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## **Fourth review of the Adaptation Fund**

### **Technical paper by the secretariat**

#### *Summary*

This technical paper has been prepared in response to the fourth review of the Adaptation Fund in accordance with decision 1/CMP.3 and the terms of reference contained in the annex to decision 4/CMP.16, taking into account the relevant deliberations and conclusions of the Subsidiary Body for Implementation at its fifty-sixth session as well as the views on the fourth review submitted in accordance with decision 4/CMP.16, paragraph 3.



## Abbreviations and acronyms

AF	Adaptation Fund
AFB	Adaptation Fund Board
AF-TERG	Technical Evaluation Reference Group of the Adaptation Fund
CER	certified emission reduction
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
CO <sub>2</sub>	carbon dioxide
COP	Conference of the Parties
COVID-19	coronavirus disease 2019
GCF	Green Climate Fund
GEF	Global Environment Facility
IPCC	Intergovernmental Panel on Climate Change
LDC	least developed country
LDCF	Least Developed Countries Fund
MIE	multilateral implementing entity
NAP	national adaptation plan
NC	national communication
NDA	national designated authority
NDC	nationally determined contribution
NGO	non-governmental organization
NIE	national implementing entity
OECD	Organisation for Economic Co-operation and Development
RIE	regional implementing entity
SBI	Subsidiary Body for Implementation
SCCF	Special Climate Change Fund
SCF	Standing Committee on Finance
SIDS	small island developing State(s)
UNEP	United Nations Environment Programme

## I. Introduction

### A. Background

1. The AF was established in 2001 to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. CMP 6 decided to undertake the review of the AF at its seventh session and every three years thereafter.<sup>1</sup> CMA 1 decided that the AF will serve the Paris Agreement, effective from January 2019<sup>2</sup> and CMP 14 decided that once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available, the AF shall no longer serve the Kyoto Protocol.<sup>3</sup>

2. The sources of financing for the activities of the AF are from a share of proceeds under the clean development mechanism,<sup>4</sup> which is 2 per cent of CERs issued from clean development mechanism project activities, and voluntary contributions. In 2012, CMP 8 decided to augment the AF for the second commitment period of the Kyoto Protocol through a share of the proceeds from assigned amount units and emission reduction units.<sup>5</sup> In 2018, CMP 14 and CMA 1 reinforced the Fund's access to resources when they decided that the AF shall continue to receive the share of proceeds from the activities under Articles 6, 12 and 17, of the Paris Agreement.<sup>6</sup>

3. The AF operates within a global adaptation finance architecture that includes other climate finance funds and mechanisms. The GEF is one of the operating entities of the Financial Mechanism. The LDCF and the SCCF were created under the Convention in 2001, the same year the AF was established under the Kyoto Protocol. The Climate Investment Funds is a consortium of multilateral development banks established in 2008 with the support of developed countries, while the GCF was established in 2010 and is the other operating entity of the Financial Mechanism.

### B. Mandate

4. CMP 16 decided to undertake the fourth review of the AF in accordance with decision 1/CMP.3, paragraph 33, and the terms of reference for the review.<sup>7</sup> Furthermore, CMP 16 requested the secretariat, in collaboration with the AFB secretariat, to prepare a technical paper on the fourth review of the AF, in accordance with the terms of reference of the review and taking into account the deliberations and conclusions of SBI 56 and the submissions of views on the fourth review of the AF.<sup>8</sup>

5. In accordance with its terms of reference, the AF is to ensure the effectiveness, sustainability and adequacy of the Fund and its operations. SBI 56 underlined the importance of the review process and the accessibility of the Fund as an important priority for developing countries. As such, SBI 56 recognized the importance of addressing accessibility of the Fund in the fourth review.<sup>9</sup>

## II. Scope and outline of the paper

6. SBI 56 recognized the important role the AF has played and continues to play in the climate finance architecture. This recognition relates to the Fund's unique features that have enabled it to contribute significantly to meeting the support needs of developing country Parties, for which the

<sup>1</sup> Decision 6/CMP.6, para. 1.

<sup>2</sup> Decision 13/CMA.1, para. 1; see also decision 1/CMP.14, para. 1.

<sup>3</sup> Decision 1/CMP.14, para. 2; see also decision 13/CMA.1, para. 3.

<sup>4</sup> The clean development mechanism allows emission reduction projects in developing countries to earn CER credits, each of which is equivalent to one tonne of CO<sub>2</sub>. These CERs can be traded and sold, and used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol.

<sup>5</sup> Decision 1/CMP.8, para. 21.

<sup>6</sup> Decision 1/CMP.14, para. 3; see also decision 13/CMA.1, para. 2.

<sup>7</sup> Decision 4/CMP.16, para. 1. The terms of reference are contained in the annex to the decision.

<sup>8</sup> Decision 4/CMP.16, para. 5. The call for submissions is contained in para. 3 of the decision.

<sup>9</sup> FCCC/SBI/2022/10, para. 108.

AF has been and is currently providing full-cost, grant-based finance for concrete projects, programmes and readiness development relating to adaptation, including through its direct access modality, its focus on action, innovation, learning and sharing knowledge and best practices, and its gender policy and action plan.<sup>10</sup>

7. The structure of this paper follows the scope of the review, as set out in its terms of reference, which covers the progress made and lessons learned in the operationalization and implementation of the Fund, focusing on:

(a) The provision of sustainable, predictable, accessible 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 developing country Parties;

(b) Lessons learned from:

(i) The application of the access modalities of the AF, including its operational policies and guidelines, including its Streamlined Accreditation Process;

(ii) The project approval procedures of the AF and timeliness of disbursement of approved adaptation grants;

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

(iv) The readiness programme for direct access to climate finance, including lessons learned from South–South cooperation and enhanced direct access grants;

(v) The programme for regional projects;

(vi) The Innovation Facility;

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

(d) The institutional arrangements for the AF, in particular the arrangements with the interim secretariat and the interim trustee.

8. Chapter III of the paper provides an overview of the sources of information drawn on for its preparation and an outline of the methodology applied for the review, in particular of the elements of sustainability, adequacy, accessibility and effectiveness.

9. In chapter IV, mobilization and provision of financial resources by the AF is explored through the criteria defined in chapter III. The resource mobilization strategy of the Fund and its share of proceeds, voluntary contributions and other sources of finance are analysed. Progress and lessons learned, including potential opportunities for improvement, are highlighted.

10. Chapter V, on governance and institutional arrangements, focuses on progress and lessons learned in operationalizing and implementing institutional arrangements for the AF, in particular the arrangements with the interim secretariat and the interim trustee.

11. Chapter VI provides a summary of the technical paper.

### **III. Methodology and sources of information**

12. This technical paper has been prepared taking into account the SBI 56 deliberations and conclusions referred to in paragraph 4 above and the submissions of views on the fourth review of the AF,<sup>11</sup> also referred to in that paragraph, received from Parties to the Kyoto Protocol, Parties to the Paris Agreement and observer organizations, as well as other interested international organizations, stakeholders and NGOs involved in the activities of the AF, and implementing entities accredited by the AFB.

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<sup>10</sup> FCCC/SBI/2022/10, para. 109.

<sup>11</sup> The submissions are available at <https://unfccc.int/topics/climate-finance/funds-entities-bodies/adaptation-fund/submissions-related-to-the-fourth-review-of-the-adaptation-fund>.

13. The paper draws on information in the annual reports of the AFB<sup>12</sup> and its committees and the reports of AF-TERG; the annual reports of the GEF and the GCF to the COP; the reports of relevant UNFCCC constituted bodies, such as the Adaptation Committee; the reports on the ad hoc work programme on long-term climate finance; and the technical paper and summary for policymakers arising from the technical examination process on adaptation conducted in 2020.

14. The findings of previous reviews of the AF have been considered, as have the findings of the second phase of the independent evaluation of the AF and the midterm review of the implementation of the medium-term strategy for 2018–2022 of the AF.

15. Other sources of information include the outcomes arising from and reports of relevant United Nations processes and entities, bilateral and multilateral funding institutions, and governmental organizations and NGOs involved with climate change.

