Working paper 373

The effectiveness of climate finance: a review of the Adaptation Fund

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Abstract

The Adaptation Fund has piloted new approaches to delivering climate finance. The Fund is partly capitalised through a 2% levy on the Clean Development Mechanism. It has played a significant role in scaling up available finance for adaptation in developing countries, albeit from a very low baseline, and operates with high levels of transparency. Early progress on a results framework helped focus the Fund's operations and foster learning. The Fund's innovative sourcing of finance through a CDM levy has generated lower revenues than hoped, however, and substantial questions remain about the predictability of funding. The Fund's pioneering "direct access" arrangements were intended to reduce the costs and complexities of accessing funds, and strengthen recipient ownership of supported programs. Accreditation processes have become more established over time, but in practice ensuring strong coordination and ownership of programs across stakeholders in country is an on-going challenge. This working paper is one of a series of ODI studies of the effectiveness of international climate funds using a common analytical framework.

Acknowledgements

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Summary

FUND PURPOSE AND OBJECTIVES / THEORY OF CHANGE

The Adaptation Fund was established under the Kyoto Protocol to support concrete adaptation projects that would meet the needs of the most vulnerable.

INSTRUMENTS

All funding is provided in the form of grants there are no co-finance requirements, although in practice several programs do involve co-finance. So far, few programs have sought to blend these grants with other forms of finance.

SPENDING

1. Resource mobilisation The Adaptation Fund is financed through monetisation of a 2% levy on emission reductions from the clean development mechanism. Its experience demonstrates that innovative sources can be volatile. It has had to adopt a blended model, raising voluntary contributions from developed countries (and now from private actors). Capitalisation of the Adaptation Fund is modest: it is one of the smallest multilateral climate funds.	USD 188 million from CER monetization (100% deposited) USD 150 million from voluntary pledges (95% deposited)
2. Voice and administration The governance of the AFB gives developing country governments the majority in terms of formal voting voice in decision making. Over time, the fund appears to have established constructive working modalities, and operates in a highly transparent manner. Although civil society does not have an official role in the governance of the fund, informal engagement approaches have emerged. Developing country NGO information on program implementation is perceived to be particularly useful, including for ensuring accountability. Private sector engagement and participation in the fund, however, has been less prominent.	-11 developing / 5 developed countries on board -average annual administration cost of $3.67 million -Board meets with civil society alongside its meetings
3. Investment Strategy and Allocation The Adaptation Fund was intended to prioritise the needs of the vulnerable, particularly vulnerable communities. Although many technical options for operationalizing this principle have been proposed, agreement has been elusive and in practice funds are effectively allocated on a first come first served basis. Substantial effort has been invested in developing an efficient project cycle for delivering funding. Guidance on stakeholder participation has been strengthened over time to allow more inclusive program development that supports engagement of government and non-governmental stakeholders, with the goal of supporting greater ownership.	
4. Disbursement and Risk Management The Adaptation Fund reports on disbursement of funds to implementing entities. To date about 30% of approved finance has been disbursed. Implementing entities in turn report on disbursement towards activities in their annual project performance reports. This information could usefully and easily be incorporated into fund level financial reporting. Implementing entities of the Adaptation Fund do not have to formally demonstrate that they have environmental and social safeguard policies in place. Project review processes have prompted attention to coherence of plans with national EIA and technical standards. So far, stakeholders or project affected communities have not raised many concerns on these grounds. Adaptation Fund supported projects are currently relatively small in size: if larger projects were to be supported, the associated risks might be significantly higher.	- 30% of approved budget has been disbursed to implementing entities (as of January 2013) - Maximum 4 months for the first disbursement after approval of project/programme - 30% of approved budget has been disbursed - 4 months on average for the first disbursement after approval (upon agreement signature)
5. Monitoring, evaluation, and learning Establishment of a basic results framework before the Adaptation Fund started funding projects has helped to give its programs strategic focus. The results framework has a strong focus on outputs and adaptive capacity. Implementing entities report on lessons learned from project implementation as part of their performance reporting, and are also prompted to report against the indicators that they included in their proposals on a periodic basis. A body of work on lessons	The first project was approved in 2011, and there are no interim reports against results framework

	from implementation of the Adaptation Fund is emerging, including analysis from the Adaptation Fund secretariat itself that provides constructive reflection on both progress made as well as challenges encountered.	objectives to date	
PORTFOLIO	As of January 2013, more than half of Adaptation Fund finance supports efforts to improve agricultural practices (such as crop diversification, livelihood diversification, and soil and water conservation). 26% supports flood control and hydraulic management, through improved weather monitoring and early warning systems. 32% has been allocated in Asia and Pacific, 29% in Latin America and Caribbean and 24% in Sub-Saharan Africa.		
OUTCOMES	**6. Scale** The Adaptation Fund is expressly designed to support sub-national level activity, recognising the importance of local level impact to adaptation outcomes. All programs include a sub-national focus, and many programs seek to engage sub-national institutions. Some Adaptation Fund projects seek to direct funding to small projects through a variety of approaches, including support for micro-finance programs at community level. Early reporting suggests that in some cases, making such structures operational can be difficult. It will be necessary to monitor whether the approaches supported are scalable and replicable. The average project size is USD 6.6 million over 4.4 years.		
	7. Enabling Environments Most Adaptation Fund supported programs include some efforts to strengthen underlying policies, laws and regulations that will strengthen adaptive capacity. This is a substantial strength of its portfolio and approach. Early evidence, however, suggests that the implementation of such components of projects is complex. In some countries, political developments have made it difficult to make rapid progress on these aspects of program implementation. This is not surprising given the complexities of strengthening governance processes to support adaptation, and that finance is only one small factor in such efforts. As noted, many of these projects are in their early stages, and it is too early to reach conclusions on likely impact.		
	8. Innovation Many Adaptation Fund supported programs have sought to support the deployment of new technologies in recipient countries, particularly for disaster risk reduction and enhanced food security oriented projects and programs. Further study of country level interventions are necessary to offer more definitive insights into how the Adaptation Fund has been supporting innovation in practice, and what the outcomes of its support are likely to be.		
	9. Catalytic outcomes The Adaptation Fund has played a significant role in raising awareness of climate change and adaptation, although in some countries there is a need to raise the profile of its activities. NIE accreditation has had important catalytic effects by creating interest in other national institutions to demonstrate that they can also meet robust fiduciary, transparency and management standards. Although mobilising the private sector is not an objective of the Fund, in practice many programs have engaged private companies (notably in the tourism sector) both as implementation partners, as well as key targets and stakeholders in program implementation.		
	10. National ownership and sustainability The Adaptation Fund has taken steps to ensure that proposals received are well aligned with national policies and priorities, and reflect wide stakeholder engagement. Direct access has been an important innovation, signalling willingness to work in direct partnership with developing country based institutions. All implementing entities (whether national or multilateral), however, need to be able to work with executing institutions across government and across the country to support a coordinated approach to using climate finance to meet national adaptation needs.		
	ROLE IN THE GLOBAL CLIMATE FINANCE ARCHITECTURE The operationalization of the Adaptation Fund has played an important role in scaling up available finance for adaptation in developing countries, albeit from a very low baseline. It has developed a functional system for delivering adaptation finance that meets high levels of transparency, and has important provisions for accountability and learning. There is a need to ensure that the GCF builds on the operational achievements of the Adaptation Fund, and ensure synergies with its adaptation window.		

Introduction

The Adaptation Fund is an instrument of the Kyoto Protocol, one of three financial mechanisms that support adaptation in developing countries under the United Nations Framework Convention on Climate Change (UNFCCC).[1] The Adaptation Fund has many innovative features, and represents a new model of climate finance governance. It is not wholly dependent on contributions of funding from developed countries, as it is primarily capitalised through a 2% levy on certified emission reductions from the Clean Development Mechanism (CDM). Developing country governments hold the majority of seats on the Adaptation Fund board. The fund finances the full cost of concrete adaptation projects and programs. The fund has also departed from the traditional structures of climate funds where multilateral institutions such as development banks and UN agencies manage projects, to give developing countries the option of “direct access” to finance through their own national institutions. These innovations have inspired the design of new climate finance mechanisms such as the Green Climate Fund (GCF), and efforts to reform existing climate finance mechanisms such as the Global Environment Facility (GEF). But how effective has the fund been as a channel of climate finance?

Five years after its operationalization, and with formal financial architecture of the UNFCCC under renegotiation, the moment is right to take stock of the operations and achievements of the Adaptation Fund. This paper reflects on the effectiveness of the Adaptation Fund with consideration for the processes by which it spends money, and the likely outcomes of the funding that has been delivered. Our review is based on a framework for reflecting on the effectiveness of international climate, developed by ODI through an iterative process of research, analysis and engagement, building on our longstanding program of work monitoring dedicated public finance (Nakhooda 2013). It is part of a series of studies of the effectiveness of dedicated climate funds, released as working papers to stimulate discussion and feedback. These studies will be further revised and refined to respond to comments received, and new developments.

