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Technical paper on the second review of the Adaptation Fund

Summary

This technical paper provides background information on the second review of the Adaptation Fund based on the terms of reference for the second review as annexed to decision 2/CMP.9, taking into account the deliberations and conclusions of the Subsidiary Body for Implementation at its fortieth session.

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I. Introduction

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), by decision 2/CMP.9, requested the secretariat, in collaboration with the Adaptation Fund Board secretariat, to prepare a technical paper based on the terms of reference contained in the annex to the same decision, taking into account the deliberations and conclusions of the Subsidiary Body for Implementation (SBI) at its fortieth session.¹

B. Objective and scope

2. The objective of the second review is to ensure the effectiveness, sustainability and adequacy of the operation of the Adaptation Fund, with a view to the CMP adopting an appropriate decision on this matter at CMP 10.

3. This document covers the progress made to date and lessons learned in the operationalization and implementation of the Adaptation Fund in terms of:

(a) The provision of sustainable, predictable and adequate financial resources, including the potential diversification of revenue streams, to fund concrete adaptation projects and programmes that are country driven and based on the needs, views and priorities of eligible Parties (chapter III.A);

(b) The lessons learned from the application of the access modalities of the Adaptation Fund (chapter III.B);

(c) The institutional linkages and relations, as appropriate, between the Adaptation Fund and other institutions, in particular institutions under the Convention (chapter III.C);

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

C. Possible action by the Subsidiary Body for Implementation

4. SBI 41 may wish to consider this paper in its deliberations on the second review of the Adaptation Fund.

D. Sources of information

5. This technical paper draws upon a number of sources of information including:

(a) Submissions of views from Parties to the Kyoto Protocol, observer organizations, as well as other interested international organizations, stakeholders and non-governmental organizations involved in the activities of the Adaptation Fund, and implementing entities accredited by the Adaptation Fund Board regarding experiences with the Adaptation Fund;²

¹ Decision 2/CMP.9, paragraph 6.

² All of the submissions from Parties are available at <http://www4.unfccc.int/submissions/SitePages/sessions.aspx?showOnlyCurrentCalls=1&populateData=1&expectedsubmissionfrom=Parties&focalBodies=SBI>.

- (b) The annual report of the Global Environment Facility (GEF) to the Conference of the Parties (COP) on its activities as an operating entity of the Financial Mechanism of the Convention, including the information on the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), and other relevant GEF policy, information and evaluation documents;
- (c) The annual report of the Green Climate Fund (GCF) to the COP on its activities as an operating entity of the Financial Mechanism of the Convention and other relevant GCF policy and information documents;
- (d) Information from the Adaptation Fund Board, the Adaptation Fund Board secretariat and the interim trustee of the Adaptation Fund;
- (e) The outcomes of the initial review of the Adaptation Fund;
- (f) The outcomes and reports from relevant United Nations processes, bilateral and multilateral funding institutions and other intergovernmental and non-governmental organizations dealing with climate change financing;
- (g) Reports from the following constituted bodies and processes under the Convention:
 - (i) The Standing Committee on Finance (SCF), including the reports on the first and second SCF Forum;
 - (ii) The Least Developed Countries Expert Group;
 - (iii) The Consultative Group of Experts on National Communications from Parties not included in Annex I to the Convention (CGE);
 - (iv) The reports of the work programme on long-term finance;
 - (h) The technical paper prepared by the secretariat on steps and time frames to conduct an open and competitive bidding process for selecting host institutions for entities under the Convention.³

II. Outcomes of the initial review of the Adaptation Fund

A. Overview of the results of the initial review

6. CMP 8 recognized the effectiveness and efficiency of the interim secretariat of the Adaptation Fund Board and the International Bank for Reconstruction and Development (the World Bank), as interim trustee of the Adaptation Fund, and decided to extend the interim institutional arrangements of the secretariat until the completion of the second review of the Adaptation Fund in 2014 and those of the trustee until June 2015.⁴

7. The CMP encouraged the Adaptation Fund Board to continue working with the interim trustee for the Adaptation Fund on further enhancing the process of monetization of certified emission reductions (CERs). It also encouraged the Adaptation Fund Board to consider how to further improve accessibility to funding from the Adaptation Fund, especially through its direct access modality.

8. Furthermore, the CMP noted with concern issues related to the sustainability, adequacy and predictability of funding from the Adaptation Fund based on the current uncertainty regarding the prices of CERs and the continuation of the Fund during and

³ FCCC/TP/2013/1.

⁴ Decision 4/CMP.8.

beyond the second commitment period of the Kyoto Protocol. To address this concern, CMP 8 requested the Adaptation Fund Board to report to SBI 38 on the status of the resources of the Adaptation Fund, trends in the flow of resources and any identifiable causes of these trends.⁵ In response to this request, the Adaptation Fund Board presented at SBI 38 information on the status of the resources of the Fund, which summarized the trend of funding flows, including the situation of donation and the decreasing prices of CERs.

B. Monetization of certified emission reductions

9. As at 31 July 2014, the trustee had sold 20.8 million Adaptation Fund CERs, at an average price of EUR 6.70, generating revenues of USD 190.4 million. Receipts from the monetization of CERs amounted to USD 2.11 million during the 12 months to 31 July 2014. As at 31 July 2014, 8.58 million CERs were still available to be sold in accordance with the CER monetization program guidelines adopted by the Adaptation Fund Board.⁶

C. Accessibility of funding from the Adaptation Fund

10. Pursuant to decision 4/CMP.8, the Adaptation Fund Board has continued to improve the accessibility of funding from the Adaptation Fund.

11. As at 10 October 2014, the Adaptation Fund Board had accredited 17 national implementing entities and 4 regional implementing entities, which can directly access resources from the Adaptation Fund.⁷ In addition it had approved 44 projects amounting to USD 264.8 million, of which 14 projects/programmes were proposed by national implementing entities.

12. Furthermore, the Adaptation Fund Board launched a readiness programme for climate finance in May 2014. It aims to help to strengthen the capacity of national implementing entities and regional implementing entities to receive and manage climate financing, which would lead to improved funding accessibility for developing countries in particular least developed countries (LDCs) and small island developing States (SIDS).

