of phase 2 of the overall independent evaluation of the Adaptation Fund will provide further information specific to the Fund on results and impacts to date.

VI. Financing for regional projects

Progress made and lessons learned

50. The Pilot Programme for Regional Projects and Programmes was approved by the Board at its 25th meeting.[48] After the initial call for proposals was launched in May 2015, the pilot programme was met with a demand of USD 188 million,[49] which far exceeded its funding envelope. No funding was allocated at that time (except for some funding allocated for project development) as the proposals were in their early stages, submitted either as pre-concepts or not fully developed. As mature proposals have been submitted more recently, the Board has decided to have annual envelopes.[50] Should proposals that have been recommended for funding exceed the envelope, they would be placed on a waiting list, similar to what took place when funds were temporarily not available for MIEs in 2012–2013.

51. The pilot programme was made part of the Adaptation Fund's regular operations at the Board's 28th meeting.[51] At the Board's 29th meeting, the first annual allocation of USD 30 million for the funding of regional project and programme proposals was approved for fiscal year 2018,[52] along with the approval of the very first full regional project proposal, which is a USD 6.8 million project to be implemented by the World Meteorological Organization to enhance agricultural resilience in Ethiopian, Kenyan and Ugandan communities.[53]

52. The Adaptation Fund's financing of regional projects and programmes includes three thematic focal areas: food security; disaster risk reduction and early warning systems; and transboundary water management. In addition, a cross-cutting fourth theme seeks to support activities that represent innovative adaptation solutions towards achieving transformational impact.

53. As for the effectiveness, sustainability and adequacy of the Adaptation Fund's regional projects and programmes, it is premature for an assessment at this early stage of project implementation. Nevertheless, general advantages of regional projects and programmes as opposed to single-country projects identified through evaluations and surveys of funds and agencies include the following:[54]

(a) Suitability for resolving transboundary adaptation challenges;

[47] For more information, see Adaptation Fund Board document AFB/EFC.14/6 and https://www.adaptation-fund.org/wp-content/uploads/2015/01/AF%20Core%20Indicator%20Methodologies.pdf.

[48] Adaptation Fund Board decision B.25/28.

[49] FCCC/KP/CMP/2016/2, paragraph 47.

[50] Adaptation Fund Board decision B.28/1.

[51] As footnote 49 above.

[52] Adaptation Fund Board decision B.29/4.

[53] Adaptation Fund Board decision B.29/27.

[54] See Adaptation Fund Board document AFB/PPRC.12/11.

(b) Suitability for climate observations and modelling, which require collecting information on a larger geographical scale;

(c) Cost savings brought about by leveraging regional capacities and developing replicable solutions;

(d) Enhancements in cross-learning and regional cooperation that extend beyond the scope and duration of the regional project.

54. At the same time, previous evaluations of regional projects have highlighted challenges, including (World Bank Independent Evaluation Group, 2007; Global Environment Facility, 2012):

(a) Complex coordination among national and regional institutions;

(b) Difficulties in reconciling various national adaptation challenges and priorities, differing levels of readiness and divergent implementation arrangements;

(c) Lack of ownership of regional projects in participating countries owing to factors such as difficulties in aligning regional project objectives with national priorities and low visibility of regional project activities and outcomes at the national level;

(d) Longer development and approval times for regional projects compared with single-country projects.

VII. Coherence and complementarity between the Adaptation Fund and other institutions funding adaptation projects and programmes

A. Progress made and lessons learned

55. Over the last two decades, there has been a proliferation of funds providing climate finance, resulting in a variety of choices and options for countries to meet their needs as well as challenges in understanding the various requirements and determining how to target their priorities across funding sources (Amerasinghe et al., 2017). Coherence and coordination of funding sources has been a topic of discussion in the UNFCCC intergovernmental process for a number of years. An overview of the funds supporting adaptation and their operational features is provided in table 2.