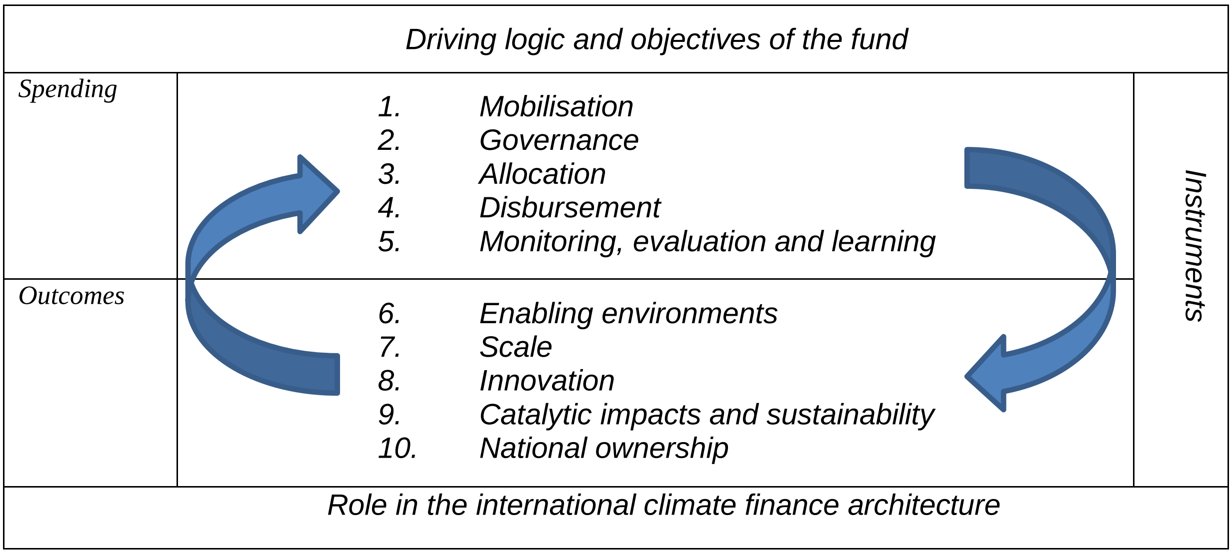
[1] The Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) also support adaptation.

Objectives, Framework and Methodology

As the international community seeks to scale up the delivery of climate finance, there is growing interest in understanding what it takes to spend international climate finance effectively. The goal of this assessment is not to present a comprehensive evaluation of the Adaptation Fund. Instead, we seek to provide an evidence based overview of the operations and achievements of climate finance initiatives, and identify key challenges encountered (and why), and lessons learned for the effective delivery of climate finance. This paper presents a qualitative analysis of the achievements of climate funds complemented with relevant quantitative data, that is cognisant of the context and constraints within which funds operate.

The assessment starts by considering the driving objectives of a multilateral climate fund, setting it in its historical context, and the range of financing instruments that it has been able to offer. The context, objectives, and instruments that a fund offers fundamentally shape what it is able to achieve. We then analyse five interlinked components of **effective spending**, considering the integrity, efficiency and transparency of associated processes: (1) resource mobilisation, as the availability of resources fundamentally affects what a fund is able to support, and the range of outcomes and objectives it is able to achieve (2) the governance of a fund, as this is likely to shape trust in an initiative, and the extent to which it operates in a transparent, inclusive and accountable way (3) an investment strategy and fund allocation process is one of the key outcomes of an effective governance structure, and it is essential to understand the formal processes and informal influences that affect how funding decisions are made (4) Disbursement of funding and risk management in support of approved programs is a key issue of interest, and provides insights into the mechanics of supporting robust activities, and avoiding negative impacts (5) Monitoring, evaluation and learning processes, in order to understand the systems that funds have established to understand impact and strengthen performance.

Figure 1: Framework for understanding the effectiveness of international climate finance



Next, we present a detailed review of the active portfolio of the fund, in order to inform subsequent analysis of the effectiveness of its outcomes, using fund self-reporting complemented with data collected on http://climatefundsupdate.org. The review considers the recipients of funding (type of institution; geographic distribution); the level at which funds have worked; Instruments through which funding was delivered (such as grants, performance based grants; concessional loans, guarantees, equity, etc); and the types of technologies and approaches that have been supported.

On the basis of the portfolio review, we consider five interlinked components that are likely to shape the **outcomes** of global climate funds. We analyse whether the fund has been able to work a variety of (6) scales from global to local, and support both small and large size projects that can be replicated and scaled up. We also consider the funds approach to engaging with (7) enabling environments, and whether it has been able to address underlying policy, regulation and governance that affects the long term viability of low carbon and climate resilient interventions. Next, we review the (8) catalytic effects of the fund, particularly in with respect to the private sector, recognising the diversity of ways in which investment and implementation capacities may be harnessed in support of low carbon climate resilient development. Recognising the central importance of finance for (9) innovation to global efforts to respond to climate change, we analyse the extent to which climate funds support innovative technologies and approaches, including at the local level. Finally, we consider the role of the fund in fostering (10) national ownership and leadership, seeking to understand the role that national institutions have played in identifying funding priorities, and how well its funding has been aligned with emerging national climate change and development priorities.

In completing this analysis, we drew on primary interviews with stakeholders in the fund, and complemented it with selective examples from the portfolio review that illustrate the various approaches that have been taken. Project level reporting on the implementation of approved programs in Senegal, Honduras, Nicaragua and the Cook Islands was available. Where data availability allows it, we complemented our qualitative analysis with quantitative analysis. Nevertheless, given the early stage of implementation of the Adaptation Fund, we were able to analyse the effectiveness of its outcomes with much less precision than the effectiveness of its spending processes. Finally, we analyse the role of the fund in the global international climate finance architecture, and the particular value that it has added.

The Context for Establishing the Adaptation Fund, and its Driving Logic and Objectives

The Adaptation Fund is an instrument of the Kyoto Protocol, and operates under the authority and guidance of the Conference of the parties serving as the meeting of its parties (CMP). While parties agreed to create the Adaptation Fund in 2001 as part of the Marrakech accords, it only became operational in 2009. The fund did not come into effect until the Kyoto Protocol (KP) was ratified in 2005, and subsequent negotiations over its governance and working modalities took almost five years.

Negotiations over the design of the Adaptation Fund had a different dynamic because the source of funding was a 2% levy on the Certified Emission Reductions (CERs) generated by projects under the Clean Development Mechanism (CDM). While the emission reductions resulting from the CDM would be purchased by entities in developed countries, the revenues would accrue to developing countries. As a result, the levy directed a share of funding intended for developing countries towards adaptation (O'Sullivan et al 2011). This bolstered the position of developing countries in negotiating the governance and priorities of the fund. Rules and procedures for the Adaptation Fund were agreed between 2007 and 2009, under the "authority" of the CMP.

The stated objective of the Adaptation Fund is to 'reduce vulnerability and increase adaptive capacity to respond to the impacts of climate change, including variability at the local and national levels' (Adaptation Fund Board, 2010). It seeks to achieve this objective by funding "concrete" adaptation projects, defined as "a set of activities aimed at addressing the adverse impacts of and risks posed by climate change." Funded activities should produce "visible and tangible results on the ground by reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change, including climate variability" (Adaptation Fund, 2011). They must have specific objectives that outputs that can be measured, monitored, and verified. The Adaptation Fund can fund projects and programs at community, national, regional and trans-boundary levels.

A. Instruments

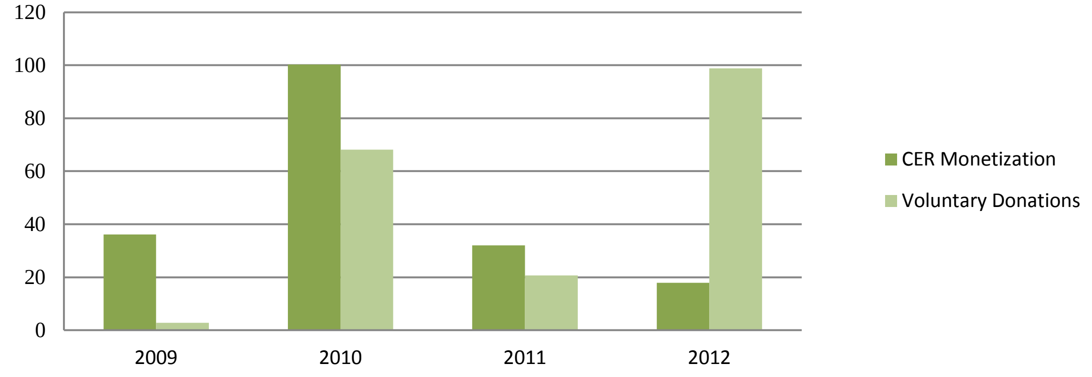
The Adaptation Fund funds the full costs of adaptation projects through grants. There is no requirement for recipients to raise or provide co-finance. In practice, however, several approved projects do include significant co-finance from multilateral implementing agencies as well as national governments. These grants may be used in a variety of ways by recipients.

1 Resource Mobilisation Approach

1.1 Funded committed and terms

As of January 2013, the capitalisation of the Adaptation Fund was $341 million. More than 60% of this funding, $186 million, results from CDM revenue (see box1). Access to such an “innovative” source of finance, it was hoped, would release the Adaptation Fund from the uncertainties of reliance on voluntary contributions of finance from developed countries. At the time, high CER prices were projected, and the levy was predicted to deliver $160 - 950 million by 2020 (Muller 2007). In practice, carbon prices have proven volatile, and the funding raised is at the lower end of expected ranges. An unanticipated consequence of delays to the operationalization of the Adaptation Fund was that it allowed for some accumulation of CERs. Consequently when the fund was ready to support projects and programs it had built up a significant resource base.