D. Sustainability, adequacy and predictability of funding for the Adaptation Fund

13. Taking into account that the prices of CERs have remained historically low since 2011, the Adaptation Fund Board, at its seventeenth meeting, decided to set an initial fundraising target of USD 100 million on an interim and experimental basis up to the end of 2013.⁸ In addition, in February 2013, the Board established a task force composed of Board members that worked on the outreach, strategy and other efforts to achieve the fundraising targets.⁹ Pledges from Parties included in Annex I to the Convention (Annex I Parties) made before and during CMP 9 reached USD 104.3 million, surpassing the fundraising target.

⁵ Decision 3/CMP.8, paragraph 5.

⁶ <[https://www.adaptation-fund.org/sites/default/files/AFB.EFC_.8.9%20CER%20Monetization%20Program%20Guidelines%20\(Updated%20March%202012\).pdf](https://www.adaptation-fund.org/sites/default/files/AFB.EFC_.8.9%20CER%20Monetization%20Program%20Guidelines%20(Updated%20March%202012).pdf)>.

⁷ See <<https://www.adaptation-fund.org/page/implementing-entities>>.

⁸ Adaptation Fund Board decision B.17/24.

⁹ Adaptation Fund Board decision B.19/29.

14. At its twenty-third meeting, held in March 2014, the Adaptation Fund Board discussed whether it should set a new fundraising target in the light of the increasing demand for additional support for projects/programmes and the continued decline in the prices of CERs. Consequently, the Board decided to extend the mandate of the fundraising task force to continue implementing the strategy, with the new target of USD 80 million per year for 2014 and 2015.¹⁰ As at September 2014, no additional pledge of contribution was made to the Adaptation Fund.

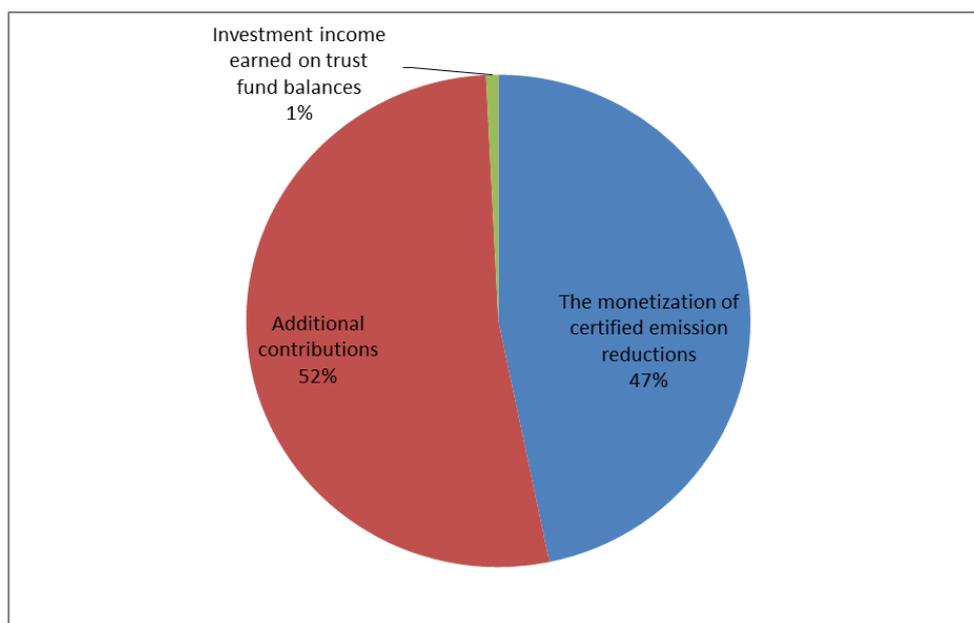
III. Key elements for consideration in the second review of the Adaptation Fund

A. Provision of sustainable, predictable and adequate financial resources

1. Current financial status of the Adaptation Fund and other adaptation-related funds under the Financial Mechanism of the Convention

15. Based on the Adaptation Fund Board report to CMP 10, the Adaptation Fund trust fund has received a total of USD 407.4 million, comprising USD 190.4 million from the monetization of CERs, USD 213.7 million from additional contributions from Parties and USD 3.2 million from investment income earned on trust fund balances as at 31 July 2014 (see the figure).

The financial status of the Adaptation Fund as at 31 July 2014



Source: Adaptation Fund Board decision B.23-24/18.

16. As of the same date, funds available for new funding approvals amounted to USD 150.8 million. This does not, however, include the funding of the project for Belize with a total value of USD 6 million, which was released from the pipeline of projects and programmes in August 2014. In addition, following the twenty-fourth meeting of the

¹⁰ Adaptation Fund Board decision B.23/25.

Adaptation Fund Board, nine additional projects and programmes were approved, with a total funding of USD 33.3 million (see table 1).

Table 1

Project and programme proposals approved at the twenty-fourth meeting of the Adaptation Fund Board

<i>Type of proposals</i>	<i>Country</i>	<i>Approved amount (USD)</i>
Fully developed proposals	India ^a	689 264
	Costa Rica	9 970 000
	India ^a	2 510 864
	Kenya	9 998 302
	South Africa ^a	7 495 055
	South Africa ^a	2 442 682
Accreditation support	Cabo Verde	47 449
	Chad	49 592
	Niger	47 449
Total		33 250 657

Source: Adaptation Fund Board document AFB/B.24/6.

^a Two different proposals by this country were approved at the same meeting.

17. In parallel with the Adaptation Fund, the LDCF and the SCCF also provide financial resources for adaptation. These funds are being administered by the GEF.

18. The LDCF was established to address the special needs of LDCs under the Convention.¹¹ Specifically, the LDCF was tasked with financing the preparation and implementation of national adaptation programmes of action. It relies on voluntary contributions from developed countries. As at 30 June 2014, a cumulative amount of USD 906.64 million had been pledged for the LDCF.

19. The SCCF was established to finance various activities, programmes and measures, including support for adaptation, technology transfer and capacity-building.¹² It supports both long-term and short-term adaptation activities in various sectors, including water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management. The funding sources of the SCCF are also based on voluntary contributions from developed countries and the pledges cumulatively amount to USD 344.1 million as at 30 June 2014.