Table 2
Overview of funds supporting adaptation

	Global Environment Facility – Least Developed Countries Fund and Special Climate Change Fund	*Green Climate Fund*	*Adaptation Fund*	*Climate Investment Funds (Pilot Program for Climate Resilience)*	*United Nations Capital Development Fund Local Climate Adaptive Living Facility*
Goals/ objectives	To increase resilience to the adverse impacts of climate change in vulnerable developing countries	To make a contribution to increased climate-resilient sustainable development	To support concrete adaptation activities that reduce vulnerability and increase adaptive capacity to respond to the impacts of climate change, including variability, at the local and national levels	To mainstream climate resilience into core development planning for transformation at scale	To promote climate change resilient communities and economies by increasing financing for and investment in climate change adaptation at the local level in the least developed countries, thereby contributing to the achievement of the Sustainable Development Goals
Strategic programming orientation/ principles	Three strategic objectives: 1. To reduce the vulnerability of people, livelihoods, physical assets and natural systems to the adverse effects of climate change 2. To strengthen institutional and technical capacities for effective climate change adaptation 3. To integrate climate change adaptation into relevant policies, plans and associated processes Pillar I: Integrating climate change	Six investment criteria: 1. Adaptation impact potential 2. Paradigm shift 3. Needs of the recipient 4. Country ownership 5. Efficiency and effectiveness 6. Sustainable development potential	Reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change, including climate variability - Assists developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation - Country driven - Takes into account national sustainable development strategies, poverty reduction	The Pilot Program for Climate Resilience assists national governments in integrating climate resilience into development planning across sectors and stakeholder groups. It also provides additional funding to put the plan into action and pilot innovative public and private sector solutions to pressing climate-related risks Expected outcomes: 1. Improved capacities for the integration of climate resilience into planning, processes and implementation (as appropriate to each country) 2. Increased consensus on an approach to climate-resilient development appropriate to each country 3. Increased finance availability (e.g. scaled-up investment commitment) in	Output 1: Mainstreaming Output 2: Awareness Output 3: Finance Output 4: Implementation Funds used to create climate-resilient small-scale infrastructure or to ‘climate proof’ existing infrastructure that is threatened by the effects of climate change

	Global Environment	*Green Climate Fund*	*Adaptation Fund*	*Climate Investment Funds (Pilot Program for*	*United Nations Capital*
	adaptation into relevant policies, plans, programmes and decision-making processes Pillar II: Expanding synergies with other Global Environment Facility focal areas		strategies, national communications and national adaptation programmes of action	approaches to climate-resilient development 4. Enhanced learning and knowledge-sharing on the integration of climate resilience into development at the country, regional and international levels	
Funding/ costs	Grants for additional costs of adaptation	Grants and loans for additional costs of adaptation	Grants for full costs of adaptation	Technical assistance grants to governments for integrating climate resilience into planning, and additional funding (highly concessional loans and grants) to put the Strategic Program for Climate Resilience plan into action and to pilot innovative public and private sector solutions to pressing climate-related risks	Performance-based climate resilience grants as a financial top-up to cover the additional costs of making infrastructure climate resilient

56. Several examples demonstrate effective and adequate coordination between the Adaptation Fund and other funds, including:

(a) With regard to access modalities, the GCF fast-track accreditation and the Adaptation Fund's fast-track reaccreditation of implementing entities is one such illustration of coherence in this area (see chapter III.B above). In addition, experts on the GCF Accreditation Panel are pooled from the highly experienced experts of the Adaptation Fund's Accreditation Panel;[55]

(b) With regard to complementarity of projects, projects supported by the Adaptation Fund have been designed to complement the efforts of other funds and vice versa. A project funded by the Adaptation Fund in the United Republic of Tanzania is being implemented jointly with a Least Developed Countries Fund (LDCF) project, yielding benefits such as joint procurement and joint capacity-building of institutions (Adaptation Fund, 2011c). A project in Samoa shares a steering committee with the Pilot Program for Climate Resilience, thereby allowing expansion of the scope of the project (Adaptation Fund, 2011d). Moreover, some projects supported by the GCF build on prior projects financed by the Adaptation Fund, including a project in Pakistan that expands on the design of pilot activities under a completed Adaptation Fund project (Green Climate Fund, 2016) and a project in Maldives that builds on, improves on and scales up the integrated approach to water resources management tested by an ongoing Adaptation Fund project.[56]

57. The sustainability of this relationship is also exemplified through practices that have been established to ensure continuation and progressive improvement of coordination between the funds, including:[57]

(a) Exchange of knowledge and provision of cross-support resulting from the GEF secretariat being the host of the Adaptation Fund Board secretariat;

(b) Mutual participation of the secretariats of the Adaptation Fund Board, the GCF and the GEF in their respective Board/Council meetings;

(c) Participation of the GEF and GCF secretariats in the readiness programme global and regional seminars organized by the Adaptation Fund Board secretariat;

(d) The Board's representation on the governing committee of the Pilot Program for Climate Resilience;

(e) Annual dialogue initiated by the co-chairs of the Board of the GCF with other funds in order to enhance complementarity at the activity level.[58]

58. Despite the coordination efforts under way, the literature and some stakeholders suggest that the landscape of multilateral climate funds would benefit from greater coherence through the exploration of more institutional linkages involving formal agreements on the roles and responsibilities between the entities concerned.