Figure 2: CER monetisation and voluntary donations to the Adaptation Fund



Source: Adaptation Fund Board, 2012; Climate Funds Update, 2013

Box 1: The CER Monetisation Program

The 2% adaptation levy is on the CERs generated by CDM projects in developing countries, with the exemption of those projects hosted in Least Developed countries (LDCs). The CERs are administered by the Trustee, currently the World Bank on an interim basis until 2015. The World Bank is responsible for monetizing the CERs in accordance with agreed guidelines through sales on the spot market (liquid carbon exchanges), over the counter, or directly to interested buyers. The buyer's payment goes to the clearing house and then to the Adaptation Fund Trust Fund cash account. The CER Monetization Program has been operational since May 2009.

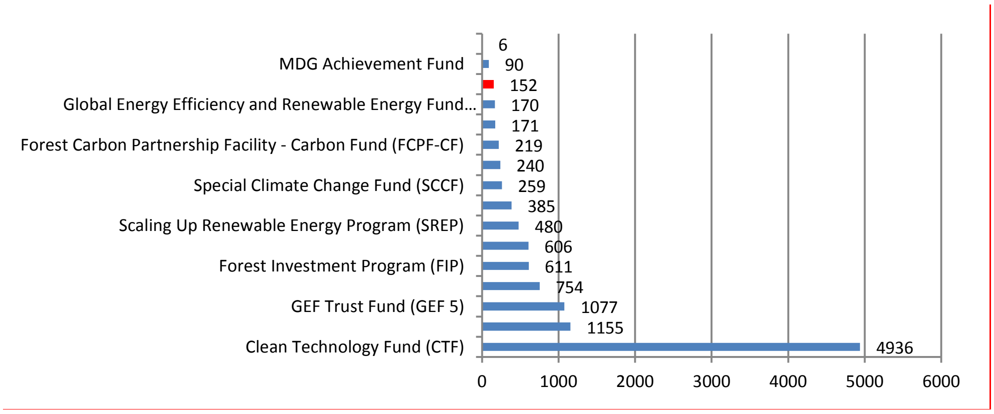
Source: (Adaptation Fund Board, 2012b)

In reality, the fund has been much more reliant on developed country contributions than originally expected. The Fund has received USD 150 million (Climate Funds Update, 2013), mainly from members of the European Union including Spain, Sweden, Germany and the United Kingdom. Nevertheless, support for the Adaptation Fund represents one of the smaller contributions to date from donor countries to multilateral climate finance (Climate Funds Update, 2013; Harmeling & Kaloga, 2011). 95% of pledged funds from contributors have been deposited as of December 2012 (Adaptation Fund Board, 2013)[2].

1.2 Raising new resources

Demand for Adaptation Fund resources substantially exceeds available funding, and current projections suggest that CER revenue is unlikely to have a substantial impact on fund capitalisation because of low carbon prices, which have recently declined sharply. If carbon prices remain between USD 1.8 and 3.3 per tonne, resulting in cash inflows will range from USD 13 to 24 million[3] (Adaptation Fund Board, 2012). To address this deficit, in 2012 the Adaptation Fund has set a fund raising target of additional $100 million by the end of 2013. It has recently partnered with the UN Foundation to seek private contributions of funding, and is also seeking new public contributions.

Figure 3: Cumulative donor country pledged contributions to Multilateral Climate Change Funds



Source: Climate Funds Update, 2013

[2] Brussels Capital Region and Australia pledges are still outstanding. Australian government has extra conditions for delivery, including a guarantee that the fund's activities will not support child-labour.
[3] Estimations were done under the premise that there are no voluntary donations.

Take away messages

- While there has been a substantial focus on the need to mobilise innovative sources of finance for climate change, the Adaptation Fund's pioneering experience demonstrates that innovative sources can be as unpredictable as voluntary contributions from developed country governments.
- The blended resource mobilisation model, which combines (volatile) revenues from CER monetisation with voluntary contributions from developed has been essential to allow it sufficient funding to support programs. Private donations are now also sought.
- Nevertheless the capitalisation of the Adaptation Fund is modest, and this has significantly constrained its ability to support programs

2 Voice and Administration

2.1 Governance of the Fund

The Adaptation Fund Board (AFB) is responsible for the supervision and management of the fund, and is supported by a Secretariat hosted by the GEF on an Interim-basis. The World Bank serves as the Adaptation Fund's interim trustee. The AFB is constituted of Kyoto Protocol party states, and has 16 full members and 16 alternates representing the regional constituencies of the UNFCCC. It is the first multilateral fund to have developing countries holding the majority (69%) of seats on its governing board. Least Developed Countries and Small Island Developing States are a constituency in this board, which is seen to strengthen their negotiating position. This is seen as a significant departure from other funds, where contributor countries often have the greatest formal voice (Harmeling & Kaloga, 2011, Tanner and Allouche 2011. National governments must also appoint designated authorities who must be consulted and approve any proposals for funding for their country. The fact that the Adaptation Fund is not wholly reliant on developed country contributions of funding means that contributor countries yield less informal influence through the process of negotiating funding contributions. It remains to be seen whether this dynamic will change as the resource base of the fund shifts to a greater reliance on developed country contributions.

2.2 Working modalities and administration

Board members take responsibility for accrediting implementing entities through an Accreditation Panel (AP), for reviewing and approving projects and program proposals through a Project and Programme Review Committee (PPRC), and the good practices of the fund through an Ethics and Finance Committee (EFC). The AFB meets regularly (at least 3 times a year), and is able to take decisions inter-sessionally by email and videoconference. It is supported by a 7 person Secretariat4, hosted by the GEF on an interim basis. The cumulative operational expenses of the Adaptation Fund Secretariat, Board and Trustee was USD 18.79 million between January 2008 and December 2012, or an average of $3.79 million per year (Adaptation Fund Board, 2012). Independent audits of the administrative arrangements of the fund are completed on a periodic basis, and the Adaptation Fund also reports on its performance to the AFB through an agreed performance framework.

[4] As of January 2013.

2.3 Transparency and inclusiveness

The AFB works with a significant level of transparency, and has established both formal and informal mechanisms for engaging stakeholders, particularly from civil society. The Adaptation Fund was ranked 17th of 72 institutions in the 2012 Aid Transparency Index, which noted the good availability of public activity level information (Publish What You Fund, 2012), and is the first climate fund to join the International Aid Transparency Initiative (IATI) Information on Board meetings is published on the fund's website both before and after the meetings, which are also broadcast live. PPRC and EFC meeting documentation regarding project review and allocation decision making, is now also made available, in response to requests from interested stakeholders including NGOs (Harmeling 2013).[5]

Civil society organizations have engaged actively with the fund, both in informing its design and operations, as well as in the implementation of projects and programs. Board meetings are open to observers upon the invitation of the Chair and without objections from the members present, although they do not participate in discussions and do not have a formal role in its deliberations.[6] Nevertheless, a number of informal channels of engagement have emerged. An Adaptation Fund NGO network hosted by Germanwatch has been established, and coordinates NGO input on the fund. Channels for engagement have emerged in the form of a 2 hour dialogue session between the AFB and the NGO network either before or during board meetings. The NGO network has been proactive in providing substantive inputs into the deliberations of the fund, and in monitoring the implementation of projects within countries in order to bring local perspectives and information to bear on its deliberations and decisions.[7] The engagement and participation of the private sector in the operation of the Fund has been much less prominent than other stakeholders.

Take away messages

- The governance of the AFB gives developing country governments the majority in terms of formal voting voice in decision making.
- Over time, however, the fund appears to have established constructive working modalities, and operates in a highly transparent manner.
- Although civil society does not have an official role in the governance and decision-making processes of the fund, informal engagement approaches have emerged and are perceived as useful. The knowledge and expertise that NGOs (particularly those based in developing countries) have been able to share on program implementation has been seen as particularly useful, including for ensuring accountability. Private sector engagement and participation in the fund, however, has been less prominent.

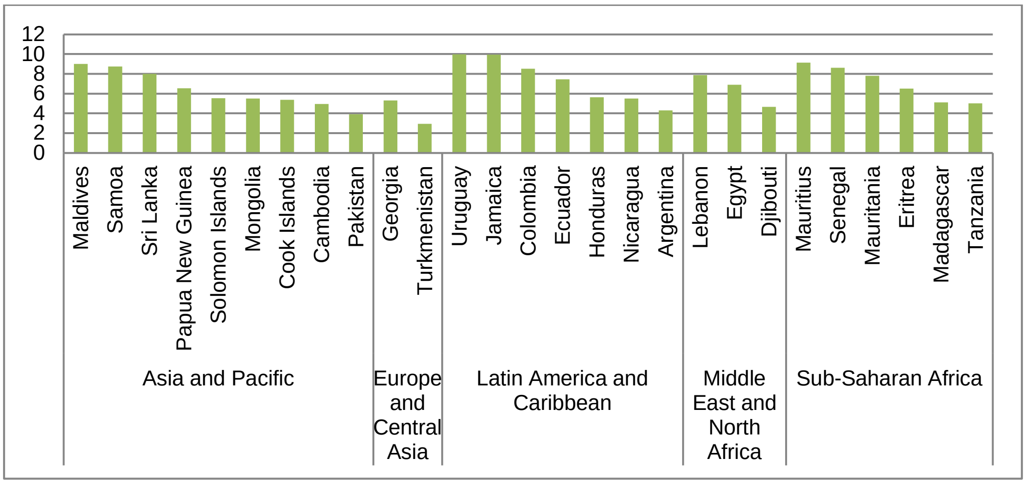
[5] However, reporting on entities that are not accredited and projects that are not approved is anonymised.
[6] Any accredited UNFCCC observer can participate
[7] The addition of an indicator to track the level of civil society engagement with the projects and programmes financed by the Fund, both regarding execution and implementation, has even been requested by the Ethics and Finance Committee as part of the effectiveness and efficiency performance review of the Fund and the Evaluation Framework (Ethics and Finance Committee of the Adaptation Fund, 2012; Adaptation Fund Board, n.d.)