20. The GCF is in the process of initial resource mobilization. As per decision 1/CP.16, paragraph 100, a significant share of new multilateral funding for adaptation should flow through the GCF. During its seventh meeting, the GCF Board decided to commence the initial resource mobilization process, stressing the urgency to reach pledges by November 2014, while noting that the initial resource mobilization process may need to continue

¹¹ Decision 7/CP.7.

¹² Decision 7/CP.7.

beyond this date.¹³ Furthermore, the GCF Board has decided that the GCF will aim for a 50:50 balance between mitigation and adaptation over time, and for a floor of 50 per cent of the adaptation allocation for particularly vulnerable countries, including LDCs, SIDS and the African States.¹⁴

21. Based on the developments referred to above, a similar discussion on the adequacy, predictability and sustainability of funds under the Convention was considered by the SCF in 2014 in the context of providing expert input to the fifth review of the Financial Mechanism,¹⁵ which was requested at COP 19.¹⁶ As of the drafting of this technical paper, the outcome of that discussion is yet to be finalized, but it will be considered at COP 20.

2. The implementation of projects/programmes through national, regional and multilateral implementing entities

22. As referred to in paragraph 11 above, the number of accredited implementing entities, in particular national implementing entities and regional implementing entities, and approved project/programme proposals has been steadily increasing since the operationalization of the Adaptation Fund. Of the 44 approved projects/programmes, however, 30 had been made by multilateral implementing entities, which had accumulated more experience on project development and management than national implementing entities and regional implementing entities.

23. Concerns had been raised by some Adaptation Fund Board members during previous Board meetings on the potential lack of funding available for projects/programmes proposed by national implementing entities and regional implementing entities. In order to address these concerns, the Adaptation Fund Board, at its twelfth meeting, established a 50 per cent cap for projects/programmes by multilateral implementing entities in the total amount of funding for project/programme implementation available at the start of each Board meeting.¹⁷ It also decided to establish a pipeline for fully developed projects/programmes that have been recommended by the Project and Programme Review Committee for approval by the Board, in order to allow further projects to be considered and recommended for approval but to suspend their funding approval until more funds were available below the 50 per cent cap.¹⁸

24. As at 10 October 2014, four project/programme proposals with a total funding request of USD 32.3 million by multilateral implementing entities have been placed in the pipeline and are waiting for the Board's approval pending the availability of additional financial resources.

25. Since its twenty-second meeting, the Adaptation Fund Board considered possible options on how to fund the pipeline projects in the future in order to increase the number of approved project/programme proposals by national implementing entities.

3. Fundraising strategy of the Adaptation Fund Board

26. In setting the initial fundraising target at its seventeenth meeting, the Adaptation Fund Board assessed the gaps between the needs for funding based on estimations of

¹³ GCF Board decision B.07/09.

¹⁴ GCF Board decision B.06/06, paragraph (a)(i) and (ii).

¹⁵ The technical paper on the fifth review of the Financial Mechanism prepared by the secretariat will be made available at <www.unfccc.int/6877>.

¹⁶ Decision 8/CP.19, paragraph 3.

¹⁷ Adaptation Fund Board decision B.12/9.

¹⁸ Adaptation Fund Board decision B.17/19.

possible project/programme proposals from implementing entities already accredited by the Board, and the financial resources available.¹⁹

27. The Adaptation Fund Board, at its twenty-third meeting, also considered whether it was appropriate to set the new fundraising targets based on the estimation of expected funding needs calculated by the Adaptation Fund Board secretariat as well as the future estimated proposed flow.²⁰

28. There is a general understanding that having a fundraising strategy for the Adaptation Fund is essential given the current uncertainty on the prices of CERs, recognizing that streamlined strategic communication on the fundraising strategy could deliver tangible results.²¹

29. Additionally, the Adaptation Fund Board noted that it would be advisable to calculate a fundraising target in a more predictive or scientific manner that would produce estimates for sustainable funding to meet the Fund's projected portfolio range.²²

4. The augmentation of the Adaptation Fund in the second commitment period of the Kyoto Protocol

30. CMP 8 decided that for the second commitment period of the Kyoto Protocol, the Adaptation Fund shall be further augmented through a 2 per cent share of the proceeds levied on the first international transfers of assigned amount units (AAUs) and the issuance of emission reduction units (ERUs) for Article 6 projects immediately upon the conversion to ERUs of AAUs or removal units previously held by Parties.²³

31. By its decision 1/CMP.9, paragraph 9, the CMP requested the Adaptation Fund Board to consider the arrangements for the monetization of the 2 per cent share of proceeds referred to in paragraph 30 above, including the appropriate entity or entities to monetize the share of proceeds, and to forward a recommendation to CMP 10. The CMP also requested the Board to develop and approve the legal arrangements with the trustee regarding the services for the 2 per cent share of proceeds from AAUs and ERUs for approval by the CMP.²⁴

32. In response to decision 1/CMP.9, the Adaptation Fund Board decided to recommend that the CMP select the World Bank as the entity to monetize the share of proceeds from AAUs and ERUs and developed amended and restated terms and conditions of services to be provided by the International Bank for Reconstruction and Development as trustee for the Adaptation Fund, which include the arrangements referred to in paragraph 31 above.²⁵ This revision would be effective upon adoption by the CMP, and subsequently by agreement of the World Bank as trustee.

33. While the Doha Amendment to the Kyoto Protocol adopted in 2012 has not entered into force, Parties are expected to consider and clarify some of the issues relevant to the implementation of decision 1/CMP.8, paragraph 21.²⁶

¹⁹ Adaptation Fund Board document AFB/EFC.8/6, section III.

²⁰ Adaptation Fund Board document AFB/B.23/7, paragraph 122.

²¹ Adaptation Fund Board document AFB/B.23/7, paragraph 123.

²² Adaptation Fund Board document AFB/B.23/7, paragraph 121.

²³ Decision 1/CMP.8, paragraph 21.

²⁴ Decision 1/CMP.9, paragraphs 9 and 10.

²⁵ The amended and restated terms and conditions can be found in annex I to document FCCC/KP/CMP/2014/6.

²⁶ FCCC/TP/2013/9, paragraphs 51–55.