16. The objective of the fourth review of the AF is to ensure the sustainability, accessibility and adequacy of the Fund and its operations. The effectiveness of the Fund's delivery on its mandate is an important additional element for review. Accordingly, this paper focuses on the technical assessment of progress made and lessons learned in the four focus areas referred to in paragraph 7 above. Table 1 shows the logical framing and information flow of the review.

Table 1

**Logical framing and information flow for the fourth review of the Adaptation Fund**

<i>Sustainability and predictability</i>	<i>Adequacy</i>	<i>Accessibility</i>	<i>Effectiveness</i>
Resource mobilization strategy	Annual budget	Financing windows and access modalities	Medium-term strategy
Action plan	Country needs	Operational policies and guidelines	Results and impacts
Share of proceeds	Country allocations	Accreditation procedures for NIEs, RIEs and MIEs	Innovation Facility
Voluntary contributions	Complementarity and coherence	Project approval procedures	Window for regional projects and programmes
Other sources of finance	Lessons learned from similar funds for adaptation	Timeliness of disbursement	Learning and knowledge-sharing
Lessons learned	Lessons learned	Readiness programme for direct access	Gender policy and action plan
		Lessons learned	Lessons learned

17. The technical paper prepared for the third review of the AF includes an outline of what attaining effectiveness, sustainability and adequacy means for the AF.<sup>13</sup> To maintain consistency with the third review and facilitate a common understanding of the approach used in the fourth review, these three criteria and their interpretations have been applied in this paper. Accessibility has been added as an additional criterion following the request of SBI 56 (see para. 5 above). Within the context of this paper, the terms are elaborated as follows:

(a) **Sustainability** may include the extent to which the AF and its operations will be able to continue to meet its objectives of financing concrete adaptation projects and programmes. One possible indicator for assessing sustainability is the extent to which the AF has sought and developed sustainable financing and institutional arrangements or enacted policies to support its operations and the sustainability of its outputs. Sustainability also covers the element of **predictability**. In this paper,

<sup>12</sup> FCCC/KP/CMP/2018/4, FCCC/KP/CMP/2019/4–FCCC/PA/CMA/2019/2 and Add.1, FCCC/KP/CMP/2020/2–FCCC/PA/CMA/2020/2, FCCC/KP/CMP/2021/2–FCCC/PA/CMA/2021/4 and Add.1, and FCCC/KP/CMP/2022/4–FCCC/PA/CMA/2022/3 and Add.1.

<sup>13</sup> FCCC/TP/2017/6.

progress and lessons learned on share of proceeds, voluntary contributions and other sources of finance are highlighted;

(b) **Adequacy** may be the extent to which the AF has met the adaptation needs of developing countries. An assessment of the adequacy of resources that looks only at the AF 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 AF contributes to adaptation efforts in developing countries. This paper assesses the adaptation needs of developing countries eligible to access the Fund, country allocation, lessons learned from similar funds, and complementarity and coherence across funds;

(c) **Accessibility** may be understood as the ability of the AF to create avenues for the most vulnerable countries to access its resources. Financing windows, access modalities, accreditation instruments (including streamlined accreditation), project approval procedures, timelines for disbursement, readiness support and direct access are all relevant to accessibility, and this paper highlights progress and lessons learned thereon;

(d) **Effectiveness** may be understood as the extent to which the AF has attained its objectives of financing concrete adaptation projects and programmes. One possible indicator for assessing effectiveness is whether the AF 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. Other elements of the Fund's terms of reference against which its effectiveness can be measured include operational policies and guidelines, the strategic pillar of learning and knowledge-sharing, the funding window for regional projects and programmes, and the Innovation Facility.

## **IV. Mobilization and provision of finance**

### **A. Sustainability and predictability**

18. The extent to which the AF is able to meet the objective of financing concrete adaptation projects and programmes depends on both the effectiveness of implementation of the Fund's resource mobilization strategy and action plan, and the sustainability and predictability of its sources of finance – share of proceeds, voluntary contributions and other innovative funding sources.

#### **1. Outcomes of the third review of the Adaptation Fund**

19. During the third review, CMP 13 noted with deep concern issues related to the sustainability, adequacy and predictability of the funding for the AF given the prevailing low prices of CERs, which affected the ability of the AF to fulfil its mandate.<sup>14</sup> CMP 13 encouraged the AFB to broaden its financial resource base beyond share of proceeds, including to voluntary contributions, in order to support the resource mobilization efforts of the Fund.<sup>15</sup>

#### **2. Progress made and lessons learned**

20. CMP 16 noted the importance of finalizing the draft resource mobilization strategy of the AF for 2021–2024 as a way of strengthening and encouraging the mobilization of resources for the Fund.<sup>16</sup> Previously, implementation of the 2017–2020 resource mobilization strategy was the instrument through which the Fund received support for carrying out activities in line with its mandate. The key objectives of the 2017–2020 strategy included biennial resource mobilization from national and subnational governments and the exploration of opportunities for obtaining contributions from the private sector, including from philanthropic foundations. Through this approach, the Fund continued to foster relationships with existing and past contributors while targeting potential new ones. It also intended to raise its visibility among subnational governments, such as in networks and alliances of regions and cities in which it saw the potential to mobilize additional resources. However, the implementation of this approach yielded contributions that were

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<sup>14</sup> Decision 2/CMP.13, preamble.

<sup>15</sup> Decision 1/CMP.13, para. 7.

<sup>16</sup> Decision 4/CMP.16, para. 12.

mainly from sovereign governments – only about 5 per cent were from subnational and private donors.

**3. Adaptation Fund resource mobilization targets, contributions and annual receipts**

21. For the biennium 2020–2021, the AFB approved a new resource mobilization goal of USD 120 million per year as an indicative target, allowing room for support exceeding the target.<sup>17</sup>

22. In 2018, on the margins of COP 24, the AF received USD 129 million in new pledges, while in 2019, contributions were received from Poland and the Canadian province of Quebec – the first contributions from Eastern Europe and North America respectively. Also in 2019, the Government of Sweden made the first multi-year (four years) pledge to the AF. In 2020, the AF raised USD 116 million in new contributions through pledges from Belgium, Germany, Ireland and Italy, as well as the Brussels-Capital Region and Walloon Region of Belgium.

23. In 2021, at the annual AF Contributor Dialogue held during COP 26, new pledges amounting to USD 349 million were received from a record 17 contributors: Canada, European Union, Finland, Germany, Iceland, Ireland, Norway, Qatar, Spain, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland and United States of America, as well as Brussels-Capital Region, Flanders Region and Walloon Region (Belgium) and Quebec Province (Canada). Canada (at the national level), Iceland, Qatar and the United States were first-time contributors, and Finland made a contribution after several years of not having done so. Several of the pledges from previous contributors were significantly higher than those they had made in the past (Brussels-Capital Region, European Union, Ireland, Quebec Province and Spain). Together, the new pledges allowed the AF to exceed its resource mobilization target of USD 120 million per year for the biennium 2020–2021 by over USD 220 million.

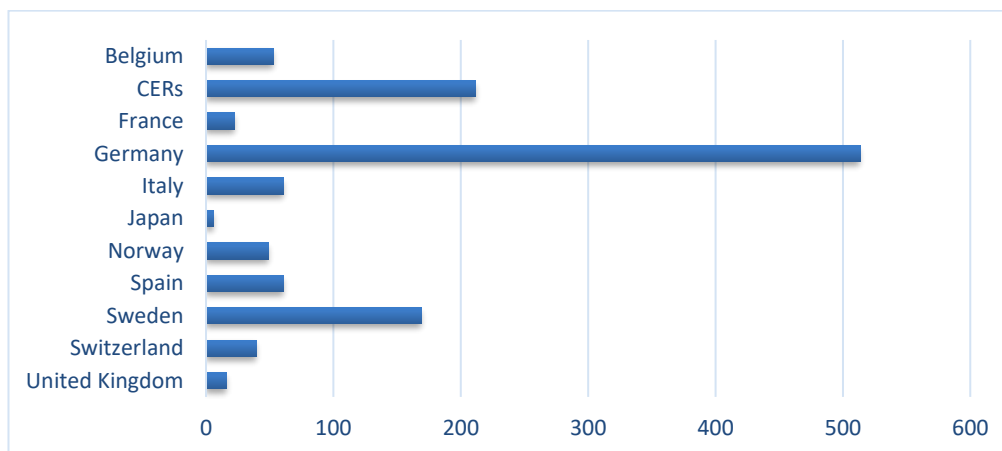
24. In 2022, a contribution of USD 6.02 million was received from the Government of Japan. The Government of Qatar, through the Qatar Fund for Development, also made a contribution in 2022, becoming both the first Party not included in Annex I to the Convention and the first country in the Middle East to support the Fund.