3 Investment strategy and allocation

3.1 Funding decisions

149 developing country parties to the Kyoto Protocol are eligible to access the Adaptation Fund. This has presented a substantial challenge in allocating funding, as there are insufficient resources available to support impactful programs in all eligible countries. The Adaptation Fund is intended to prioritise projects and programs in particularly vulnerable countries (Adaptation Fund Board, 2010 [8]). While efforts were made to agree a set of criteria to ensure a focus on the needs of the most vulnerable, these proved politically contentious and ultimately intractable, particularly in the absence of global agreement on the factors that make countries vulnerable (Remling et al., 2012, Ciplet et al., 2013). As a result, resource distribution has been more ad-hoc, and driven by the readiness of countries to submit credible proposals for approval. In practice allocation has been made on a first come first served basis. However, the amount of funding that a country can receive is currently capped at USD 10 million,[9] in order to ensure more equitable distribution of funding country.

Figure 4: Geographic distribution of the Adaptation Fund portfolio (in USD million)



Source: Adaptation Fund website and Climate Funds Update

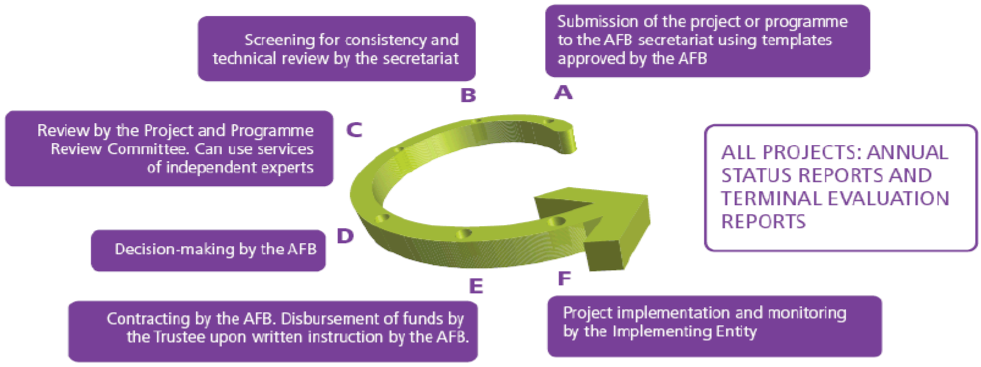
3.2 An expedited project cycle

Projects in eligible countries must be supported by an accredited implementing entity, and endorsed by a national designated authority. For projects requiring more than $1 million in funding, proponents can either submit a concept note for feedback, followed by a full proposal, or move straight to submitting a full proposal. Project formulation funding is available for National Implementing Entities (NIEs) to support the elaboration of approved concepts. Substantial effort has been invested in making the cycle as efficient as possible (see Figure 5). The secretariat conducts an initial screening of the proposal within 15 working days of its receipt,[10] and gives the implementing entity 10 days to respond with any clarifications in response to this initial technical review. Screened projects are then

[8] Includes low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification and developing countries with fragile mountainous ecosystems.
[9] The cap is intended to be flexible, and may be adjusted depending on resource availability
[10] Which must be at least 9 weeks before the next AFB board meeting

submitted to the Project and Program Review Committee (PPRC) at least a week before it meets, which then makes a recommendation to the board about project approval based on whether it meets agreed criteria and contains required information. Approved projects are then contracted, and implementation and monitoring can proceed. The average time from submission to approval for projects that go through the full two-step process was 12.8 months in 2012. The Adaptation Fund secretariat has invested in helping countries understand project screening requirements and processes.

Figure 5: Adaptation Fund Cycle and Approval Process



Source: Adaptation Fund, n.d.

3.3 Direct access

One of the major innovations of the Adaptation Fund has been allowing accredited institutions based in developing countries and regional institutions to access funding directly, rather than requiring all funding to flow through international multilateral institutions. The Adaptation Fund requires all implementing entities to go through an accreditation process, in which they demonstrate that they meet agreed fiduciary standards and will be able to manage funds well. The adoption of these modalities is the result of strong developing country interest in working with institutions based in their own countries and regions, who had a better appreciation of national context and had implementation capacities better aligned with national needs and interests (Craeynest, 2010; Persson 2011). The high administration fees charged by conventional implementing institutions were also a source of concern (Brown et al. 2010). Introducing direct access arrangements required the fund to acquire a legal personality of its own, to be able to enter into contracts with such a new set of institutions, and bear any associated legal risks. Germany agreed to host the Board, conferred it legal capacity through act of parliament in 2009 (O'Sullivan et al. 2011).

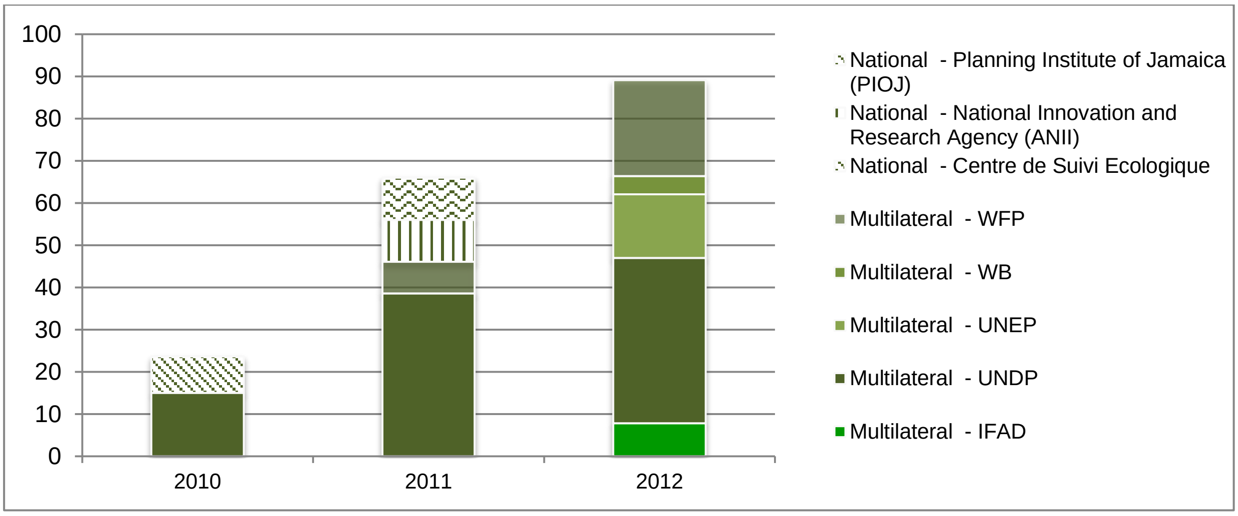
Box 2: Accessing the Adaptation Fund

Implementing Entities (IEs) bear all financial, monitoring and reporting responsibilities for projects and programmes supported by the Adaptation Fund. IEs must demonstrate that they can meet standards in 3 core areas: financial integrity and management; institutional capacity; transparency and self-investigative powers. The Accreditation Panel, constituted of two Board Members and 4 experts, is responsible for accreditation. IEs work through executing agencies, which may include government agencies. National Implementing Entities are legal entities based in Adaptation Fund recipient countries that are accredited as meeting the Board agreed fiduciary standards. Regional Institutions may also be accredited as IEs.

Source: Adaptation Fund, n.d. ; Brown et al.*, 2010*

A full discussion of the direct access is beyond the scope of this paper, but a body of technical work on these issues is emerging. The early stages of this process were challenging, and many of the first applicants for accreditation as National Implementing Entities (NIEs) were not recommended for accreditation (Bird *et al.*, 2011). Over time, however, processes and systems have become clearer to prospect NIEs. 15 NIEs have now been accredited, including institutions in Least Developed Countries and Small Island Developing States, as well as government ministries, including in Rwanda and Jordan. While the Fund does not provide direct support for capacity building to help institutions meet accreditation standards, it has provided expertise, particularly in the workshops organized by the UNFCCC Secretariat.. Several development institutions (including the German Technical cooperation agency GIZ and UNDP) have offered such support. In 2010, the AFB decided to cap the amount of funding that it would channel through Multilateral Implementing Entities (such as UN Agencies and development banks) at 50% of its total funding for projects and programmes. UNDP has played a particularly active role as an implementing entity. Figure 6 shows the current distribution of Adaptation Fund funding through different implementing entities.