5. Consideration of options for ensuring sustainability, predictability and adequacy of financial resources from the Adaptation Fund

34. In accordance with decision 10/CP.7, the Adaptation Fund shall be financed from the share of proceeds on clean development mechanism (CDM) project activities and other sources of funding, including voluntary contributions from Annex I Parties.²⁷ With regard to the share of proceeds, the CMP expanded the scope of the share of proceeds to AAUs and ERUs as mentioned in paragraph 30 above.

35. In considering possible options to enhance sustainability, predictability and adequacy of financial resources, the Adaptation Fund Board has explored several options for the Adaptation Fund to enhance its funding in the future as part of developing its fundraising strategies. The options included: additional mechanisms to facilitate the collection of individual donations, including through the United Nations Foundation; the issuance of adaptation certificates, promissory notes, adaptation fund bonds; debt for adaptation swaps; a specialized funding window for disaster risk insurance; and a window on investment guarantees for adaptation.²⁸

36. Some of the options for fundraising have been carried into effect such as a partnership between the Adaptation Fund and the United Nations Foundation. This partnership allows the Fund to accept donations from the private sector and individuals. In addition, the Adaptation Fund Board, at its eighteenth meeting, requested its secretariat to proceed with all necessary arrangements and efforts to reach out to foundations and philanthropic organizations, including through informal contacts and consultations with relevant organizations, providing presentations about the Fund and other activities in order to raise funds.²⁹

37. During a discussion by the Adaptation Fund Board, however, it was observed that some other options would be beyond the capacity of the Adaptation Fund Board secretariat to implement and more would require careful consideration.³⁰

38. Bearing in mind all of the above-mentioned developments that the Adaptation Fund Board has made, many Parties are still of the view that there are various issues that need to be considered to ensure sustainability, predictability and adequacy of financial resources from the Fund.

39. Appropriate estimates of the financial needs for projects/programmes could be enhanced in order to determine the required scale of the financial resources in the future. Possible options could include:

(a) Conducting regular estimates, made by the Adaptation Fund Board, of the needs on an annual basis, according to projects already in the pipeline, or those expected. These estimates could be based on indications from applicant countries, trends, as well as experience from previous years;

(b) Setting up a new mechanism to continuously review the status of projects in the pipeline against the availability of finance, and to assist in addressing the need for annual or biannual resource flows.

40. Taking into consideration the financial needs as referred to in paragraph 39 above, some Parties are also of the view that to ensure the sustainability, predictability and adequacy of financial resources, the establishment of a regular replenishment process and a clear burden-sharing process through an assessed scale of contribution from Parties

²⁷ Decision 10/CP.7, paragraph 2.

²⁸ See Adaptation Fund Board documents AFB/EFC.8/6 and AFB/EFC.9/5.

²⁹ Adaptation Fund Board decision B.18/32.

³⁰ Adaptation Fund Board document AFB/B.17/6, paragraph 88.

included in Annex B to the Kyoto Protocol should be considered. In this regard, it should be noted that, in principle, the provision of funding from Annex I Parties to the Adaptation Fund is voluntary and will be additional to the share of proceeds from CDM project activities,³¹ the first international transfers of AAUs and the issuance of ERUs for activities under Article 6 of the Kyoto Protocol.³²

41. Moreover, there are possible ways to diversify revenue streams of the Adaptation Fund that could be considered, including through additional, innovative and alternative sources of funding. Keeping in mind the scope of the mandates given to the Adaptation Fund Board, such options could include, inter alia:

(a) The application of voluntary levies on developed country Parties, applied to national and regional emission trading schemes such as the European Union Emissions Trading System;

(b) The allocation of 10 per cent of the carry-over units;

(c) The consideration of a set of measures to stabilize the price of CERs, including through dealing with the level of ambition through the ratification of the second commitment period of the Kyoto Protocol, and higher emission limitation commitments for developed country Parties under any new agreement under the Convention.

B. Lessons learned from the application of the access modalities of the Adaptation Fund

42. Lessons learned from the funding cycle can be extracted and can serve as further input for the Adaptation Fund itself, as well as for the GCF, and to further inform the operations of the LDCF and SCCF under the GEF and other funding mechanisms both under and outside the Convention in order to improve their effectiveness and efficiency.

43. Some lessons have already been taken into account: the GEF has been advancing its direct access modalities³³ and the modalities regarding direct access, as well as the modalities that further enhance direct access, to be implemented by the GCF.³⁴

44. The Adaptation Fund pioneered the implementation of the direct access modality, among all of the funds related to climate change under the Convention and its Kyoto Protocol, which was undertaken with a view to ensuring fair access to resources and effectiveness in their delivery. Some lessons and gaps have emerged through this modality. It has also pioneered enhanced direct access through the approval of the proposal of the South African National Biodiversity Institute, a national implementing entity in South Africa, which includes a small grants facility for enabling local level responses to climate change.³⁵

1. Overview of the access modalities

45. In accordance with decision 1/CMP.3, paragraph 5(b), the Adaptation Fund Board established the operational policies and guidelines for Parties to access resources from the Adaptation Fund (hereinafter referred to as the operational policies and guidelines) in

³¹ Decision 10/CP.7, paragraph 3.

³² Decision 1/CMP.9, paragraph 12.

³³ FCCC/CP/2014/2, report, paragraphs 50 and 159.

³⁴ Additional modalities that further enhance direct access, including through funding entities, have been and will be discussed by the GCF Board. For more information, see <<http://news.gcfund.org/>><http://www.gcfund.org/meetings.html>.

³⁵ Adaptation Fund Board decision B.24/15.

2009.³⁶ The operational policies and guidelines include the operational and financing priorities, the process for the accreditation of implementing entities, the project/programme cycle, standards for review and approval of a project/programme and monitoring, evaluation and review of the project/programme.

46. Institutions wishing to be accredited as implementing entities in order to be able to submit applications for project or programme funding must demonstrate that they have the institutional capacity to properly manage project implementation. They also have to demonstrate that they meet a set of fiduciary standards. In 2013, the Adaptation Fund Board amended the aforementioned operational policies and guidelines to include an environment and social policy, which needs to be followed by applicants as part of the accreditation process.