25. The financial report of the Adaptation Fund Trust Fund as at 30 June 2022<sup>18</sup> shows that cumulative resources pledged to the Trust Fund amounted to USD 1,473.95 million. Of this amount, USD 211.80 million was received through CER share of proceeds and USD 982 million from donations totalling cumulative receipts of USD 1,193.80 million (see figure 1). Furthermore, the Trust Fund had earned investment income of USD 41.26 million on liquid balances as at 30 June 2022.

Figure 1

**Sources of finance for the Adaptation Fund, cumulative, as at 30 June 2022**

(Millions of United States dollars)



Source: World Bank. Available at <https://fiftrustee.worldbank.org/en/about/unit/dfi/fiftrustee/fund-detail/adapt>.

<sup>17</sup> AFB decision AFB/B.38/6.

<sup>18</sup> FCCC/KP/CMP/2022/4–FCCC/PA/CMA/2022/3, annex X.

26. The report of the AFB for 2022 provides the status as at 30 June 2022 of the outstanding contributions underwritten by agreements, which amounted to the equivalent of USD 43.86 million, while the equivalent of USD 236.30 million in pledges was outstanding. The resources available for new funding approvals amounted to USD 219.25 million.<sup>19</sup>

27. As at 30 June 2022, the trustee of the AF had sold 33.03 million CERs, at an average price of USD 6.41 per tonne, generating USD 211.80 million.<sup>20</sup> CERs amounting to 10.8 million were still available for sale in accordance with the CER monetization guidelines adopted by the AFB. Receipts from CERs suffered from unexpected price volatility, namely, a steep decline in 2012 related to oversupply in the European Union Emissions Trading System.<sup>21</sup> Without voluntary contributions, the unstable revenue from CERs and the voluntary nature of contributions calls into question the predictability and sustainability of the Fund.

28. The AFB report for 2022 provides detailed information on the current status of the funds as per its mandate. As at 30 June 2022, the World Bank, serving as the trustee of the AF, had made cash transfers amounting to USD 658.54 million towards: project and programme funding amounting to USD 530.22 million, administrative budget amounting to USD 81.43 million, project supervision fees equal to USD 43.37 million and project preparation amounting to USD 3.52 million. Total commitments were USD 1,041.14 million broken down as follows: project and programme funding amounting to USD 881.64 million, administrative budget equal to USD 83.08 million, project supervision fees amounting to USD 72.36 million and project preparation to the tune of USD 4.05 million. The balance of USD 579.07 million was outstanding in the Adaptation Fund Trust Fund as at 30 June 2022.<sup>22</sup>

29. Cumulative net funding decisions made by the AFB through to 30 June 2022 totalled USD 1,012.80 million, of which USD 929.72 million (91.8 per cent) represents approvals for projects and programmes. The World Bank as trustee had transferred a total of USD 638.91 million, including USD 567.84 million related to projects and programmes, as at 30 June 2022.

#### 4. Opportunities for improvement

30. Between 2017 and 2021 the AF succeeded in meeting the resource mobilization targets set by its Board. The implementation of the resource mobilization strategy for 2017–2020 has been instrumental to the sustained mobilization of resources from voluntary sources. The commitments to provide the equivalent of USD 349 million in new pledges under voluntary contributions (see para. 25 above) indicates the potential for higher annual targets.

31. The third review of the AF noted that the entry into force of the Doha Amendment<sup>23</sup> was expected to make additional revenue of USD 160–950 million available to the AF by 2021 through CERs. CMA 3 strongly encouraged Parties and stakeholders participating in cooperative approaches to commit to contributing resources for adaptation, in particular through contributions to the AF, and to take into account the delivery of resources under Article 6 of the Paris Agreement, to assist developing country Parties that are particularly vulnerable to the adverse effect of climate change to meet the costs of adaptation.<sup>24</sup> The CMP 14 and CMA 1 decisions to receive a share of proceeds under Article 6, of the Paris Agreement offers an avenue for enhancing resource mobilization and ensuring predictability of access to resources and sustainability of the Fund.

32. A growth in carbon offset markets for airlines, of 900 per cent and corporate carbon offsets of 170 per cent were reported prior to COP 26 (Di Leva and Vaughan, 2021). Furthermore, according to a study by the International Emissions Trading Association and the University of Maryland, transferred mitigation outcomes will reach 1.7 Gt CO<sub>2</sub> in 2050, roughly half the market volume in 2030. Potential financial transfers will reach USD 1 trillion per year in 2050, more than three times the financial transfers in 2030. An increase in the global carbon price is anticipated – from

<sup>19</sup> FCCC/KP/CMP/2022/4–FCCC/PA/CMA/2022/3, para 6(f–g).

<sup>20</sup> FCCC/KP/CMP/2022/4–FCCC/PA/CMA/2022/3, para. 11

<sup>21</sup> Observations on financing contained in the second phase evaluation report of the independent evaluation of the AF. Available at [https://www.adaptation-fund.org/phase-2-independent-evaluation-validates-adaptation-funds-relevance-efficiency-effectiveness/af\\_phase2\\_eval\\_27april2018/](https://www.adaptation-fund.org/phase-2-independent-evaluation-validates-adaptation-funds-relevance-efficiency-effectiveness/af_phase2_eval_27april2018/).

<sup>22</sup> See <https://fiftrustee.worldbank.org/en/about/unit/dfi/fiftrustee/fund-detail/adapt#2>.

<sup>23</sup> The Doha Amendment to the Kyoto Protocol entered into force on 31 December 2020. As at 15 June 2022, 148 Parties had deposited their instrument of acceptance.

<sup>24</sup> Decision 2/CMA.3, annex, para. 37.



USD 90/t CO<sub>2</sub> in 2030 to USD 620/t CO<sub>2</sub> in 2050 in one scenario, and USD 85/t CO<sub>2</sub> in 2030 to USD 420/t CO<sub>2</sub> in 2050 in another scenario. The scenarios considered in the estimates include the universal net-zero pathway and the staggered net-zero pathway (Yu and Edmonds, 2021).

## B. Adequacy

33. The adaptation needs of developing countries have been articulated in various reports including the UNEP adaptation gap reports, and the IPCC and SCF reports and other reports mandated under the UNFCCC. The reports provide a glimpse into the extent of requirements for attaining adequacy in the provision of finance for adaptation. The AF is among the institutions generally considered instrumental to delivering adaptation in line with its mandate to provide resources for concrete adaptation projects.

### 1. Outcomes of the third review of the Adaptation Fund

34. The third review noted that the mobilization and provision of sustainable, predictable and adequate financial resources can be considered in terms of the results to date from the share of proceeds, voluntary contributions and other sources of funding (see chap. IV.A above).

35. The estimated costs of adaptation are known to be two to three times higher than current global estimates by 2030 and four to five times higher by 2050. The costs of adaptation are likely to be at the upper end of an estimated USD 140–300 billion per year by 2030 and USD 280–500 billion per year by 2050 for developing countries alone. The report estimates adaptation costs in developing countries will reach an amount that is 5–10 times higher than current public adaptation finance flows (UNEP, 2021).

36. The IPCC Sixth Assessment Report estimates the range of adaptation costs, per year, increase from USD 20–50 billion at 1.5 °C to USD 18–60 billion at 2 °C and up to USD 100–437 billion at 4 °C global warming above pre-industrial levels. The report concludes, with a high level of confidence, that with adaptation finance needs estimated to be higher than those presented in the Fifth Assessment Report, enhanced mobilization of and access to financial resources are essential for closing adaptation gaps. Further, the report notes that building capacity and removing some of the barriers to accessing finance are fundamental to accelerating adaptation, especially for vulnerable groups, regions and sectors (IPCC, 2021a, 2021b, 2021c).