Figure 6: Approved Funding by Implementing Entity (in USD million)



Sources: Adaptation Fund website, 2013 and Climate Funds Update, 2013

3.4 Funded projects and programs

In order to access finance, a country must agree on an implementing entity, which then works with executing agencies to develop funding proposals. Guidance emphasises the need for projects to prioritise vulnerable people and communities. It also requires wide engagement of stakeholders within the country at the concept development stage. However, independent NGO analysis found that early proposals took differing and uneven approaches to public consultation (Germanwatch, 2011). As a result, clearer guidance on consultation for project development purposes has been developed (see box 2), and stakeholder engagement must now be documented in project proposals. A review of approved proposals suggests that in most cases a diversity of government agencies have been included, as have local government institutions. Civil society organisations are usually included, and are often implementation partners in project delivery. In general, while documents make reference to engagement of relevant industry associations, there appears to have been less emphasis on private sector engagement in program design, although there are some exceptions: for example in Mauritius there was extensive private sector participation in the development of the coastal restoration approach.

Box 3: Adaptation Fund guidance on stakeholder engagement

At the concept stage, an initial consultative process has to take place, with key stakeholders of the project/programme. Depending on the level of involvement of local communities or governments, private sector, CSOs or universities/ research centres in the execution of the project/programme, those stakeholders may or may not be consulted at the concept stage. Where Project Formulation Grants (PFG) are accessed, these should also be used to facilitate a comprehensive stakeholder consultation process in the project preparation phase.

The documentation of the consultative process should at least contain a) the list of stakeholders already consulted (principles of choice, role ascription, date of consultation), b) a description of the consultation techniques (tailored specifically per target group), c) the key consultation findings (in particular suggestions and concerns raised).

Source: Adaptation Fund Board, 2012d

Take away messages

- The Adaptation Fund was intended to prioritise the needs of the vulnerable. Although many technical options for operationalizing this principle have been proposed, agreement has been elusive, and in practice funds are effectively allocated on a first come first served basis
- Substantial effort has been invested in developing an efficient project cycle for delivering funding
- Guidance on stakeholder participation has been strengthened over time to support more inclusive program development that supports engagement of government and non-governmental stakeholders, with the goal of supporting greater ownership

4 Disbursement and risk management

A significant interest in designing the Adaptation Fund was to find ways to expedite and simplify the project cycle, in order to allow relatively fast disbursement of funding for approved projects. It is instructive to reflect on its disbursement and risk management processes.

4.1 Transparency and efficiency of disbursement

The Adaptation Fund reports on project level fund disbursement to implementing entities: $I78.65 million has been approved (as of January 2013), of which $54.26 million (about 30%) has been disbursed to date to implementing entities. The first disbursement of funding usually takes place within days once the agreement with the Adaptation Fund is signed[11]. A full analysis of whether project disbursement has been aligned with anticipated implementation schedules was beyond the scope of our research: it remains to be seen whether steady disbursement will continue. Further disbursement is contingent on project performance reporting on progress against milestones. Implementing entities are required to report on disbursement of funding to executing entities in these reports to a high level of detail. Reports on implementation at country level are only available for four countries so far, and suggest that in many cases further disbursement beyond implementing entities to executing entities has in fact been quite slow.

4.2 Safeguards

The Adaptation Fund does not have any explicit safeguards to protect against negative environmental or social impacts. Institutions do not have to demonstrate that they have such standards in place in order to be accredited as implementing agencies. This has been a source of some debate: while the Adaptation Fund supports relatively small projects, there is often infrastructure development involved, as well as the introduction of new management and technological approaches, all of which can pose environmental and social risks. Adaptation Fund guidance requires project proposals to document how the needs of the most vulnerable communities are likely to be met. Project proposals are also supposed to make reference to possible associated environmental and social risks, and suggest mechanisms to deal with these risks. The Adaptation Fund recognises the risks of supporting programs that result in maladaptation, and calls for impact assessment in such cases, calling for proposals to "describe how it addresses possible threats, risks of maladaptation or imbalances caused in a wider region, or upstream/ downstream to other communities and ecosystems" (Adaptation Fund Board, 2012d, p.5). The Secretariat and PPRC reviews of proposals have often sought greater clarity on this issue. The Adaptation Fund proposal review criteria also require identifying and stating compliance with national technical standards including environmental assessments and building codes. In practice, several proposals do make reference to the relevance of local environmental impact assessments (EIA) legislation and regulations to program implementation, however, such due diligence is not universally or consistently reflected. Stakeholders reported only one instance in which concerns had been raised about proposed projects, noting that the basis for these concerns had not been substantiated in the case in question.[12]

Any complaints related to the Adaptation Fund can be filed with its secretariat, who will address the issue with the correspondent implementing entity. There is no independent

[11] It should take no more than 4 months for an agreement to be signed with the Implementing Entity after it has been notified of project approval.

[12] Reportedly, some civil society groups raised concerns regarding an early iteration of the Ghanaian proposal to the Adaptation Fund

grievance mechanism in place at present, although the Ethics and Finance Committee is exploring the establishment of such an arrangement.

4.3 Risk management and accountability

In the event of mismanagement of funding the Board is able to suspend the transfer of funds and also the cancellation of accreditation of implementing entities. Independent investigations of implementing entities can be conducted at any time during its 5 year of the accreditation period.[13] Under the recommendation of the Ethics and Finance Committee, the Board also 'reserves the right to reclaim all or parts of the financial resources allocated for the implementation of a project/programme, or cancel projects/programmes later found not to be satisfactorily accounted for' (Adaptation Fund Board, 2010a). The EFC reports annually on the cancellation of projects. Reasons for suspension or cancellations of projects may include financial irregularities in the implementation and material breach and poor implementation performance leading to a lack of accomplishments in the project/programme's objective: so far, however, there have been no cancellations.

Take away messages

- The Adaptation Fund reports on disbursement of funds to implementing entities. To date about 30% of approved finance has been disbursed. Implementing entities in turn report on disbursement towards activities in their annual project performance reports. This information could usefully and easily be incorporated into fund level financial reporting.
- Implementing entities of the Adaptation Fund do not have to demonstrate that they have environmental and social safeguard policies in place. Project review processes have prompted attention to coherence of plans with national EIA and technical standards. So far, stakeholders or project affected communities do not appear to have raised many concerns on these grounds. Adaptation Fund supported projects are currently relatively small in size: if larger projects were to be supported, the associated risks might be significantly higher.

5 Monitoring, evaluation and learning

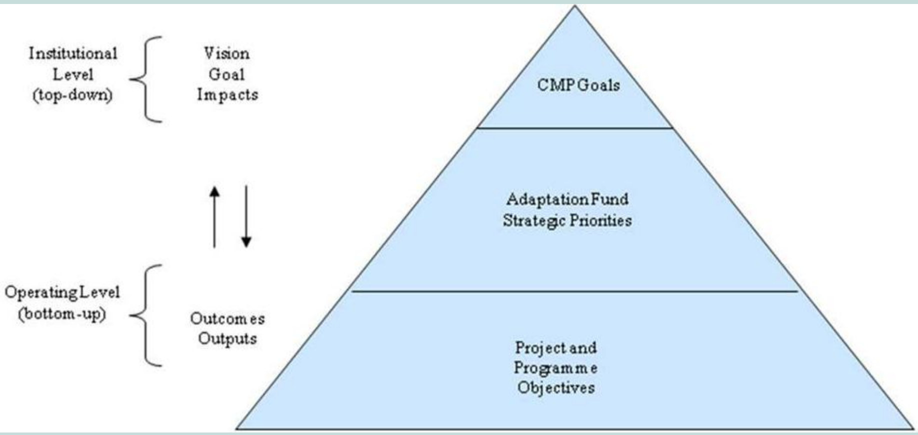
Development of a Strategic Results framework against which Adaptation Fund impacts and achievements would be assessed was an early effort of the Adaptation Fund. A framework was approved by the Board prior to the approval of its first project, and all projects must specify how they will help contribute to the objectives and outputs of the Adaptation Fund. Development of the results framework capitalised on the capacities of the GEF Evaluation Office, which had also developed results frameworks for the Least Developed Countries Fund and the Special Climate Change Fund.

5.1 Key elements of the framework

The framework is structured around seven expected outcomes and associated indicators (see box 4) for the fund as a whole. All projects are not required to address all objectives.

[13] With three months' notice

Adaptation Fund Strategic Results Framework



Goal: Support vulnerable developing countries that are Parties to the Kyoto Protocol to take own climate resilient measures.

Impact: Increased resiliency at country level to climate change, including climate variability.

Strategic Priorities:

SP1: Assist the developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation

SP2: Finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties

Objective 1: Reduce vulnerability to the adverse impacts of climate change, including variability at local and national levels.

Objective 2: Increase adaptive capacity to respond to the impacts of climate change, including variability at local and national levels.