B. Potential opportunities for improvement

59. With regard to the coherence and complementarity of the Adaptation Fund in relation to the GCF, the Adaptation Fund Board secretariat continues to consult with the GCF secretariat to foster collaboration in the areas identified by the Board, namely accreditation, readiness support, results-based management and the project pipeline.[59]

60. In 2015, the Board considered establishing an operational linkage between the Adaptation Fund and the GCF for channelling resources for adaptation and identified two options: seeking accreditation as a financial intermediary with the GCF; and entering into a

[55] The independent evaluation of the Fund (phase 1) did conclude, however, that many NIEs, particularly the LDCs and SIDS, require sustained support to navigate and fully benefit from the accreditation process (Adaptation Fund, 2015c).

[56] See also paragraph 21 above.

[57] See document FCCC/KP/CMP/2016/2 and Adaptation Fund Board document AFB/EFC.20/6.

[58] Green Climate Fund decision B.13/12.

[59] See Adaptation Fund Board document AFB/B.29/6.

memorandum of understanding or an ad hoc agreement with the GCF.[60] The Board is also in the process of drafting a medium-term strategy for the Adaptation Fund, which addresses the issue of the future and niche of the Adaptation Fund within the evolving climate finance architecture, among others.[61]

61. In addition, a recent report examining seven multilateral climate funds makes recommendations on the future architecture of the funds, including the Adaptation Fund, the Clean Technology Fund, the GEF, the GCF, the LDCF, the Special Climate Change Fund and the Strategic Climate Fund. The analysis suggests that in the short term (two to three years), the funds could build on their existing comparative advantages and specialize in different areas, while in the long term (four to eight years), closing or consolidating funds may be warranted. Specifically, on the Adaptation Fund, the report points out considerable overlap with the GCF and suggests a possible division of labour in the short term, where the GCF could explore programmatic approaches to adaptation and leave projects of less than USD 10 million to the Adaptation Fund. In the longer term, the report indicates that it would be possible for the GCF to absorb functions performed by the Adaptation Fund in principle. At the same time, the report notes that the Adaptation Fund could still play a distinct role in the future architecture with its experience in small-scale adaptation and direct access, in which case the Adaptation Fund could continue to build on its niche, while the GCF could focus on larger, more transformative or financially innovative approaches (Amerasinghe et al., 2017).

VIII. Institutional arrangements, in particular with the interim secretariat and the trustee

A. Outcome of the second review

62. As an outcome of the second review, the CMP considered linkages with other bodies and institutions under the Convention. In this regard, CMP 10 requested the Board to consider options for developing operational linkages, as appropriate, between the Adaptation Fund and constituted bodies under the Convention, taking into consideration the mandates of the respective bodies. In addition, CMP 10 took note of the request of the COP to the Standing Committee on Finance to consider issues related to possible future institutional linkages and relations between the Adaptation Fund and other institutions under the Convention.[62]

63. Furthermore, CMP 10 discussed the interim arrangements with the secretariat of the Adaptation Fund Board and the trustee of the Adaptation Fund, and decided to extend the interim arrangements, with a view to further consideration by the CMP of options for permanent institutional arrangements for the secretariat and the trustee, including via an open and competitive bidding process and on the basis of the cost and time frame of each option and its legal and financial implications.[63]

B. Progress made and lessons learned

64. The institutional arrangements of the Adaptation Fund involve the Adaptation Fund Board, its secretariat and the trustee. The Adaptation Fund Board is the operating entity of the Fund with legal personality based in Germany. It supervises and manages the Adaptation Fund under the authority and guidance of the CMP. The GEF provides secretariat services to the Adaptation Fund Board through a memorandum of understanding. The World Bank serves as the interim trustee under terms and conditions that have been amended several times in accordance with the applicable provisions of the World Bank's Articles of Agreement, by-laws, policies and procedures. Most recently, CMP 12 decided to

[60] See Adaptation Fund Board documents AFB/B.24/1 and AFB/B.25/1.

[61] See Adaptation Fund Board documents AFB/B.28/7 and AFB/B.29/5 and Adaptation Fund Board decision B.29/39.