37. The first report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement (SCF, 2021) provides an equally daunting picture of costed adaptation, mitigation and cross-cutting needs (see table 3). The needs in the report were sourced from adaptation communications, biennial update reports, low-emission development strategies, NAPs, national adaptation programmes of action, NCs, NDCs, technology action plans and technology needs assessments submitted by Parties as part of the UNFCCC process. Biennial update reports and NCs contained the largest amounts of adaptation needs in monetary terms, and national adaptation programmes of action the smallest.

Table 3

#### Estimated adaptation needs of developing country Parties, as contained in reports submitted as part of the UNFCCC process

<i>Report type</i>	<i>Estimated needs (USD billion)</i>
Adaptation communication	44.10
Biennial update report	3 628.81
Low-emission development strategy	300.00
NAP	135.02
National adaptation programme of action	10.05
NC	3 812.06
NDC	764.24
Technology action plan	18.76
Technology needs assessment	57.90
Total	8 713.04

Source: SCF (2021).

Note: Some figures in the source report were presented as a range. In this table, only the figures at the lower end of the range have been included.

## 2. Coherence and complementary

38. CMP 13 encouraged the AF to continue its efforts to enhance complementarity and coherence with relevant funds under and outside the Convention. The technical paper for the third review of the AF<sup>25</sup> established the areas of coherence and complementary (see para. 40 below) across funds supporting adaptation, including the LDCF, the SCCF, the GCF, the Climate Investment Funds (specifically, the Pilot Program for Climate Resilience) and the Adaptation SME Accelerator Project. Table 4 shows cumulative funding and project expenditure of multilateral climate funds that place some focus on financing adaptation projects and programmes.

Table 4

### Projects executed and cumulative resources of multilateral climate funds focused on adaptation in 2018

<i>Fund</i>	<i>No. of projects</i>	<i>Cumulative funds (USD million)</i>	<i>Cost per project (USD million)</i>
AF	70	460	6.57
Adaptation SME Accelerator Project <sup>a</sup>	42	298	7.09
GCF <sup>b</sup>	21	827	39.38
LDCF	219	957	4.37
Pilot Program for Climate Resilience (Climate Investment Funds) <sup>b</sup>	58	974	16.79
SCCF	75	342	4.56

<sup>a</sup> This project is led by the Lightsmith Group in partnership with the Inter-American Development Bank, the GEF and Conservation International.

<sup>b</sup> Provides both concessional and grant financing for adaptation projects.

39. Since 2021 the AF has been looking into complementarities with the GCF.<sup>26</sup> Similarly, the GCF has identified areas of its operations where it could enhance coherence and complementarity with similar funds, including the AF as well as the GEF Trust Fund, the LDCF and the SCCF. The specific areas identified in the GCF operational framework for complementarity and coherence are governance; capitalization; promoting country ownership; access modalities; project preparation support; activities financed; engagement with the private sector; projects; approach to environmental and social safeguards; fiduciary and monitoring systems and safeguard policies and monitoring systems; and administration.<sup>27</sup>

40. The second phase of the independent evaluation of the AF found that the Fund's design is coherent with and complementary to other adaptation efforts under the Convention. The AF contributes directly to various adaptation workstreams and complements the role of other climate funds by extending access to all developing countries. The evaluation also noted some gaps in coordination between projects of the AF and projects of other funds in countries where implementation of both is occurring.<sup>28</sup>

<sup>25</sup> FCCC/TP/2017/6.

<sup>26</sup> AFB documents AFB/B.20/5 and AFB/B.39/7.

<sup>27</sup> GCF Board decision B.17/04.

<sup>28</sup> Second phase evaluation report of the independent evaluation of the AF. Available at [https://www.adaptation-fund.org/phase-2-independent-evaluation-validates-adaptation-funds-relevance-efficiency-effectiveness/af\\_phase2\\_eval\\_27april2018/](https://www.adaptation-fund.org/phase-2-independent-evaluation-validates-adaptation-funds-relevance-efficiency-effectiveness/af_phase2_eval_27april2018/).

### 3. Progress made and lessons learned

41. The AF Annual Performance Report 2021 describes the framework co-developed by the AF and the GCF for scaling up projects and programmes between the two funds.<sup>29</sup> The structured approach provides countries with incentives and benefits to scale up successful small AF projects with resources from the GCF, and vice versa, under conditions set out under the framework. The AF and the GCF secretariats have started implementing the structured approach to realize the potential for scaling up and replicating projects and programmes in their portfolios. The two secretariats have regularly met to discuss projects potentially eligible for scaling up, the initial technical review of these projects and other preparatory work, including reaching out to NDAs and NIEs.

42. The AF promotes linkages with other relevant bodies and processes under the Convention, such as the Adaptation Committee, the Climate Technology Centre and Network, the Durban Forum on capacity-building, the Paris Committee on Capacity-building and the Standing Committee on Finance, by attending their meetings and events. Specifically, the secretariat participated as an observer at the 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> meetings of GCF Board, the GCF Empowering Direct Access 2018 workshop, and a dialogue on the integration of gender considerations on behalf of the AFB and the Ad Hoc Working Group on the Paris Agreement. The AF also jointly supports, with the GCF, the Community of Practice for Direct Access Entities, a community of accredited NIEs of the Fund and accredited Direct Access Entities of the GCF.

### 4. Opportunities for improvement

43. The AF can enhance its adequacy by strengthening coherence and complementarity with other funds through instruments such as NAPs and the adaptation components of NDCs.<sup>30</sup> The GCF approach to coherence and complementarity offers the AF important opportunities for forging stronger linkages with and implementing a structured policy framework for collaboration across funds with similar mandates.

44. The GCF has identified four pillars for operationalizing coherence and complementarity:<sup>31</sup>

- (a) Board-level discussions on fund-to-fund arrangements;
- (b) Enhanced complementarity at the activity level;
- (c) Promotion of coherence at the national programming level;
- (d) Complementarity at the level of delivery of climate finance through an established dialogue.

45. In practical terms, the key elements of coherence and complementarity are collaboration and harmonization in the areas of information exchange; project readiness and preparation support; capacity-building; project implementation under NDCs and NAPs; preparation of NCs and technology needs assessments; accreditation; funding proposals; knowledge management and sharing; and private sector engagement.

## C. Accessibility

46. While recognizing the progress made in enhancing direct access, developing a streamlined accreditation process for small implementing entities and preparing guidance on accreditation standards, CMP 13 urged the AF to consider options for improving efficiency with regard to its operations.

47. The problem of accessibility is multifaceted and cuts across issues such as dwindling aid, decreasing committed climate finance and corroding trust between developing countries and developed country partners. Funding that does not address the priority climate needs of particularly vulnerable developing countries is also a concern. Pledges not being kept by all who made them after the Copenhagen Accord (2009) and the Cancun Agreements (2010) and the unfulfilled promise of

<sup>29</sup> See AFB/B.39/7. Available at [https://www.adaptation-fund.org/wp-content/uploads/2022/10/AFB.B.39.7\\_Potential\\_linkages\\_between\\_AF\\_GCF-1.pdf](https://www.adaptation-fund.org/wp-content/uploads/2022/10/AFB.B.39.7_Potential_linkages_between_AF_GCF-1.pdf).

<sup>30</sup> Decision 7/CP.25, para. 6, notes the funding availability under the GCF, LDCF and SCCF for the process to formulate and implement NAPs.

<sup>31</sup> GCF Board decision B.17/04, annex II.

USD 30 billion over three years are additional issues in the mix of problems relating to accessibility (Commonwealth Expert Group on Climate Change, 2013).

48. A report by the Commonwealth Expert Group on Climate Finance describes climate financing arrangements as a maze that requires specialist knowledge to access owing to the complex web of issues comprising a large and highly diverse “spaghetti bowl” of funds, with high transaction costs for accessing resources that exceed 20 per cent of the total project costs. The report states that different windows have individual criteria for eligibility, access, implementation, monitoring and reporting. This fragmentation has placed a considerable burden on recipient countries, particularly small and vulnerable countries, and limits their ability to unlock existing climate finance and use it effectively. As a result, many vulnerable countries have reported the reality that funds are simply inaccessible (Commonwealth Expert Group on Climate Change, 2013).