Objective	Indicators
Outcome 1: Reduced exposure at national level to climate-related hazards and threats	1. Relevant threat and hazard information generated and disseminated to stakeholders on a timely basis
Output 1: Risk and vulnerability assessments conducted and updated at a national level	1.1. No. and type of projects that conduct and update risk and vulnerability assessments 1.2 Development of early warning Systems
Outcome 2: Strengthened institutional capacity to reduce risks associated with climate-induced socioeconomic and environmental losses Output 2.1: Strengthened capacity of national and regional centres and networks to respond rapidly to extreme weather events Output 2.2: Targeted population groups covered by adequate risk reduction systems	2.1. No. and type of targeted institutions with increased capacity to minimize exposure to climate variability risks 2.2. Number of people with reduced risk to extreme weather events 2.1.1. No. of staff trained to respond to, and mitigate impacts of, climate-related events 2.1.2. Capacity of staff to respond to, and mitigate impacts of, climate-related events from targeted institutions increased 2.2.1. Percentage of population covered by adequate risk-reduction systems 2.2.2. No. of people affected by climate variability
Outcome 3: Strengthened awareness and ownership of adaptation and climate risk reduction processes at local level Output 3: Targeted population groups participating in adaptation and risk reduction awareness activities	3.1. Percentage of targeted population aware of predicted adverse impacts of climate change, and of appropriate responses 3.2. Modification in behaviour of targeted population 3.1.1 No. and type of risk reduction actions or strategies introduced at local level 3.1.2 No. of news outlets in the local press and media that have covered the topic

Outcome 4: Increased adaptive capacity within relevant development and natural resource sectors Output 4: Vulnerable physical, natural, and social assets strengthened in response to climate change impacts, including variability	4.1. Development sectors' services responsive to evolving needs from changing and variable climate 4.2. Physical infrastructure improved to withstand climate change and variability-induced stress 4.1.1. No. and type of health or social infrastructure developed or modified to respond to new conditions resulting from climate variability and change (by type) 4.1.2. No. of physical assets strengthened or constructed to withstand conditions resulting from climate variability and change (by asset types)
Outcome 5: Increased ecosystem resilience in response to climate change and variability-induced stress Output 5: Vulnerable physical, natural, and social assets strengthened in response to climate change impacts, including variability	5. Ecosystem services and natural assets maintained or improved under climate change and variability-induced stress 5.1. No. and type of natural resource assets created, maintained or improved to withstand conditions resulting from climate variability and change (by type of assets)
Outcome 6: Diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas Output 6: Targeted individual and community livelihood strategies strengthened in relation to climate change impacts, including variability	6.1 Percentage of households and communities having more secure (increased) access to livelihood assets 6.2. Percentage of targeted population with sustained climate-resilient livelihoods 6.1.1.No. and type of adaptation assets (physical as well as knowledge) created in support of individual- or community-livelihood strategies 6.1.2. Type of income sources for households generated under climate change scenario
Outcome 7: Improved policies and regulations that promote and enforce resilience measures Output 7:	7. Climate change priorities are integrated into national development strategy 7.1. No. type, and sector of policies introduced or adjusted to address climate change risks 7.2. No. or targeted development strategies with incorporated climate change priorities enforced

Improved integration of climate-resilience strategies into country development plans	

While welcomed as a useful contribution, analysts have observed a reliance on output based indicators in monitoring progress, rather than a focus on outcomes of funding (Persson 2011, Stadlemann et al 2011). Outcomes of adaptation finance are difficult to distinguish from wider development, and it is quite difficult to establish causal linkages with Adaptation Fund funded projects. Project proposals in turn propose specific indicators against the outcome areas and generic results categories that the framework identifies.

5.2 Accessibility and practicality

Fund level monitoring and evaluation is based on the information provided by each of the projects and programmes. Implementation Entities complete annual project/programme performance reports (PPR). There is a need for additional guidance on how to report against indicators in order to reduce scope for differing interpretations and enable comparability and aggregation of results. The Project Performance Template (see Box 5) prompts project implementers to report on lessons learned from program implementation in real time, explain the reasons for any changes in approach and delays, and report on an interim basis against the indicators that they committed to use for results management. This represents an important effort to make information on implementation available in real time. In practice, PPRs usually include some useful insights into progress made, but have yet to include any information on results achieved as full reporting is required at the mid and end term.

Box 5: The Project/Programme Performance Report Template

The PPR template includes (a) the overview of the project, (b) financial information, including expenses and co-financing[14], (c) procurement data for all contracts over USD 2500 and for all the bids for each of the contracts signed (in public reporting does not include details on contractors as this information may be sensitive) (d) a risk assessment, including the risks identified during the project preparation phase and mitigation actions, as well as risks not identified previously, and comments on risk mitigation measures occurred during the reporting period, (e) an auto rating report on implementation to be completed by the project coordinator and the IE, with a 6 level range from highly unsatisfactory to a highly satisfactory, (f) a recall of projects indicators and their progress since inception, (g) qualitative measures and lessons learned, to be completed annually for implementation and adaptive management, and for the mid-term review and project completion lessons learned on climate resilient measures, concrete adaptation measures, impact at community and national level and knowledge management. Finally, the PPR template also includes a Results Tracker to connect the progress of the projects and programs with Adaptation Fund level outcomes and indicators.

Source: PPR Template

[14] Co-financing data is only required for mid-term reviews and final years.

5.3 Learning and improvement

In March 2012, an Evaluation Framework was approved for the Fund as a whole, with the goal of ensuring that both evaluative and learning functions are supported by the results framework and associated reporting. The Framework requires (i) preparation and submission of baselines (ii) mid-term[15] and final evaluations for all projects and programmes (iii) performance evaluation for Implementing Entities (iv)and performance evaluation of the Fund as a whole. There is an emerging emphasis on management and learning guided by a Knowledge Management Strategy and Work Plan, which aims to improve the design and effectiveness of future adaptation projects and programs, and helping raise the profile of climate change adaptation as a global priority (Adaptation Fund Board, 2011).

In this context, the Adaptation Fund has begun to conduct learning missions to project sites: missions to Senegal and Ecuador have been completed so far. Mission reports have highlighted both progress made as well as challenges encountered, and reflected on options for strengthening practice in the future. In addition, the NGO network on the Adaptation Fund has recently compiled independent lessons learned from program implementation at country level.

Take away messages

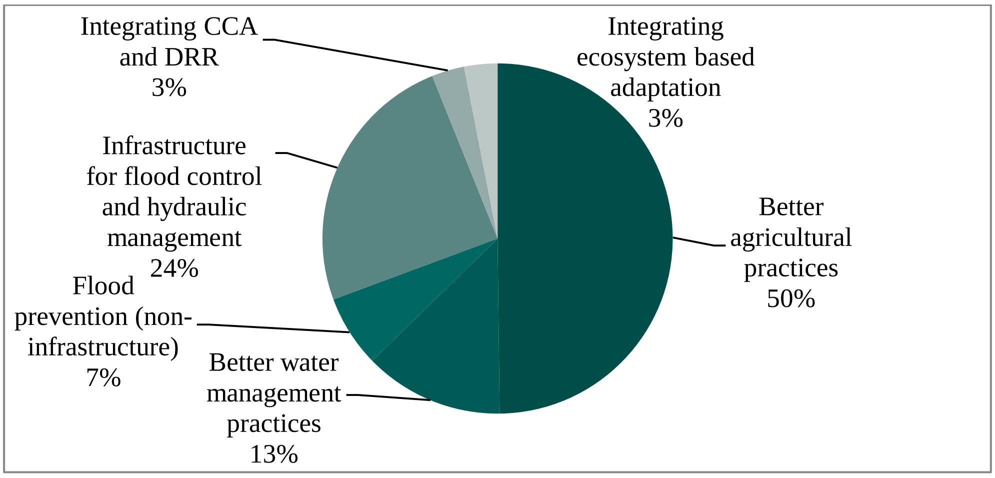
- The fact that the Adaptation Fund had a basic results framework in place before it started funding projects has helped to give its programs some strategic focus. The results framework has a strong focus on outputs and adaptive capacity.
- Implementing entities report on lessons learned from project implementation as part of their performance reporting and are also prompted to report against the indicators that they included in their proposals on a periodic basis.
- A body of work on lessons from implementation of the Adaptation Fund is emerging, including analysis from the Adaptation Fund secretariat itself that provides constructive reflection on both progress made as well as challenges encountered.

[15] A mid-term evaluation is required to all projects with a duration of 4 years or more, to be conducted at the end of the second year.

Portfolio review

Through January 2013, the Adaptation Fund has approved $ 179 million for 27 projects and programs. Efforts to improve agricultural practices and strengthen food security have received the majority of funding so far, followed by infrastructure to protect against flooding and improve hydraulic management, particularly in coastal areas (see figure 4). Non-infrastructure based approaches to flood prevention, ecosystem based adaptation, and efforts to integrate climate change into DRR together account for about 13% of the portfolio. While most approved programs include both enabling activities to strengthen laws, policies and capacities that support adaptation to climate change alongside investments in infrastructure, new management approaches and technologies, the latter "hard investments" have received the majority of allocated finance. Country proposals usually bring multiple projects together into a single program with different executing entities

Figure 7: Adaptation Fund Portfolio



Source: Annex II – Adaptation Fund Portfolio Review

B. Effectiveness in achieving outcomes

On the basis of this portfolio review, we now turn to consider the outcomes that the Adaptation Fund has achieved in practice to date. Much more information was available on processes for spending climate finance, than on outcomes given the early stage of impact reporting. However, we have been able to complement our insights from the portfolio review and associated project documentation, with the information contained in the first set of project performance reports from implementing entities of the Adaptation Fund in the Solomon Islands, Senegal, Nicaragua and Honduras. Furthermore, a recent study from the NGO network on the Adaptation Fund (Adaptation Fund NGO Network 2013) presented independent insights into the progress of the fund so far; however, in general there is limited secondary literature on the achievements of the fund in practice. This analysis would be usefully complemented with more in depth case studies that seek to explore the impacts of supported interventions. This is an important area for future work, that has unfortunately been beyond the scope of this initial assessment.