[62] Decision 2/CMP.10, paragraphs 6 and 7.

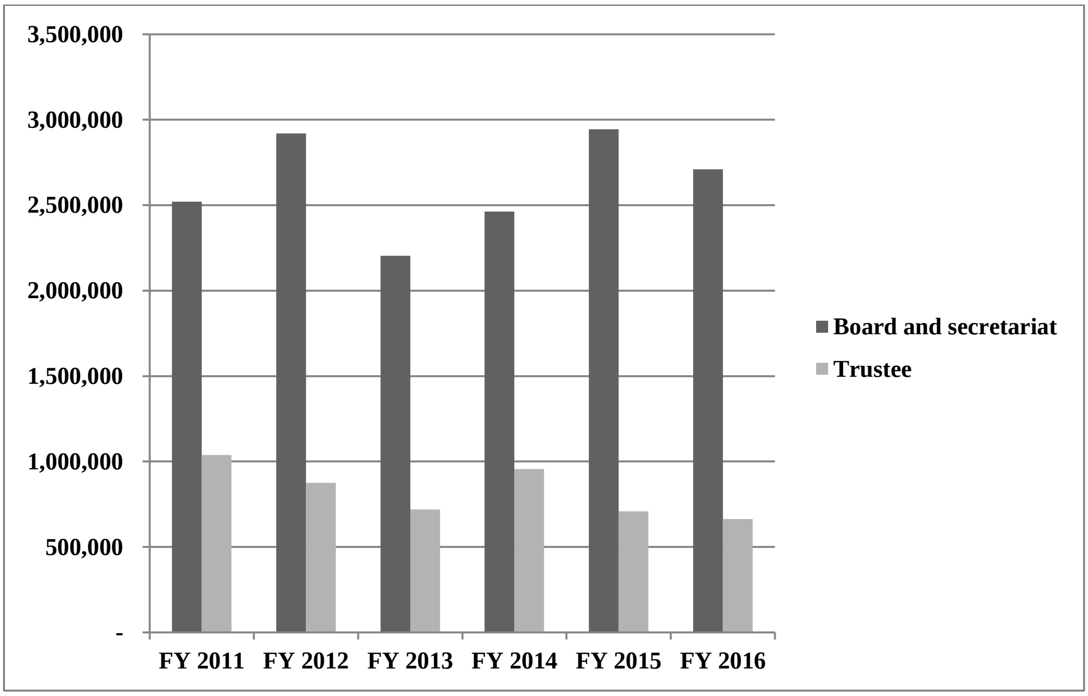
[63] Decision 2/CMP.10, paragraph 8.

extend the interim arrangements with the GEF as the interim secretariat and the International Bank for Reconstruction and Development (the World Bank) as the interim trustee of the Adaptation Fund.[64]

65. The review of the interim secretariat and trustee conducted in 2011 upon the request of CMP 6 concluded that both the secretariat and trustee had carried out their duties and responsibilities in an effective and efficient manner since inception.[65] A further analysis of the costs of the Adaptation Fund Board, its secretariat and the trustee shows that the institutional arrangements for the Fund have continued to function effectively and sustainably.

66. Overall, the administrative costs of the Board and secretariat and trustee fees have been steady over time, as illustrated in figure 5. As at December 2016, the Fund's cumulative operational costs comprised 9.3 per cent of the approved funding decisions budget, where the Board and its secretariat costs accounted for 6.9 per cent and trustee fees accounted for 2.1 per cent.[66]

Figure 5
Costs of the Adaptation Fund Board, secretariat and trustee for fiscal years 2011–2016
(United States dollars, actual budget in fiscal year)



Source: Adaptation Fund Board documents AFB/EFC.6/Inf.1/Rev.1, AFB/EFC.10/Inf.1, AFB/EFC.13/6, AFB/EFC.15/7, AFB/EFC.17/8 and AFB/EFC.19/12/Rev.2.
Abbreviation: FY = fiscal year.

67. Relative to the arrangements of the six other multilateral climate change funds – the Clean Technology Fund, the GEF, the GCF, the LDCF, the Special Climate Change Fund and the Strategic Climate Fund – the Adaptation Fund Board secretariat has the highest administrative budget as a proportion of fund size: 5.6 per cent of its cumulative capitalization (Amerasinghe et al., 2017). Comparison against costs of other climate change funds may be misleading, however, because of the differences in the responsibilities of the different funds' governing bodies (see box 3).