## 1. Outcomes of the third review of the Adaptation Fund

49. The third review documented areas of notable progress made by the AF to enhance its access modalities, including in targeting institutional strengthening strategies to assist developing countries in accrediting more implementing entities and in ensuring that accredited NIEs have increased and facilitated access to the Fund. The review also highlighted potential opportunities for improvement, such as in the high cost and workload involved in supporting NIE applicants, which pose a challenge to the Fund.

50. The AF has financing windows for small projects and programmes requesting up to USD 1 million and regular projects and programmes requesting over USD 1 million. As part of the implementation of the Fund’s medium-term strategy for 2018–2022, the AFB established new funding windows, namely for enhanced direct access grants, learning grants, project scale-up grants and innovation grants.<sup>32</sup> The Fund has since considered and approved proposals under these windows, for example, six small grants, one project scale-up grant and one learning grant.

51. The environmental and social policy of the AF was adopted in 2013 and revised in 2016<sup>33</sup> It has 15 principles for projects and programmes supported by the Fund to meet: compliance with the law, access and equity, marginalized and vulnerable groups, human rights, gender equality and women’s empowerment, core labour rights, indigenous peoples, involuntary resettlement, protection of natural habitats, conservation of biological diversity, climate change, pollution prevention and resource efficiency, public health, physical and cultural heritage, and lands and soil conservation.

52. The AF approved its gender policy and action plan 2017–2019 in 2016. This document was built on the environmental and social policy principles, especially those on access and equity, and marginalized and vulnerable groups. In March 2021, the gender policy was updated and an action plan for 2021–2023 was approved; both of these documents further elevate the goal of gender equality and the empowerment of women and girls, which is also one of the cross-cutting themes of the AF medium-term strategy for 2018–2022.

## 2. Progress made and lessons learned

53. As at 30 June 2022, the AF had the following number of accredited entities: 14 MIEs; 9 RIEs; and 34 NIEs, 10 of which were LDCs and 7 were SIDS.

54. In terms of regional distribution, of the 33 NIEs, 15 were from Africa, 16 from Latin America and the Caribbean, 11 from Asia-Pacific and 1 from Eastern Europe. Of the 132 projects approved as at 30 June 2022, 79 are being or have been implemented by MIEs, 38 by NIEs and 15 by RIEs.

55. To ensure NIEs and RIEs can access equal amounts of financing as MIEs, in 2010, the AFB set a cap of 50 per cent on financing for proposals submitted by MIEs (AF, 2021). Once accredited, implementing entities can submit funding proposals of up to USD 10 million per project for concrete single-country proposals, for a total of USD 20 million per country. In addition, countries can apply for a maximum of USD 14 million per project or programme for regional projects or programmes, which is outside the country cap for MIEs and RIEs. NIEs can access funding outside their country cap for enhanced direct access projects of up to USD 5 million (this funding is also available to MIEs

<sup>32</sup> FCCC/KP/2021/12/2/Add.1–. FCCC/PA/CMA/2021/4/Add.1.

<sup>33</sup> AF policies are available at <https://www.adaptation-fund.org/documents-publications/operational-policies-guidelines>.

and RIEs), small innovation grants of up to USD 250,000, learning grants of up to USD 150,000 and project scale-up grants of up to USD 100,000 (per project). Furthermore, the AF has made available to NIEs small readiness grants outside the country cap, such as the readiness package grant, which is available for the accreditation of NIEs, up to USD 150,000 per NIE; technical assistance grants for environmental and social policy and gender policy, up to USD 25,000 per NIE; technical assistance grants for gender policy, up to USD 10,000 per NIE; and project formulation assistance grants, up to USD 20,000 per project.<sup>34</sup>

56. An AF project cycle begins with an implementing entity's submission of a proposal to the AFB secretariat. An initial screening of the proposal is followed by a one-week window during which the implementing entity addresses the AFB secretariat's requests for corrective action and clarification. The AFB secretariat then undertakes its technical review before submitting the proposal for a review by the AF Project and Programme Review Committee, which recommends endorsement or non-endorsement and approval or non-approval.

57. The Fund's eligibility criteria are described in its operational policies and guidelines.<sup>35</sup> Implementing entities must meet these criteria when submitting proposals. Once a project is approved, the AFB secretariat prepares a standard legal agreement between the AFB and the implementing entities. Implementing entities are required to submit annual reports to the AFB secretariat on a rolling basis starting one year after the project start date using a project performance report template and to submit reports on readiness grants as per the terms of the signed legal agreement.

58. In 2013, at its 22<sup>nd</sup> meeting, the AFB considered the efficiency and effectiveness of the Fund's accreditation process. The Board made decisions on reviewing existing policies or establishing new policies for the accreditation process as well as strengthening and simplifying the process. The Board has since adopted an updated reaccreditation process. Further, to avoid delays in reaccreditation, the AF Accreditation Panel prepared an information note to designated authorities on selecting a potential NIE and a report on bridging the gaps in accreditation, which the AFB secretariat communicated to designated authorities.

### 3. Financing for regional projects

59. In 2015, at its 25<sup>th</sup> meeting, the AFB approved a pilot programme for regional projects and programmes under it up to a cap of USD 30 million. The overall goal was to trial different regional approaches to implementing concrete climate change adaptation projects in vulnerable developing countries and to compile the lessons learned. The pilot programme provided funding outside the 50 per cent cap on MIEs and the USD 10 million country cap previously instituted by the AFB.

60. In 2016, at its 28<sup>th</sup> meeting, the AFB decided that funding for regional projects and programmes would be provided beyond the pilot programme, hence opening a permanent funding window with a funding envelope to be approved on an annual basis, starting with USD 30.0 million set aside during that fiscal year. A provision for USD 60 million for regional projects and programmes was approved for 2018 and 2019 each. Three categories of funding, USD 14.0 million, USD 5 million and USD 1 million, were created to fulfil project formulation grant requests for elaborating regional project and programme concepts into fully developed proposals. In the 2020 fiscal year, the Board decided to make available another USD 60 million for the funding of regional projects and programmes.

61. In 2018, AF-funded projects were distributed across four regions: Africa, Asia-Pacific, Eastern Europe and Latin America and the Caribbean. The Asia-Pacific region had the largest number of approved projects (23), whereas Eastern Europe had the smallest (1). As at 30 June 2022, the Fund had approved 132 projects spanning the four regions. Africa was the largest recipient of grant financing, with 40.7 per cent of the total portfolio, followed by Asia-Pacific with 28.8 per cent and Latin America and the Caribbean with 26.0 per cent. Eastern Europe had six projects approved, representing 3.3 per cent of the total portfolio. Global projects made up 1.1 per cent of the total portfolio. Table 5 shows projects approved and funding amounts by region (AF, 2021a).

<sup>34</sup> In 2022, these grants were discontinued and incorporated into project formulation grants through AFB decision B.37/1.

<sup>35</sup> Available at <https://www.adaptation-fund.org/apply-funding/policies-guidelines>.

Table 5  
**Adaptation Fund projects approved and funding amounts, by region, as at 30 June 2022**

<i>Region</i>	<i>No. projects</i>	<i>Project funding (USD million)</i>	<i>Readiness grants (USD)</i>
Africa	49	386.94	1 178 670
Asia-Pacific	46	260.96	199 500
Eastern Europe	6	29.84	0
Latin America and the Caribbean	29	235.76	217 700
Multi-region	2	10.00	0
Total		923.50	1 595 870

*Source:* AF Annual Performance Report 2022 (AFB document AFB/EFC.30/3/Rev.1).

62. As at 30 June 2022, the largest cumulative grant amount was for South–South cooperation grants, amounting to USD 936,747 for 18 projects. Technical assistance grants for environmental and social policy and gender policy valued at USD 480,020 had been approved.

#### 4. Opportunities for improvement

63. In the Toolkit to Enhance Access to Climate Finance (2015),<sup>36</sup> the OECD, in collaboration with the GEF, recommended indicative activities for access modalities at the organization level, which are applicable to the AF (see table 6).