6 Scale

There is wide recognition that the impacts of climate change will be highly localised, and that there is a real need to ensure that stakeholders at sub-national level are beneficiaries of adaptation efforts and adaptation finance.

6.1 Supporting activities at a diversity of scales

Engagement at difference scales is a significant focus of the Adaptation Fund. All approved programs include both national components, as well as sub-nationally focused elements. Table 2 presents a typology of the Adaptation Fund's approach to engaging at sub-national level[16].

The small program size requires a strategic choice of which local areas in which to engage: some project proposals propose criteria against which potential sites were considered, and then stakeholder engagement resulted in a final selection of the focus of the fund. Some project proposals identify criteria that justify the choice of where the programs will work. In many cases, the choice is based on stakeholder engagement and the priorities and interests of local level implementation partners. In the Solomon Islands, interim reporting suggests that the support of the Adaptation Fund has allowed greater participation and engagement of provincial level government in the design of the national climate change policy. In Senegal, interim reporting suggests that good progress has been made in one city, but procurement

[16] We have developed a typology for implementation at different scales, reflecting the activities and objectives of the projects/programmes supported by the Adaptation Fund.

challenges, and a lack of familiarity with the program and the need to ensure coordination with other development actors, has resulted in delays to the construction of coastal protection facilities in two other regions.

Independent analysis of the experience of the Adaptation Fund highlights the need for greater engagement with sub-national and community level stakeholders to ensure effective project implementation, and to ensure that local people share in the benefits of the programs (Adaptation Fund NGO Network, 2013).

	Funding (USD millions)	Projects
National policy measures with pilots at community level	10.70	2
Sub-national measures with national policy and institutional implications	15.89	2
Ecosystem-based measures with sub-national and national institutional and policy impact	19.52	3
Sectoral measures at community and sub-national level, for national institutional and policy impact	27.67	5
Community measures with subnational and national institutional/policy impact	29.44	5
Community measures with national institutional/policy impact	34.27	4
Community measures with sub-national institutional and policy impact	41.16	6
Total	**178.65**	**27**

6.2 Has the fund been able to support both small and large projects? How has it sought to scale up and replicate its approaches?

The allocation of finance to individual countries is capped at US$ 10 million. The small average project size for the Adaptation Fund is $6.7 million, and range from $4 million to $ 10 million. Larger projects do tend to be concentrated in middle income countries, (although the smallest project is in the emerging economy of Argentina). Most approved projects include sub-components that direct funding to smaller scale projects, including by providing direct funding to NGOs where they are able to demonstrate adequate fiduciary management capacities, as well as through micro-finance projects (which is substantial focus of proposed programs in Djibouti as well as Egypt). Early project performance reporting, however, suggests that implementation of these smaller scale programs has often been complex. For example, in the Solomon Islands, project reporting notes that additional time was needed to understand NGO partners financial management capacities, and ultimately the decision was taken to make direct payments rather than transferring funds.

Take away messages

- The Adaptation Fund is expressly designed to support sub-national level activity, recognising the importance of local level impact to adaptation outcomes. All programs include a sub-national focus, and many programs seek to engage sub-national institutions.
- Many Adaptation Fund projects seek to direct funding to small projects through a variety of approaches, including support for micro-finance programs at community level. Early reporting suggests that in some cases, making such structures operational can be difficult.
- It will be necessary to monitor whether the approaches supported are scalable and replicable.

7 Enabling environments

Policy, regulatory and governance frameworks fundamentally shape the viability of investment in low carbon and climate resilient approaches. Public finance can be used to strengthen the underlying "enabling environment for climate finance", and helping address the various risks and barriers of different stakeholders. The portfolio of the Adaptation Fund has a substantial focus on programs that seek to strengthen adaptive capacity.

7.1 A focus on policy, regulation, and capacity

Most projects have at least one component focused on strengthening legal and policy frameworks relevant to the intervention, and incorporating climate change into sectoral policies and approaches. They have often sought to strengthen the capacity of institutions to address climate change as well, including through training, awareness raising and direct support to new institutional structures. In some cases, for example Mauritius, programs have sought to address overarching financial barriers to investment through demonstration projects. Some programmes have also sought to help incorporate climate change considerations into financial and economic decision making and investment decisions made by public agencies. Several projects also aim to strengthen participatory decision-making around climate change related programs. Approved programs are often lumpy, however, and the larger share of the funding often allocated to infrastructure programs.

7.2 The experience to date

Most projects are in their early stages, so it is difficult to provide insight into their effects on strengthening policies, regulations and governance. The first four project performance reports suggest that in some cases there has been substantial progress. For example, a major achievement in the first phase of implementation of the Solomon Islands community resilience program has been the enactment of a national climate change strategy, through a process that included provincial input and perspectives. In Senegal, a major objective of the program was to support the development of a littoral law and the Environmental Code: progress has been made in advancing both these legal and regulatory measures, however, they are awaiting formal adoption.

In Honduras, however, program implementers have found it more difficult than expected to advance water management laws as a result of political developments. As a result, anticipated efforts to support and empower a National Water Authority who would seek to reform water pricing to support adaptation action are unlikely to proceed. Instead, the program will have to take a more technical approach focused on strengthening the implementation capacities of existing institutions, and improving the availability of information through improvements to meteorological stations, ground water inventories, and surface water studies.

Early reviews of project experience point to a possible tension between the recognised need to have a robust information base on which decisions are made as a legitimate focus for interventions, and the preference of stakeholders within countries (particularly at community level) for visible physical investment. For example stakeholders in the focus communities of the Pakistan Glacier Lake Overflow program are reported to have expressed reservations about the research components of the proposed program, and a preference for more investment in physical assets (Adaptation Fund NGO Network, 2013). Yet investment in such programs without a robust information basis would pose substantial risks of mal-adaptation, and the research components of the program have a crucial function.

Take away messages

- Most Adaptation Fund supported programs include some efforts to strengthen underlying policies, laws and regulations that will strengthen adaptive capacity. This is a substantial strength of its portfolio and approach
- Sustained and strategic engagement on these issues is necessary and important for the Adaptation Fund, and it is too early to reach conclusions on this count
- Early evidence, however, suggests that the implementation of such components of projects has proven to be complex. In some countries, political developments have made it difficult to make rapid progress on these aspects of program implementation. This is not surprising given the complexities of strengthening governance processes to support adaptation, and that finance is only one small factor in such efforts
- As noted, many of these projects are in their early stages, and progress may still be possible Future work might seek to better understand the experience of the Adaptation Fund in supporting policy, regulatory and governance strengthening through more detailed case studies

8 Catalytic outcomes

An exploration of the catalytic impacts of the Adaptation Fund provides a lens through which to consider the diversity of ways in which public finance can mobilise action and investment. In this section, we pay particular attention to the role that the Adaptation Fund has played in catalysing private sector action.

Early evidence suggests that the Adaptation Fund has had an important role in raising awareness of climate change and the need to adapt within recipient countries, although in some countries there is a need to strengthen awareness of the scope and operations of the programs that are being supported. Many stakeholders observe that the process of accrediting NIEs has had important catalytic effects by demonstrating that it is possible for institutions based in developing countries to meet agreed fiduciary standards. They report that this has prompted interest in investing in strengthening the financial management capacities of other institutions within these recipient countries.

Several Adaptation Fund supported infrastructure projects are intended as demonstration pilots by national governments. The execution of infrastructure projects has sometimes been advanced through private partnerships: for example in Senegal, infrastructure upgrades in Saly will be delivered by a private company, through expedited contracting. Procurement has been challenging in practice, however.

Catalysing private action

Mobilising private investment is not a particular focus of the fund, and applicants do not need to demonstrate that they will be mobilising co-finance, or private sector action. However, in practice, many Adaptation Fund supported projects do engage the private sector. Several programs have sought to support adaptation in coastal regions that attract substantial tourism. As a result, there has been recognition of the central role that private companies play in this sector and their role as stakeholders in the implementation of programs. Consequently the Adaptation Fund supported program in Mauritius reflects substantial dedicated outreach by the government and UNDP to private sector stakeholders in the region, recognising that some companies are already making significant private investments in coastal restoration. The proposed project is intended to help demonstrate how new technologies can be used in making such investments, and will also support the development of handbook on improved engineering techniques for coastal restoration that is aimed at supporting future investments in such activities. The extent to which these approaches will have their intended demonstration effect and help shift approaches to coastal restoration, remains to be seen, as the program is in its very early stages. Similarly, disaster risk reduction strategy trainings in Jamaica have private sector tourism and hospitality companies in the region of Negril as a particular target audience. Again, it remains to be seen how private targets of the program will engage given the early stages of implementation.

Some efforts have sought to help shift incentives to support more adaptive management, although these have not been an overarching focus of the fund's activities. In Honduras, the program sought to support a program of work on ecosystem valuation in Tegucigalpa, in order to help improve water pricing and regulation to reflect climate risk. The goal is for the insights from these efforts to inform water management policies and processes.

Take away messages

- The Adaptation Fund has played a significant role in raising awareness of climate change and adaptation, although in some countries there is a need to raise the profile of its activities
- NIE accreditation has had important catalytic effects by creating interest in other national institutions to demonstrate that they can also meet robust fiduciary, transparency and management standards
- Although mobilising the private sector is not an objective of the Fund, in practice many programs have engaged private sector actors both as implementation partners, as well as key targets and stakeholders in program implementation

9 Innovation

As noted, the Adaptation Fund has many innovative design features. Adapting to climate change will necessarily involve innovation on many levels, however, in terms of the technologies and approaches that are used to meet development needs, the capacities of national level institutions and in terms of individual actions. It is therefore useful to reflect on how the Adaptation Fund has supported innovation at a variety of scales, although supporting innovation has not been one of its explicit objectives.