47. As at September 2014, 17 national implementing entities, 4 regional implementing entities and 11 multilateral implementing entities had been accredited to access resources from the Adaptation Fund. Among them, five accredited national implementing entities are in LDCs and SIDS. In addition, the number of applications to qualify as a national implementing entity has been steadily increasing in 2013 and 2014.

48. As at October 2014, 44 projects/programmes have been approved by the Adaptation Fund Board. The regional/geographical distribution of the approved projects/programmes is shown in table 2. Africa, Asia-Pacific and Latin America and the Caribbean account for over 90 per cent of the total projects/programmes.

Table 2

Regional/geographical distribution of the approved projects/programmes^a

<i>Region</i>	<i>Number of approved projects/programmes</i>	<i>Total grant approved (USD million)</i>	<i>Percentage of total grant approved</i>
Africa	16	90.2	34.1
Asia-Pacific	15	84.8	32.0
Latin America and the Caribbean	12	84.4	31.9
Eastern Europe	1	5.3	2.0

Source: Information from the Adaptation Fund Board secretariat.

49. In addition, there are four projects/programmes proposed by the multilateral implementing entities in the pipeline, which will be financed as funding becomes available. This pipeline includes two proposals for LDCs.

2. Benefits of the access modality under the Adaptation Fund

50. Since its inception, the implementation of the access modality under the Adaptation Fund has benefited recipient countries in a number of ways as described below.

Increased institutional capacities

51. The accreditation process requests the applicants to provide details about how they can meet the requirements to manage their projects/programmes and the fiduciary standards. This is aimed at assisting the applicants to increase their institutional capacity to administer the funds. External analyses suggest that the learning acquired by countries that have gone through the process of having a national implementing entity accredited for the Adaptation

³⁶ The operational policies and guidelines are available at <https://www.adaptation-fund.org/policies_guidelines>.

Fund, has been instrumental in building the capacity of institutions for financial management.³⁷

52. The example of the Centre de Suivi Ecologique (CSE) in Senegal, which was accredited as a national implementing entity in 2010, shows the benefits that early inclusion of a wide range of stakeholders, especially civil society organizations, can have. This range of stakeholders has made it possible to create a pool of experts who inform decisions on the prioritization of adaptation projects and improve the effectiveness of adaptation.

Improved collaboration with stakeholders

53. In submitting a project/programme proposal, the proponent needs to provide detailed information on how it has engaged and consulted relevant stakeholders, including the government and civil society organizations, in developing the proposal. Through this exercise the proponent can enhance the level of collaboration with stakeholders. This includes the improvement of intragovernmental collaboration and the amplification of stakeholder voices. In addition, transparency and competition are fostered, standards for executing entities are raised and there is improved compliance with environmental and social safeguards.³⁸

Enhanced country ownership

54. The proponent is requested to document how the proposal builds on existing development and climate change policies and strategies in the country, and if such a project/programme seeks to support efforts to strengthen or reform associated policies. This is important in building country ownership.³⁹

Increased attractiveness to funding institutions and donors

55. The improvements in institutional capacity that occur as a result of the experience and expertise gained through the direct access modality can also improve a country's ability to attract funding from other sources such as the GEF and the GCF. Conducive enabling environments in recipient countries are generally seen as an underpinning element for financial support.⁴⁰

Increased South–South cooperation

56. Accreditation processes have assisted recipient countries, which aim to have their own national implementing entities, to obtain useful information from already accredited national implementing entities. Many developing countries have common challenges when establishing national implementing entities, and this can motivate South–South cooperation to accelerate the process for accreditation. This can also assist in project/programme implementation, particularly when cooperation is between countries with similar institutional capacities and challenges.

57. More specifically, through the readiness programme for climate finance of the Adaptation Fund, the Board had approved three proposals submitted by one national implementing entity to assist three countries accelerate the process of accreditation, under the South-South grant component of the programme.

³⁷ Brown L, Polycarp C and Spearman M. *Within Reach: Strengthening Country Ownership and Accountability in Accessing Climate Finance*. Available at <http://www.wri.org/sites/default/files/ownership_and_accountability_final_paper.pdf>.

³⁸ See <https://www.adaptation-fund.org/sites/default/files/DirectAccessMemo29_Oct_2012_0.pdf> and the forthcoming report of the SCF Forum in 2014 to be made available at <unfccc.int/6877>.

³⁹ Trujillo NC and Nakhoda S. *The Effectiveness of Climate Finance: A Review of the Adaptation Fund*. Available at <<http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8341.pdf>>.

⁴⁰ FCCC/CP/2014/3, paragraph 43.

Efficiency gains regarding entity fees

58. With regard to the costs related to project/programme implementation, average implementing entity fees of national implementing entities as at September 2014 are 7.2 per cent, while those of multilateral implementing entities are 8.4 per cent. It should be noted, however, that the figures should be carefully considered given that the gaps between implementing entity fees of national implementing entities and multilateral implementing entities are closing over time.

3. Lessons learned from the application of the access modality of the Adaptation Fund

59. There are important lessons that can be learned from the experiences of the Adaptation Fund in implementing its access modality that may be useful for other multilateral climate funds.

Allocation of resources

60. The strategic priority, policies and guidelines of the Adaptation Fund (hereinafter referred to as the strategic priority, policies and guidelines) approved by the CMP⁴¹ stipulates that the Fund shall:

(a) Assist developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the cost of adaptation;

(b) Finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties.⁴²

61. The strategic priority, policies and guidelines also determine elements that shall be taken into account when the Adaptation Fund Board decides on the allocation of its resources among eligible Parties. The elements include the level of vulnerability and ensuring access to the fund in a balanced and equitable manner.

62. An analysis of the Fund suggests that agreement on resource allocation under the Adaptation Fund Board has been elusive and in practice funds are effectively allocated on a first come, first served basis.⁴³ Another analysis found that without an adequate budget, a well-defined/agreed allocation formula and a vulnerability index matrix, there would be a risk that the current international climate policy is failing to address principles of justice. This would represent a major challenge for policymakers.⁴⁴

63. On the other hand, the Adaptation Fund Board has addressed such concerns related to funding priorities, including through a decision on the approval of a uniform cap of USD 10 million per country on a temporary basis,⁴⁵ which can be seen as balancing between safeguarding funds for a larger number of countries and rewarding early actions by recipient countries.