Table 6  
**Access modalities relevant to climate funds**

<i>Indicative activities</i>	<i>Further information and resource materials</i>
<b>Raise awareness of needs and opportunities for institutional capacity enhancement</b>	
Form a multi-departmental team (led by a senior official or minister) to review international, multilateral and bilateral sources of finance and, if necessary, consider the accreditation processes of climate funds	Bellamy and Hill, 2010; GCF Resource Guides web page; <sup>a</sup> German Agency for International Cooperation, 2014; OECD, 2012
Provide politicians and relevant government officials with information on climate change adaptation and finance needs so as to lead them to consider initiating or enhancing efforts to strengthen institutional arrangements for accessing climate funds	Bellamy and Hill, 2010; GCF Resource Guides web page; <sup>a</sup> OECD, 2012
Make use of workshops, guiding tools and online materials provided by the GCF	GCF Resource Readiness web page <sup>b</sup>
Enable climate funds to familiarize relevant staff with procedures, requirements and standards in the accreditation process	Meetings and workshops (upcoming and past) of UNFCCC constituted bodies
<b>Strengthen capacities of an NDA or national focal points</b>	
Develop a knowledge base within an NDA on national priorities, strategies and plans for development and on climate policies	AF, 2018; GCF, 2014; GCF Resource Guides web page; <sup>a</sup> GEF, 2022
Identify from where updated information can be obtained	

<sup>36</sup> The toolkit primarily focuses on enhancing the access of the countries particularly vulnerable to the impacts of climate change (including the LDCs, SIDS and African States) to international climate finance trust funds, while recognizing that domestic resources within those countries will also be important to financing and scaling up adaptation action.

<i>Indicative activities</i>	<i>Further information and resource materials</i>
<p>Become familiar with domestic stakeholders (e.g. multilateral and bilateral institutions, civil society organizations and potential candidates for subnational, national or regional implementing entities)</p> <p>Facilitate country coordination mechanisms and multi-stakeholder engagement for country consultations, and consider using existing regular country meetings or national planning and dialogue exercises</p>	
<b>Select implementing entities</b>	
<p>Identify candidates for international, regional, national or subnational implementing entities</p> <p>Ideally, choose existing institution(s) with substantive experience in climate finance</p> <p>If a new institution is needed, apply the required minimum fiduciary standards from an early stage of development</p>	<p>AF, 2015; AF, 2016a; AF, 2018; GCF Resource Guides web page;<sup>a</sup> GEF, 2022</p>
<b>Collect evidence that implementing entities can meet the fund’s fiduciary standards and environmental and social safeguards</b>	
<p>Examine candidates’ capacities in meeting required fiduciary standards (e.g. financial management, programme management, procurement, and monitoring and reporting)</p> <p>Examine candidates’ capabilities in meeting environmental and social safeguards (e.g. working conditions, resource efficiency, pollution prevention, community health and safety, land acquisition and resettlement, biodiversity, indigenous peoples and cultural heritage)</p> <p>Check what documented information is available within the candidate entity (for meeting accreditation criteria to become an implementing entity)</p> <p>Ensure that internal systems and procedures of the candidate are described in the relevant documents or manuals, and involve relevant authorities</p>	<p>AF, 2013; AF, 2015; AF, 2016a; AF, 2016b; AF, 2021b; AF, 2022b; GCF Board decision GCF/B.07/11, annexes; GCF Resource Guides web page;<sup>a</sup> GEF, 2022</p>
<b>Strengthen communication to facilitate accreditation of implementing entities</b>	
<p>Facilitate communication between the candidate and the secretariat of the relevant climate fund during the accreditation process so that the candidate fully understands the accreditation process and requirements</p> <p>Share lessons learned from accreditation processes among countries</p> <p>Seek greater engagement among various stakeholders, including politicians, governmental agencies, civil society organizations and the private sector</p>	<p>Meetings and workshops (upcoming and past) of UNFCCC constituted bodies (see Climate Investment Funds events and workshops)</p> <p>Climate and Development Knowledge Network<sup>c</sup></p>

Source: OECD and GEF, 2015, p.15.

Note: The recommendations in the table date from 2013. However, they could still be useful as guidance for countries seeking financial support from the AF and also, more broadly, in the context of achieving coherence and complementarity across funds.

<sup>a</sup> <https://www.greenclimate.fund/accreditation/resources>.

<sup>b</sup> <https://www.greenclimate.fund/readiness/resources>.

<sup>c</sup> See [https://cdkn.org/themes/theme-climate-finance?loclang=en\\_gb](https://cdkn.org/themes/theme-climate-finance?loclang=en_gb).

## D. Effectiveness

64. Evaluating the effectiveness of the AF entails a consideration of achievements from implementing the Fund's medium-term strategy for 2018–2022, the Innovation Facility, the funding window for regional projects and programmes, learning and knowledge-sharing activities, and the gender policy and action plan, as well as a consideration of the results and impacts of the Fund's resources.

### 1. Outcomes of the third review of the Adaptation Fund

65. The third review noted the effectiveness of the AF in achieving results and impacts against its strategic results framework. The AFB uses results-based management to guide project design and monitoring of seven outcome areas (see table 7 for a list of the outcome areas). The AFB has approved three impact-level results frameworks and five associated core indicators<sup>37</sup> to track results in an aggregate format in order to demonstrate project value. Projects must be aligned with the AF results framework at the design stage and are required to report against at least one core indicator during their implementation. The Fund's strategic results framework allows the Board to track efficiency and effectiveness on the basis of the set of indicators and targets. The results-based management approach operates at three levels: (1) governing body (CMA/CMP); (2) portfolio (fund) and (3) projects and programmes.

66. At the project and programme level, monitoring is carried out by project executing entities, supervised by NIEs, MIEs and RIEs. As part of their reporting requirements, implementing entities are required to submit a results tracker reporting tool, which tracks specific indicators across the Fund's portfolio and includes indicators from both the Fund's strategic results framework and the Fund's five core indicators.

67. Implementing entities also provide regular updates to the AFB on (1) any investigation and a final report on the conclusions of the investigation and (2) actions taken to address any illegal or corrupt practice involving the Fund's resources. For certain types of projects and programmes – those that include unidentified subprojects – the implementing entity needs to report on a regular basis as part of the project performance report on its progress and performance in applying the Fund's environmental and social policy to the unidentified subprojects and demonstrate compliance of all the project or programme activities with the policy.

68. The second phase evaluation report of the independent evaluation of the AF identified important areas of progress made by the Fund, as follows:

(a) **Relevance.** The AF remained relevant to the global climate finance architecture through its various activities. The Fund adds value through a focus on adaptation, supporting concrete activities and direct access implementation. Its portfolio is aligned with other climate funds and global commitments on climate finance and international development;

(b) **Efficiency.** The AF was found to be efficient in managing accreditation and project cycle processes even after increases in project proposals and accreditation requests. It also has a small secretariat compared with similar funds (which is indicative of cost efficiency) and projects are delivered on time (although implementation delays affect overall time frames);

(c) **Effectiveness.** The AF has made efforts to implement the gender policy and the environmental and social policy. Implementation of the direct access modality has been a success in terms of both enabling direct access for a wide range of countries and the quality of direct access implementation;

(d) **Results and sustainability.** The AF, in line with its mandate, has contributed to the increase in developing countries' access to adaptation finance. However, the extent to which adaptation costs can be met is limited by the amount of financing available.

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<sup>37</sup> The core indicators are (1) number of beneficiaries (direct or indirect), (2) number of early warning systems, (3) assets produced, developed or improved, (4) increased income or avoidance of decrease and (5) natural assets produced or rehabilitated.



69. During the 2017–2018 sessions of the AFB, the Board approved the re-establishment of a long-term evaluation of the Fund to ensure independent implementation of its evaluation framework through AF-TERG, which comprises experts in evaluation who are functionally independent of the secretariat and accountable to the Board.

## 2. Progress made and lessons learned

70. During 2021, AF-TERG conducted a midterm review of the medium-term strategy for 2018–2022 of the AF. The review assessed the strategy’s suitability for guiding the Fund’s governance, management and operations but did not provide a comprehensive assessment of project approval processes, policies, secretariat structure, governance or impact of the AF. Among other findings, the midterm review confirmed that the Fund has legitimacy as a ‘nimble’ innovator that can more rapidly evolve to meet the swiftly changing context of global climate finance and urgent needs of countries than other climate finance delivery channels can.