The Adaptation Fund has approved substantial support for programs that reduce disaster reduction. In this regard, many projects and programs have sought to improve the weather monitoring systems and early warning systems. For example in Honduras, early project performance reports not progress is being made in identifying sites for new observatories, and over the course of the year more advanced monitoring technologies will be introduced in both new observatories as well as in existing systems. The process is to be managed through a coordinated inter-agency committee, with a data concentration centre. Similarly, the Adaptation Fund is also supporting programs to improve information about resource availability and changes. In Nicaragua, for example, electronic systems for monitoring water levels in river basins are to be introduced. Many programs also seek to strengthen food security, and in this context to introduce new land management techniques, and crop varieties that will be more resistant to the impacts of climate change. In Egypt, for example the Food and Agriculture Organization of the United Nations (FAO) will partner with selected villages to pilot the use of heat resistant crops. It will also work with villages and communities to explore options for income diversification based on previous research and analysis about viable options.

Several programs seek to partner with local research and technical institutions who can bring technical expertise and knowledge to bear on the implementation of programs with a focus on new technologies. Through such partnerships, it may be possible to foster learning and strengthen the innovation capacities of diverse actors.

The preceding discussion has highlighted Adaptation Fund's support for innovative technologies: such interventions are generally easier to identify through the high level desk reviews that have been central to this study. While several programs seek to support community level resilience through diversification of livelihoods, it has been less clear whether there has been a focus on individual capacity to innovate or autonomous innovation through such interventions. There is also some evidence that projects and programs are also supporting less established finance approaches, for example by exploring pooled finance mechanisms in Egypt that would allow collective repayment of loans for improved agriculture. We recognise, however, that "innovative" is a relative term, and further study is needed to better understand whether and how the Adaptation Fund has supported innovation in practice within recipient countries.

Take away messages

- Many Adaptation Fund supported programs have sought to support the deployment of new technologies in recipient countries, particularly for disaster risk reduction and enhanced food security oriented projects and programs
- Further study of country level interventions are necessary to offer more definitive insights into how the Adaptation Fund has been supporting innovation in practice, and what the outcomes of its support are likely to be.

10 National ownership and sustainability

The need for climate finance to be well aligned with national priorities, and to work in partnership with national institutions and stakeholders is a well-accepted principle of international climate finance. Lessons from development finance also confirm the centrality of ownership to long term effectiveness. It is therefore important to reflect on the emergent Adaptation Fund experience in this context.

10.1 Alignment with national policies and strategies

All Adaptation Fund supported projects must document how they build on existing development and climate change policies and strategies, even if they seek to support efforts to strengthen or reform associated policies and programs. This is a central aspect of ensuring ownership of supported projects. As noted previously, the need to ensure active stakeholder participation (particularly at community level) during project implementation is a key requirement for ensuring ownership and effective outcomes, especially given the Adaptation Fund's focus on local level engagement. Efforts are being made to insulate projects from political changes and developments. For example, in some countries implementing agencies have entered into agreements with executing agencies to commit to programs even if there are political changes. However, political developments inevitably affect projects implementation in practice, and may result in delays.

Much attention has focused on the Adaptation Funds' efforts pioneering efforts to open up access to finance to developing country based institutions alongside international multilateral organisations, as long as they can demonstrate that they can meet minimum fiduciary standards. The decision to accredit national implementing entities and regional implementing entities has had enormous symbolic value, signalling the funds willingness to work in direct partnership with developing country based institutions. The experience with direct access, however, suggests that while channelling funding through national institutions can be an important step towards strengthening ownership, it is just one step in this direction (Bird et al 2011).

The choice of NIE matters and its engagement with national level institutions will shape the extent to which it reflects national priorities. Learning missions to Senegal, for example, concluded that it had taken some time for national institutions (including development partners) to acknowledge the status of the accredited NGO as a national implementation partner. Furthermore, some government institutions saw the NIE as too closely aligned with the priorities of the Ministry of Environment, rather than an institution that was part of Senegal's national efforts to respond to climate change. It remains to be seen whether accredited government ministries in Jordan and Rwanda, both of which represent environmental interests, will be able to support a coordinated national approach to adaptation finance. However, the Senegalese NIE has been quite effective in disbursing and managing funds, and has been able to work with capable NGO partners who bring substantial local expertise (including in gender issues) towards program execution.

10.2 The importance of coordination and stakeholder engagement

In many countries, the Adaptation Fund program has supported the creation of inter-ministerial and inter-agency coordination bodies that oversee program implementation. This is seen as an important achievement of programs in both the Solomon Islands and Honduras. In Honduras, the Adaptation Fund is supported by a Climate Change Inter-institutional Committee (CCIC), a political and technical platform that advises government that includes representatives of government, universities, development partners, and more than 40 NGOs. Some NGOs accredited as NIEs have invested substantial time and effort in creating a governance structure that embeds it in official decision-making processes, and an associated strategy for adaptation finance before seeking access to the fund. The South African National Botanical Institute, for example, has created a governing committee that includes the Ministry of Environmental Affairs, the Development Bank of South Africa, and National Treasury as advisors. It recently opened a call for proposals within South Africa, and the results of screening applications will be the basis its proposal to the fund. Such an approach can be time consuming and cumbersome, however. While it is too early to comment on the effectiveness of these working arrangements in practice, these are noteworthy developments.

Take away messages

- The Adaptation fund has taken steps to ensure that proposal received are well aligned with national policies and priorities, and reflect wide stakeholder engagement
- Direct access has been an important innovation, signalling willingness to work in direct partnership with developing country based institutions
- All implementing entities (whether national or multilateral), however, need to be able to work with executing institutions across government and across the country to support a coordinated approach to using climate finance to meet national adaptation needs
- Direct access is an important innovation, but there is a need to ensure that accredited entities are able to help support a coordinated approach to climate finance
- The engagement of different parts of government, as well as non-governmental agencies is crucial in this regard

Conclusion: Role in the global climate finance architecture

The innovative design features of the Adaptation Fund have inspired many stakeholders in the international climate finance community as they seek to design new climate finance institutions. It is therefore helpful to consider the particular contribution that the Adaptation Fund has made in global efforts to delivery climate finance.

The operationalization of the Adaptation Fund has played an important role in scaling up available finance for adaptation in developing countries, albeit from a very low baseline. It has developed a functional system for delivering adaptation finance that demonstrates high levels of transparency. The formal decision-making processes of the Adaptation Fund give developing countries including least developed countries and small island developing state substantial formal voice. This has given it substantial legitimacy with developing country governments and many NGOs.

Early progress on a results framework has helped focus the Fund's operations and can foster learning

A basic results framework was in place before the Adaptation Fund made its first investments. The framework has provided strategic guidance on the general objectives and priorities of the fund. The fund supports a diversity of programs and approaches, but all must link to its core objectives. A major innovation of the fund is that it requires recipients to report in real time on their achievements, and makes these reports publicly available. As a result, it is now possible to reflect in substantial detail on the dynamics of program implementation. While reporting systems can always be improved and strengthened, this effort represents a crucially important step forward for understanding the effectiveness of climate finance. The fund has also invested in constructive reflection on its experiences. Reports have laid open some of the difficult realities of project implementation, while also highlighting real and encouraging progress on many counts. This should allow substantial learning, and help support continuous improvement, as well as creating substantial accountability for good implementation.

New approaches to ownership

Much attention has focused on the Fund's work through national implementing entities. This approach to working in direct partnership with national level institutions has the potential to strengthen leadership and ownership of programs supported. Early results from projects supported by NIEs suggest that they have been able to forge partnerships with diverse executing agencies at sub-national level, and disburse funding relatively quickly. The engagement and involvement of relevant government institutions as well as diverse stakeholders within a country, however, still requires substantial effort and investment, even when programs are implemented by NIEs. A significant emerging strength of the Adaptation Fund has been its emphasis on strong stakeholder engagement in the development and implementation of projects and programs, as well as the requirement to build on (and strengthen) existing policies and processes. The fund has placed a signficant focus on local level programs. Many programs seek to engage sub-national level stakeholders including local governments and communities directly.

The limits of innovative sources of finance

The resources available to the Fund are modest despite the fact that it is linked to innovative sources of finance. $186 million in revenues that have materialised from the CDM levy have been far lower than initially hoped. With carbon prices at a new low, and substantial uncertainties around future carbon markets, it seems unlikely that the levy will be a reliable or predictable source of funding in the future. The fund is increasingly reliant on voluntary contributions from developed countries. These contributions have been relatively small, however. Pledges to the Adaptation Fund are less than one third of pledges to the Pilot Program on Climate Resilience, for example. This suggests a lack of confidence in the fund from developed countries.

What future for the Adaptation Fund?

The operationalisation of the Green Climate Fund (GCF) raises questions about its relationship with the Adaptation Fund, particularly in light of the intent of the GCF to scale up support for adaptation. The Adaptation Fund has established a portfolio of adaptation programs, management systems, and established useful systems for monitoring and evaluation, although these presently work at a modest scale. There is a need to ensure that the GCF builds on the operational achievements of the Adaptation Fund.

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