Accreditation process

64. The principles and modalities established for the Fund contain sound financial management, including the use of international fiduciary standards.⁴⁶ Subsequently, the Board has established in the operational policies and guidelines, robust modalities for the

⁴¹ Decision 1/CMP.4, annex IV.

⁴² Decision 1/CMP.4, annex IV, paragraph 5.

⁴³ See footnote 39 above.

⁴⁴ Ratajczak-Juszko I. *International Climate Financing: Governance Challenges Facing the Adaptation Fund*. Available at <http://global-cities.info/wp-content/uploads/2011/10/AF_Governance-Challenges_Ratajczak-Juszko_Nov2010.pdf>.

⁴⁵ Adaptation Fund Board decision B.13/23.

⁴⁶ Decision 5/CMP.2, paragraph 2(g).

accreditation of implementing entities, including its own fiduciary standards and environmental and social policy.

65. Some stakeholders are of the view that establishing systems, procedures, approaches and mechanisms for the accreditation in a relatively efficient manner in order to operationalize the Adaptation Fund can be considered as significant progress towards direct access to funding for eligible countries.

66. There are challenges and obstacles related to the accreditation of national implementing entities. The current accreditation process requires extensive supporting documentation, especially related to the fiduciary standards. Such demands could discourage recipient countries from obtaining their own national implementing entities, particularly LDCs and SIDS (three LDCs and two SIDS have been accredited as national implementing entities as at October 2014).

67. Some see a need to map out nationally appropriate exit strategies for the activities of multilateral implementing entities within recipient countries⁴⁷ and, at the same time, targeted institutional strengthening strategies are needed to assist developing countries to accredit more national implementing entities or regional implementing entities to the Adaptation Fund, to carry out adaptation projects.

68. The accreditation of different categories of implementing entities is also important. Access of funding by SIDS, through regional implementing entities, while countries are in the process of obtaining accreditation for their national implementing entities, can also be an effective strategy.

69. Furthermore, according to some analyses, there are differences in the fiduciary standards between the Adaptation Fund and those of other financial institutions such as the GEF, which has also introduced the direct access modality. The fiduciary standards of the Fund are sometimes considered to be descriptive and not detailed as a whole, which leaves more room for interpretation for applicants.⁴⁸ Given that direct access modalities are also to be introduced in other financial institutions such as the GCF, fiduciary standards set out by different financial institutions could be aligned, coordinated and streamlined.⁴⁹ This could allow for more recipient countries to obtain their own national implementing entities and gain more benefits through direct access modalities in other relevant financial systems in the longer term.

Project/programme implementation

70. In accordance with the operational policies and guidelines, an accredited implementing entity submits a project/programme proposal to the Adaptation Fund Board, with an endorsement by the designated authority within its country. In designing a proposal, the Board requires a comprehensive stakeholder consultation as part of the project/programme design process, but some analyses found that in the early stage of the operation of the Adaptation Fund, guidance on how to carry out this consultation and who

⁴⁷ Brown J, Bird N and Schalatek L. *Direct Access to the Adaptation Fund: Realising the Potential of National Implementing Entities*. Available at <<http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6351.pdf>>.

⁴⁸ Druce L, Grüning C and Menzel C. *Direct Access to International Climate Finance and Associated Fiduciary Standards*. Available at <<http://fs-unep-centre.org/sites/default/files/publications/directaccessengneu.pdf>>.

⁴⁹ Bugler W and Rivard B. *Direct Access to the Adaptation Fund: Lessons from Accrediting NIEs in Jamaica and Senegal*. Available at <http://cdkn.org/wp-content/uploads/2012/09/NIE_Jamaica-Senegal_InsideStory_final_WEB.pdf>; and Druce L, Grüning C and Menzel C. *Key Messages on Direct Access to International Climate Funds from Participants of the NCFISP*. Available at <http://fs-unep-centre.org/sites/default/files/project/1/policy_brief_direct_access_0.pdf>.

should be consulted had been limited.⁵⁰ Consequently, early proposals took different and uneven approaches to public consultation.

71. In response to this finding, the Adaptation Fund Board has developed clearer guidelines on stakeholder engagement, which should be included in project/programme proposals.⁵¹ A review of approved proposals suggests that in most cases, a diversity of government agencies, local government institutions and civil society organizations have been included. They are thus also often implementation partners in project/programme delivery. Such developments during the proposal design are generally seen as important achievements of recipient countries, which have their own national implementing entities.

72. Approaches to developing project/programme proposals are sometimes considered by several external analyses as time-consuming and cumbersome.⁵² On the other hand, the Board has dealt with such concerns by improving efficiencies in the project cycle in accordance with the strategic priority, policies and guidelines.⁵³ Table 3 shows how the Board has enhanced project cycle efficiency over time.

Table 3

Project cycle efficiency under the Adaptation Fund for fiscal years 2011–2014

<i>Item</i>	<i>FY2011^a</i>	<i>FY2012</i>	<i>FY2013</i>	<i>FY2014</i>	<i>Target</i>
Average response time of secretariat to review submissions of projects/programmes (months)	1.8	2	2	1.5	2
Average time from first submission to approval for one-step projects (months)	3.2	9.1	NA	5.1	9
Average time from first submission to approval for two-step projects (months)	8.3	12.8	12.6	6.4	12

Source: Adaptation Fund Board document AFB/EFC.15/3.

Abbreviation: FY = fiscal year.

73. While it is too early to assess the Adaptation Fund's project cycle, its effectiveness and efficiency is within its target (see table 3). Thus the performance can be considered as relatively effective and efficient.⁵⁴

74. Regarding the implementation of projects and programmes related to sectors, the operational policies and guidelines stipulate the level of vulnerability as part of the criteria to be taken into account in the allocation of resources. Some developing country Parties also see the vulnerability of sectors as an important part of strategizing. In keeping with the provision and the views mentioned above, the Adaptation Fund has allocated its financial resources to a variety of sectors with high vulnerability, such as agriculture and water

⁵⁰ See footnote 37 above.