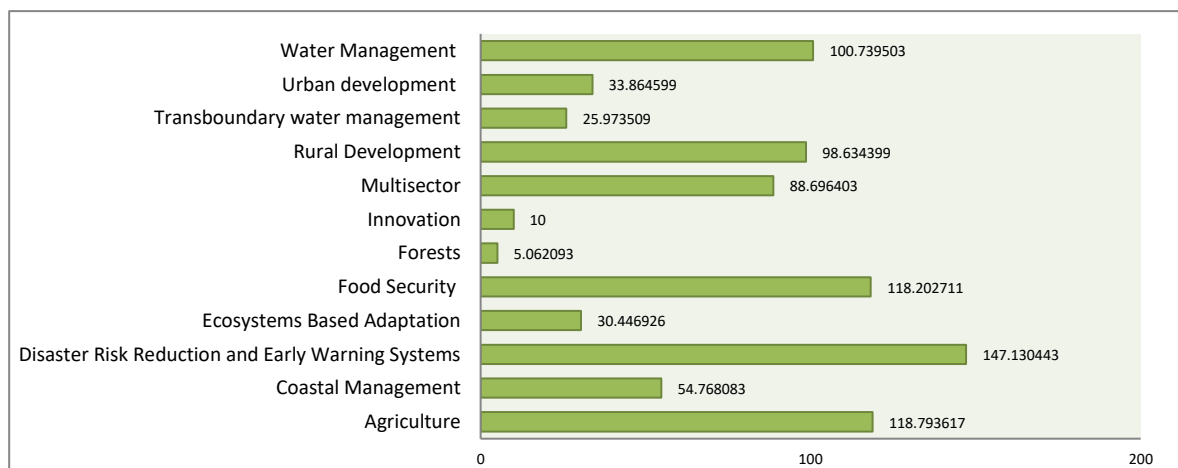
71. The midterm review also found that COVID-19 tested the resilience of the medium-term strategy and the Fund’s ability to adapt appropriately. It provides a test-case for how well the Fund can respond to similar disruptions. The Fund’s agile response to COVID-19 compares favourably with other climate financing bodies.

72. In March 2022, the AFB approved the Fund’s evaluation policy, which will come into effect in October 2023, replacing the current evaluation framework.

73. Regarding AF investments by sector, figure 2 shows the priority sectors, as presented in the requests submitted by developing countries. Disaster risk reduction and early warning systems, agriculture, food security and water management received the highest allocations, with investments above USD 100 million per sector.

Figure 2  
**Adaptation Fund investments by sector, as at 2021**

(Millions of United States dollars)



Source: AF, 2021a.

74. Regarding areas of investment by developing countries receiving grant financing from the AF, table 7 shows that outcome areas 4, 5 and 6 of the strategic results framework were the priorities. Adaptive development sector services and infrastructure assets, ecosystems resilience and strengthened livelihoods, representing over 70 per cent of the project and programme portfolio of the Fund, were the key outcomes.

Table 7

**Grant amounts programmed under the Adaptation Fund strategic results framework, as at 2021**

<i>Outcome</i>	<i>Amount (USD million)</i>	<i>Percentage of portfolio</i>
Outcome 1: Reduced exposure at the national level to climate-related hazards and threats	64.70	8.3
Outcome 2: Strengthened capacity to reduce risks associated with climate-induced socioeconomic and environmental losses	77.10	9.9
Outcome 3: Strengthened awareness and ownership of adaptation and climate risk reduction processes at the local level	68.80	8.9
Outcome 4: Increased adaptive capacity within relevant development sector services and infrastructure assets	226.80	29.9
Outcome 5: Increased ecosystem resilience in response to climate change and variability-induced stress	160.60	20.7
Outcome 6: Diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas	148.30	19.2
Outcome 7: Improved policies and regulation that promote and enforce resilience measures	22.3	2.9
Outcome 8: Support of the development and diffusion of innovative adaptation practices, tools and technologies	6.6	0.9

*Source:* AF Annual Performance Report 2022 (AFB document AFB/EFC.30/3/Rev.1).

75. In addition to reporting on outcomes, the AF Annual Performance Report 2021 highlights progress made in terms of impacts (see table 8). Impacts are grouped into three areas, namely:

(a) **Impact 1.** A reduction in the vulnerability of communities and an increase in their capacity to adapt to the impacts of climate change. Approximately 10.04 million direct beneficiaries and 21.17 million indirect beneficiaries were reached with the support of investments deployed by the AF, including through funding for 414 early warning systems;

(b) **Impact 2.** Strengthened policies that integrate climate resilience strategies into local and national plans. An estimated 98 policies (at the local, national or regional level) were either introduced or adjusted to address climate change risks;

(c) **Impact 3.** Increased ecosystem resilience in response to climate change induced stresses. A total of 380,242 ha natural habitats were created, rehabilitated or restored.

Table 8

**Impacts of Adaptation Fund investments at the regional level as at 30 June 2022**

<i>Region</i>	<i>Coastline protected (metres)</i>	<i>Natural habitat protected (ha)</i>	<i>No. of early warning systems</i>	<i>No. of projects</i>	<i>No. of countries</i>	<i>Direct beneficiaries (millions)</i>	<i>Indirect beneficiaries (millions)</i>
Africa	27 035	130 935	332	49	43	4.24	11.96
Asia	51 250	263 749	54	46	29	2.72	5.35
Eastern Europe Latin America and the Caribbean	–	10 975	1	6	7	0.44	1.80
<b>Total</b>	<b>162 300</b>	<b>575 700</b>	<b>5146</b>	<b>130</b>	<b>101</b>	<b>10.65</b>	<b>2.25</b>

*Source:* AF Annual Performance Report 2022 (AFB document AFB/EFC.30/3/Rev.1).

**3. Opportunities for improvement**

76. Of all the outcomes under the AF strategic results framework, outcomes 7 (improved policies and regulation that promote and enforce resilience measures) and 8 (support of the development and diffusion of innovative adaptation practices, tools and technologies) had the lowest ranks in terms of their share of the Fund's total investment portfolio, at 2.8 and 0.6 per cent respectively. Hence, there

are opportunities for improvements in instruments and financing windows within the Fund's portfolio to promote these two outcomes.

77. The AF plans to assess its overall impact, including impacts arising from the implementation of the new resource mobilization strategy, for 2022–2025 (see AF, 2022a), and any other initiatives that support the achievement of the Fund's objectives, through its evaluation function (see para 68 above).

78. Several internal factors limit the Fund's portfolio results, including inadequate costing and budgeting of projects for SIDS, insufficient project management and staffing capacity, and challenges in stakeholder selection and coordination. Monitoring and evaluation capacity has also been identified as limiting the AF in capturing progress or performance data. Currently, only planned targets are included in the database for monitoring. Therefore, making progress in knowledge management –and potentially leading knowledge management among climate finance partners – is an important area for improvement.

## **V. Governance and institutional arrangements**

79. Since its creation in 2001, the AF has been overseen by a Board that also functions under the authority of the CMP and under the guidance of, and with accountability to, the CMA with respect to all matters relating to the Paris Agreement. The Board comprises 16 members and 16 alternates.

### **A. Outcomes of the third review of the Adaptation Fund**

80. CMP 13 encouraged the AF to consider options for improving efficiency with regard to the operation of the Fund.<sup>38</sup> CMP 14, as well as requesting the Board to report on its activities at each session of the CMP, invited the GEF to provide secretariat services to the Board and the International Bank for Reconstruction and Development (World Bank) to serve as the trustee for the Fund on an interim basis.<sup>39</sup>

81. The AFB holds periodic meetings, mostly twice per year. Its unique governance arrangements are strengthened and supported by three committees: the Ethics and Finance Committee, Project and Programme Review Committee and Accreditation Panel. The Ethics and Finance Committee is responsible for advising the Board on conflicts of interest, ethics, finance, fund and portfolio evaluations and auditing. The Project and Programme Review Committee is responsible for assisting the Board in reviewing project proposals and implementing related activities, including project-level monitoring and evaluation. The Accreditation Panel provides recommendations to the AFB regarding the accreditation of new implementing entities and the suspension, cancellation and reaccreditation of entities already accredited. In addition to the three committees, the Board has established AF-TERG, which became operational in 2019. AF-TERG is an independent advisory group, accountable to the Board, established to ensure the independent implementation of the Fund's evaluation framework.