[64] Decision 2/CMP.12, paragraphs 3 and 4.
[65] See document FCCC/KP/CMP/2011/6/Add.1.
[66] See Adaptation Fund Board document AFB/EFC.20/6.

Box 3
Role of the Readiness Programme for Climate Finance in building national institutions

It may be noted that the administrative budget for the Adaptation Fund per project approved is mid-range compared with other funds. However, a high administrative budget as a proportion of cumulative contributions is partly due to the Adaptation Fund's financing of smaller projects (Amerasinghe et al., 2017) and likely to its role in supporting the capacity-building of national implementing entities (NIEs).

The accreditation process created by the Adaptation Fund has been shown to be influential with other funds. For example, in the case of the Green Climate Fund it has been able to fast-track many of its NIEs due to the earlier accreditation process completed through the Adaptation Fund.

In addition, the Government of India has for example mandated the National Bank for Agriculture and Rural Development as the implementing entity also for India's national adaptation fund, following its Adaptation Fund NIE accreditation and subsequent Green Climate Fund accreditation.[a]

[a] See http://www.nabard.org/content.aspx?id=585.

68. On the other hand, evidence suggests that the Adaptation Fund has profited from the low fees charged by the World Bank as trustee relative to other funds. The World Bank only charges for staff time and expenses, averaging annually USD 0.8 million for fiscal years 2011–2014. If the Adaptation Fund were to pay the 5 per cent fee on income paid by other funds, the trustee cost would be considerably higher, amounting to USD 4 million in fiscal year 2014 for example.[67]

69. Finally, phase 1 of the independent evaluation of the Adaptation Fund noted that stakeholders are generally of the view that the secretariat and trustee of the Adaptation Fund have fulfilled their responsibilities. The evaluation noted that all Parties consulted were in agreement that the "small, dedicated secretariat provides good quality work that is mission-driven and conducive to collaboration and dynamic results". Further, a survey of 44 respondents, consisting of implementing entities, Board members and other organizations, found that 75 per cent of the respondents agreed or strongly agreed that the World Bank has "performed its core functions in a transparent and efficient manner, taking steps to limit financial risks".[68]

C. Potential opportunities for improvement

70. While phase 1 of the independent evaluation of the Adaptation Fund found that the Board, its secretariat and the trustee are efficient, sustainable and adequate in performing their functions, at the same time it referred to some options for improvement, including:

(a) Reducing the translation and travel fees incurred by the Board;

(b) Recruiting additional senior staff to strengthen knowledge management (recruitment of a specialist is currently ongoing) and resource mobilization capacity;

(c) Undertaking a study to assess whether the World Bank will continue to provide the best added value as trustee in the light of a possible change to a fee-based approach.

71. Overall, the independent evaluation recommended that the Adaptation Fund review the experience of other funds in order to identify good practices in organizational performance. Although the annual performance report of the Adaptation Fund already includes an analysis of key performance indicators, such as those related to resources,

[67] As footnote 26 above.
[68] As footnote 26 above.

project cycle efficiency and results, options for providing the Adaptation Fund with a formal evaluation function are currently being explored in response.[69]

72. On the issue of permanent arrangements for the trustee and the secretariat, phase 1 of the independent evaluation of the Adaptation Fund noted that the Board would only actively undertake a study to assess the World Bank trustee services should it confirm its intention to change to a fee-based approach.[70] As mentioned in the second review of the Adaptation Fund, it has been noted that the Adaptation Fund benefits from its secretariat being housed in the GEF secretariat, in terms of the complementarity between the different funds and between the Adaptation Fund Board and GEF secretariats.[71]

IX. Summary

73. This paper has discussed the progress made and potential opportunities for improvements in several operational areas of the Adaptation Fund with a view to informing the third review of the Adaptation Fund. To objective of the review is to ensure the effectiveness, sustainability and adequacy of the fund and its operations. The remainder of the chapter summarizes the findings on the major topics covered in this paper.

74. On the **mobilization and provision of sustainable, predictable and adequate financial resources**:

(a) The financial resources available through the Adaptation Fund are inadequate compared with demand, which continues to be high. In 2017, it is already more than three times higher than the funding envelope to be approved on an annual basis. This takes place in the context of overall increasing demand for adaptation financing globally. The climate finance landscape has evolved significantly since the inception of the Adaptation Fund and the size of its financial contribution is modest. However, despite its smaller size, there is evidence that it has played a specific role through its provision of funding in meeting the needs of countries;

(b) A number of sources highlight the institutional experience gained by the Adaptation Fund in mobilizing and administering innovative sources of financing at the fund level and through specific projects it has supported. This report highlights the potential to further enhance the Adaptation Fund's ability to mobilize additional innovative sources of funding.