⁵¹ Such guidelines include the instructions for preparing a request for project or programme funding from the Adaptation Fund, available at <<https://www.adaptation-fund.org/sites/default/files/OPG%20ANNEX%204-2%20Instructions%2028Nov2013%29.pdf>>.

⁵² See footnote 39 above.

⁵³ Decision 1/CMP.4, annex IV, paragraph 14.

⁵⁴ For example, 55 per cent of full-size projects under the LDCF/SCCF met the 18-month standard between LDCF/SCCF Council approval and GEF Chief Executive Officer endorsement during the fifth replenishment period of the GEF. More information can be found in LDCF/SCCF document GEF/LDCF.SCCF.16/05. Regarding the Climate Investment Funds, only about a quarter of projects were approved within less than 18 months of the endorsement of a country's investment plan by the Climate Investment Funds Committee. For more information, see *Independent Evaluation of the Climate Investment Funds* (ICF International. Available at <http://ieg.worldbank.org/Data/reports/cif_eval_final.pdf>).

management, in a balanced manner. It could be important to eventually scale up projects for addressing such vulnerability into national, transboundary and regional programmes.

75. Regarding project/programme implementation by national implementing entities, it is generally observed that many accredited national implementing entities in the early stage of the operationalization of the Adaptation Fund are implementing their projects/programmes in an effective manner. In particular, CSE, a national implementing entity in Senegal, almost completed its project as scheduled with satisfactory ratings in implementation progress.⁵⁵

76. On the other hand, one analysis suggests that some national implementing entities accredited in the early stage of the operationalization of the Adaptation Fund encountered challenges including difficulty in focusing on projects/programmes preparation and implementation for the Fund given a wide range of responsibility and workload the entity has, and managing high expectation from project beneficiaries in implementing the project.⁵⁶

Readiness programme

77. In response to the needs of recipient countries, in particular LDCs and SIDS, the Adaptation Fund Board initiated a readiness programme for climate finance in May 2014. It aims to help strengthen the capacity of national implementing entities and regional implementing entities to receive and manage climate financing, particularly through the Fund's direct access modality, and to adapt and build resilience to changing climate conditions in sectors ranging from agriculture and food security to coastal zones and urban areas.

78. The readiness programme has three core activities, namely:

- (a) Intensive seminars convening stakeholders in the full cycle of climate finance, from accreditation through project design, implementation, monitoring and evaluation;
- (b) A South–South grants programme, which will support experienced national implementing entities to assist countries working to become accredited for climate finance;
- (c) Online collaboration and knowledge-sharing which will be encouraged through exchanges of knowledge.

79. Recipient countries recognized this programme as a useful tool for increasing their institutional capacities in terms of having their own national implementing entities, and accessing and managing climate finance, including from the Adaptation Fund. Some recipient countries suggested that ways to further enhance the readiness of developing countries to access direct funding from the Fund should be considered. The importance of readiness activities is also stressed in the context of enabling environments, highlighting the need for greater understanding of the needs of developing countries in general and their adaptation needs in particular.⁵⁷

80. As the Adaptation Fund was established to fund concrete adaptation activities, funding capacity-building for applicant entities is not a priority⁵⁸ given the concern over the availability of financial resources for supporting those activities.

⁵⁵ Adaptation Fund Board document AFB/EFC.15/3.

⁵⁶ Bugler W and Rivard B. *Direct Access to the Adaptation Fund: Lessons from Accrediting NIEs in Jamaica and Senegal*. Available at <http://cdkn.org/wp-content/uploads/2012/09/NIE_Jamaica-Senegal_InsideStory_final_WEB.pdf>.

⁵⁷ FCCC/CP/2014/3, paragraph 43.

⁵⁸ See <https://www.adaptation-fund.org/sites/default/files/DirectAccessMemo29_Oct_2012_0.pdf>.

81. In this regard, an external analysis found that the Fund's roles and objectives in terms of capacity-building for direct access can be assessed while recognizing that international development agencies can play an important role in helping to build capacity for the management of internationally funded programmes in recipient country implementation units. In addition, stakeholders in some countries are confused over the different support programmes provided by various organizations.⁵⁹

82. On the other hand, the readiness programme also aims to help to coordinate institutions that are engaged in designing and implementing capacity-building programmes, such as the United Nations Environment Programme (UNEP) and the United Nations Development Programme.

Environmental and social safeguards

83. As referred to in paragraph 46 above, all applicants for accreditation shall demonstrate commitment and ability to comply, as a minimum, with the most recent environmental and social policy approved by the Board, in any projects/programmes supported by the Adaptation Fund. In addition, the environmental and social policy shall be applied throughout all the project/programme implementation phases, including design, execution, monitoring and evaluation.

84. With regard to how the Adaptation Fund Board would assess the capacity for already accredited implementing entities implementing actual projects/programmes to address potential environmental and social risk in the future, the Board also decided to take a tiered approach. The approach requests such implementing entities to ensure that they meet the requirements articulated in the environmental and social policy in a timely manner.

85. Since the environmental and social policy for the Adaptation Fund was approved only in November 2013, it is difficult to derive specific lessons from the implementation of the environmental and social policy at this point in time, and it remains to be seen how this policy in the implementation of projects/programme has been taken into consideration in the arrangements with the implementing entities. Nevertheless, it should be noted that the environmental and social policy has been already taken into account in the accreditation process in practice, informed to already accredited implementing entities for their action, and also explained in detail during the readiness programme referred to in paragraph 77 above as part of guidance or support to applicants and implementing entities. Moreover, the readiness support includes assistance to comply with the environmental and social policy as well.

Country ownership

86. Ensuring country ownership in the implementation of projects/programmes has been generally recognized as one of the key enabling environments for the effective deployment of finance.⁶⁰ The direct access modality under the Adaptation Fund has contributed to the increase of country ownership within recipient countries as mentioned in paragraph 54 above.

87. On the other hand, a question remains with regard to how each funding institution can maintain balance between country ownership and accountability. This is particularly relevant in the context of the affirmation from developing countries that financing should be based on needs and domestic priorities.⁶¹

⁵⁹ Druce L, Grüning C and Menzel C. *Key Messages on Direct Access to International Climate Funds from Participants of the NCFISP*. Available at <http://fs-unep-centre.org/sites/default/files/project/1/policy_brief_direct_access_0.pdf>.