82. The Fund's secretariat manages day-to-day operations of the AF and provides research, advisory and administrative services. The World Bank, in its function as interim trustee, is primarily involved with CER monetization; management, accounting and reporting of the Adaptation Fund Trust Fund; and the provision of support for financial processes, including donor contributions.

83. The AF provides funding to developing countries that are Parties to the Kyoto Protocol or the Paris Agreement through accredited implementing entities, including MIEs such as United Nations agencies and development banks, NIEs such as national government agencies and NGOs, and RIEs such as regional consortiums and banks.

### **B. Progress made and lessons learned**

84. CMP 15 adopted the amended and restated memorandum of understanding between the CMP and the GEF Council regarding secretariat services to the AFB. As stated in the decision of the GEF

<sup>38</sup> Decision 2/CMP.13, para. 7(a).

<sup>39</sup> FCCC/KP/CMP/2018/4, para 2.

Council meeting, the purpose of the memorandum of understanding is to make provisions for the relationship between the CMP and the Council and to fulfil Article 12 of the Kyoto Protocol and decisions 1/CMP.3, 1/CMP.14, and 13/CMA.1 in connection with the provision of secretariat services. CMP 15 also adopted the amended and restated terms and conditions of services to be provided by the World Bank as an interim trustee of the AF.<sup>40</sup>

85. As an important part of the execution of the mandate of the AF, the AFB adopted the Fund's first medium-term strategy, for 2018–2022, in 2018. The strategy development process, which commenced in 2016, was completed in 2018. The strategy builds on the existing mandate of the Fund and an analysis of its key strengths, including how it can help meet the objectives of the 2030 Agenda for Sustainable Development and the purpose and goals of the Paris Agreement.

86. The medium-term strategy outlines three main pillars of support for vulnerable developing countries: (1) action, (2) innovation and (3) learning and sharing. It calls for the Fund to accelerate and enhance the quality of adaptation action in developing countries and support country-driven projects and programmes, innovation, and multi-level global learning and sharing for effective adaptation. According to the strategy, all activities are designed to be gender-responsive and to benefit the most vulnerable. Developing countries will be supported in undertaking high quality adaptation projects and programmes that align with their development needs and goals.

87. In 2018, at its 31<sup>st</sup> meeting, the Board considered and approved the draft implementation plan for the medium-term strategy and requested the secretariat to facilitate the implementation of the plan during the period 2018–2022 and to include the administrative budget for its implementation in the secretariat's annual administrative budget during the strategy period.

88. Following the first half of the 2018–2022 period of the medium-term strategy, AF-TERG conducted a midterm review with the aim of assessing progress in implementing the strategy and informing the development of a strategy for 2023–2027. The review's overall conclusion was that the medium-term strategy is a good, fit-for-purpose strategy that is ambitious, forward-looking and responsive to global processes for climate change adaptation. The strategy both clarifies the niche of the Fund and expands it into areas where it has demonstrated potential, while placing a strategic emphasis on quality, urgency and vulnerability. Implementation of the medium-term strategy brought about significant progress, with the Fund launching seven new funding windows, presenting a potentially significant expansion to the Fund's portfolio.

89. In 2021, at its 37<sup>th</sup> meeting, the AFB took note of the findings and recommendations of the midterm review of the strategy and decided to develop a second medium-term strategy, for 2023–2027. In April 2022, at its 38<sup>th</sup> meeting, the AFB decided that the 2023–2027 strategy, to be considered at the 39<sup>th</sup> meeting in October 2022, will build on and further enhance the Fund's strategic results framework and achievements of the strategy for 2018–2022 through adjustments aimed at consolidating the Fund's comparative advantage and optimizing its impact.

### C. Opportunities for improvement

90. The midterm review of the Fund's medium-term strategy for 2018–2022 established that while the strategy was used effectively to guide governance, management and funding decisions that provide leverage for the Fund in making an impact, it could be used more effectively.<sup>41</sup>

91. Lessons from the review for the next (2023–2027) medium-term strategy include consolidating and optimizing aspects that define the Fund's niche (even with resource uncertainty) as a Fund that:<sup>42</sup>

- (a) Provides quick and direct financing;
- (b) Creates new solutions built on what works;
- (c) Supports innovative solutions with higher risk;
- (d) Complements other funds through catalytic financing;

<sup>40</sup> Decision 3/CMP.15, paras. 6–7.

<sup>41</sup> AFB document AFB/EFC.28/7, para. 15.

<sup>42</sup> AFB document AFB/EFC.28/7, annex I, para.5.

- (e) Brings needed new players into the climate change adaptation space.

## VI. Summary

92. The AF, guided by its resource mobilization strategy, has achieved its annual fundraising targets since inception.

93. **Sustainability and predictability.** The Fund's resource mobilization target increased from USD 90 million in 2017–2018 to USD 120 million in 2021–2022. Pledges amounted to USD 129 million in 2018 and USD 349 million in 2021. As at 30 June 2022, USD 236.3 million in pledges was outstanding; cumulative resources were USD 1,473.95 million, of which USD 211.8 million was from 10.80 million CERs from share of proceeds and USD 982.00 million was from donations; and cumulative receipts amounted to USD 1,193.8 million, with revenue from investment income valued at USD 41.26 million. At its 39<sup>th</sup> meeting, the AFB approved a new resource mobilization strategy and action plan with the aim of diversifying its funding sources and addressing a need for predictable funding and a pipeline of projects yet to be approved.<sup>43</sup>

94. **Adequacy.** The costs of adaptation are likely to be at the upper end of an estimated USD 140–300 billion per year by 2030 and USD 280–500 billion per year by 2050 for developing countries alone. Coherence and complementarity are being strengthened through the Annual Dialogue with Climate Finance Delivery Channels and through the sharing of experience and lessons learned on the Climate Funds Collaboration Platform on Results, Indicators and Methodologies. As at the end of 2018, the LDCF ranked highest in the number of projects implemented through grant financing (219), at a cumulative cost of USD 957 million. The relatively small cost per project (USD 4.37 million) reflects the smaller projects implemented by countries supported by the LDCF than projects of other funds. In comparison, the AF had provided grant resources to 70 projects as at the end of 2018 at a cost of USD 460 million, averaging USD 6.57 million per project.

95. **Accessibility.** As at 30 June 2022, the AF had the following number of accredited entities: 14 MIEs; 9 RIEs; and 34 NIEs (9 of which were LDCs and 7 were SIDS). In terms of regional distribution, of the 33 NIEs, 15 were from Africa, 16 from Latin America and the Caribbean, 11 from Asia-Pacific and 1 from Eastern Europe. Of the 132 projects approved as at 30 June 2022, 72 are being or have been implemented by MIEs, 36 by NIEs and 13 by RIEs. Africa was the largest recipient of grant financing, with 40.7 per cent of the total portfolio, followed by Asia-Pacific with 28.8 per cent and Latin America and the Caribbean with 26.0 per cent. Eastern Europe had six projects approved, representing 3.3 per cent of the total portfolio.<sup>44</sup> Global projects made up 1.1 per cent of the total portfolio.

96. **Effectiveness.** For impact area 1 (a reduction in the vulnerability of communities and an increase in their capacity to adapt to the impacts of climate change), approximately 10.04 million direct beneficiaries and 21.17 million indirect beneficiaries were reached with the support of investments deployed by the AF, including through funding for 414 early warning systems. For impact area 2 (strengthened policies that integrate climate resilience strategies into local and national plans), an estimated 98 policies (at the local, national or regional level) were either introduced or adjusted to address climate change risks. For impact area 3 (increased ecosystem resilience in response to climate change induced stresses), a total of 380,242 ha natural habitats were created, rehabilitated or restored.

97. Furthermore, at its 39<sup>th</sup> meeting the AFB adopted the medium-term strategy for 2023–2027 and would consider an implementation plan at its next meeting in 2023.<sup>45</sup>

<sup>43</sup> AFB document AFB/B.39/14. The strategy is available at <https://www.adaptation-fund.org/wp-content/uploads/2022/10/AFB.B39.6-Draft-Resource-Mobilization-Strategy-clean-Oct.7.pdf>.

<sup>44</sup> AF Annual Performance Report 2022 (AFB document AFB/EFC.30/3/Rev.1).

<sup>45</sup> As footnote 43 above.

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