75. Regarding **access modalities and the readiness programme**:

(a) Building on the outcome of the second review requesting the Adaptation Fund Board to consider ways to enhance access modalities for national entities, the Adaptation Fund has put in place a number of measures, and the number of accredited implementing entities increased from 13 in May 2014 to 25 in April 2017. The number of proposals submitted by NIEs reached 23 projects and programmes in July 2017;

(b) The Adaptation Fund has put in place an enhanced direct access modality, a funding cap on projects implemented by MIEs on the one hand and by NIEs and RIEs on the other, a readiness programme, a South–South mentoring programme, a streamlined process for small entities, and guidance on accreditation standards. The high cost of supporting NIEs presents a challenge to the Adaptation Fund in terms of workload, though this may be counterbalanced by the far-reaching benefits to countries in developing their capacity to access resources.

76. Concerning **project approval procedures**, the project approval times of the Adaptation Fund are the lowest of any of a number of other multilateral funds supporting adaptation. There was a slight delay in approvals from 2015 to 2016 owing to the introduction by the Board of mandatory compliance with its environmental and social policy in its funding criteria, which has been accompanied by the provision of support to

[69] See Adaptation Fund Board document AFB/B.29/Inf.7.

[70] As footnote 26 above.

[71] FCCC/TP/2014/7, paragraph 117.

entities for adhering to the policy. The support being provided may have the additional contribution of building institutional capacity to comply with the policy. Phase 1 of the independent evaluation of the Adaptation Fund recommended the delegation of more responsibility to the secretariat in project and programme approvals.

77. With regard to **results and impacts**:

(a) The Adaptation Fund is supporting projects that work to integrate adaptation into national priorities, with a particular focus on environmental and natural resource issues as well as strengthening legal and policy frameworks on climate change. Another strength of the Adaptation Fund is in engagement at the subnational level, with most if not all of its projects including components to enhance the engagement of subnational actors. Several of its projects are engaging the private sector through microfinance, weather-based insurance, involvement by local industry groups and farmers, and public–private partnerships;

(b) The collection of quantitative information on results has been evolving, and monitoring adaptation impacts and results is a challenge for most funds supporting adaptation. The challenge includes seeking balance between the goal of aggregating results at the Adaptation Fund level with the flexibility required to reflect local and sector-specific metrics in adaptation projects.

78. On the issue of **financing for regional projects**: the Pilot Programme for Regional Projects and Programmes has been regularized following its pilot phase after an initial call for proposals yielded demand in excess of funding available. It is premature to identify lessons learned as the programme was initiated only recently.

79. On the subject of **coherence and complementarity**:

(a) Since the creation of the Adaptation Fund in 2001, the climate finance architecture has evolved significantly. There are now a large number of multilateral climate funds both under and outside the Convention such as the GCF, the LDCF and the Pilot Program for Climate Resilience;

(b) Each of these funds, including the Adaptation Fund, is making efforts to enhance cooperation between secretariats and between boards and to define their approaches through, for example, the development of medium-term strategies. Some reports have identified possible ways to differentiate the roles of the various funds given the wide range of specific needs along the spectrum of adaptation projects.

80. Regarding **institutional arrangements**:

(a) Recent reviews have concluded that the trustee and the secretariat to the Board have continued to function effectively and sustainably. The administrative budget of the Adaptation Fund per project approved is in the mid-range compared with other funds, likely owing to the Adaptation Fund’s financing of smaller projects and its role of supporting capacity-building with respect to NIEs;

(b) Nevertheless, phase 1 of the independent evaluation of the Adaptation Fund put forward a number of recommendations for potential cost reduction and additional recruitment to the secretariat to support its resource mobilization and knowledge management functions and a study to assess the continuation of the interim trustee.

81. It can be **concluded** that climate finance stakeholders and the literature tend to share the view that the Adaptation Fund has a number of comparative advantages and plays an important role in the evolving climate finance and adaptation landscape. Such advantages, as discussed in this paper, include:

(a) Mobilizing climate finance from innovative sources;

(b) Pioneering experience in direct access modalities, yielding the multiple benefits of enhancing country ownership and increasing institutional capacities;

(c) Speed of project approval;

(d) Strategic engagement at the subnational level;

(e) Efficiency of its institutional arrangements.

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