⁶⁰ FCCC/CP/2013/7, paragraph 83.

⁶¹ FCCC/CP/2013/7, paragraph 61.

88. In this context, the Adaptation Fund has its strategic priorities in which it finances concrete adaptation projects and programmes that are country-driven and are based on the needs, views and priorities of eligible Parties. In addition, the Board looks at project/programme proposals from a technical perspective by using the technical reviews from its secretariat. In this way, the Board endeavours to manage both expectations regarding country ownership and accountability in the implementation of its funding.

Replicability and scalability

89. The impacts of climate change affect different levels, one of which is the community level. It would thus be desirable that certain adaptation project/programme with local stakeholders draw on the experiences and lessons learned from other similar adaptation projects/programmes.

90. The Adaptation Fund Board, in accordance with its operational policies and guidelines, is reviewing whether and how adaptation benefits achieved through a proposed project/programme enable replication and scaling up with other funds after the end of the project/programme.

91. Most of the projects/programmes approved by the Board include subcomponents which direct funding to smaller-scale projects undertaken by stakeholders mainly at the subnational level. While some of such stakeholders are able to demonstrate adequate fiduciary management capacities, implementation of these smaller scale projects has often been complex. Therefore, one of the analyses suggests that it will be necessary to monitor whether the approaches supported are scalable and replicable.

92. In this respect, the operational policies and guidelines stipulate the category for small-size projects and programmes (proposals requesting up to USD 1 million) as one of the financing windows under the Adaptation Fund. In the future, scaling up the implementation for adaptation at the more local level could be expected through that financing window.

C. The institutional linkages and relations, as appropriate, between the Adaptation Fund and other institutions

93. The Adaptation Fund exists alongside other funds for adaptation (e.g. the GCF, the LDCF/SCCF,⁶² Climate Investment Funds and bilateral funds). The Adaptation Fund is recognized for its unique governance structure and its direct access modality.

94. There has been a discussion to further explore “the benefits of incorporating the Adaptation Fund into the Financial Mechanism of the Convention and designating it, as an operating entity of the Financial Mechanism of the Convention”.⁶³ Currently, there are two operating entities of the Financial Mechanism (GEF and GCF).

95. A further option is to make the Adaptation Fund “a specialized Institution, that channels financing for concrete and urgent adaptation projects and programmes to

⁶² In 2005 the strategic priority on adaptation was launched as a USD 50 million allocation within the GEF Trust Fund, with the objective of reducing vulnerability and increasing adaptive capacity for the adverse effects of climate change within GEF focal areas. As resources have been fully allocated under the strategic priority on adaptation, the GEF now finances adaptation solely through the LDCF and SCCF. See annex to document FCCC/CP/2014/2, page 26.

⁶³ Submission from Nauru on behalf of the Alliance of Small Island States on the second review of the Adaptation Fund, available at <http://www4.unfccc.int/submissions/Lists/OSPSubmissionUpload/39_9_130414316320995945-1.%20AOSIS_FINAL%20SUB_AF%202nd%20Review.pdf>.

developing countries as a medium to long-term measure to address urgent and medium needs of developing countries”.⁶⁴

Linkages with the Green Climate Fund

96. The governing instrument of the GCF states that the fund will “operate in the context of appropriate arrangements between itself and other existing funds under the Convention, and between itself and other funds, entities, and channels of climate change financing outside the Fund”.⁶⁵

97. The Adaptation Fund Board has started a strategic discussion to explore linkages between the Adaptation Fund and the GCF. It takes into account the review of the Adaptation Fund Board secretariat and trustee, and the institutional processes under the Convention, including the SCF and the GCF. It also takes into account the unique mandate of the Adaptation Fund to address adaptation; as well as the decline in CER prices and the resource needs of the Adaptation Fund and the recipient countries. The Adaptation Fund Board noted that the Adaptation Fund would have to be flexible in determining its interaction with an operationalized GCF.⁶⁶

98. The Adaptation Fund Board has discussed potential scenarios.⁶⁷ These are critically linked to the institutional arrangements of the Adaptation Fund as described in chapter III.D below. They include:

(a) The first scenario is to continue with the status quo. It would continue with its current interim arrangements with both the GEF secretariat as interim secretariat of the Adaptation Fund Board and the World Bank as interim trustee of the Adaptation Fund, as well as with its lines of accountability and reporting under the authority and guidance of the CMP. The fund and the GCF would remain functionally independent from each other;⁶⁸

(b) The second scenario identified by the Adaptation Fund Board is one in which there would be an operational linkage between the GCF and Adaptation Fund. The Adaptation Fund Board has had an initial discussion on potential linkages between the Adaptation Fund and the GCF;

(c) The third scenario identified by the Adaptation Fund Board would entail institutional integration and could encompass different degrees of integration between the Adaptation Fund and the GCF. The Adaptation Fund could serve as “the Adaptation Window of the GCF; a specialized instrument or window of the GCF; or a dedicated mechanism based on innovative sources (building on the experience of the CER-monetization process), etc.”.⁶⁹

Linkages with other funds

99. Coherence and complementarity between the Adaptation Fund and other funds is a topic of interest for many, given that other multilateral funds are undertaking, or are in the process of developing, various types of adaptation activities at different levels. It is seen as an important way of improving adaptation funding under the Adaptation Fund and other funds.

⁶⁴ Submission from Sudan on behalf of the African States on the second review of the Adaptation Fund, available at

<http://www4.unfccc.int/submissions/Lists/OSPSubmissionUpload/39_9_130571533558539923-02_10_2014_AGN_Submission.pdf>.

⁶⁵ Decision 3/CP.17, annex, paragraph 33.

⁶⁶ Adaptation Fund Board document AFB/B.20/5

⁶⁷ Adaptation Fund Board document AFB/B.20/5, annex.

⁶⁸ Adaptation Fund Board document AFB/B.20/5, annex.

⁶⁹ Adaptation Fund Board document AFB/B.20/5, annex.

100. According to the GEF, donors aim for complementarity between funds, and the GEF has aimed to build complementarity between the different funds, in order for them to be jointly more “synergistically employed for the benefits of recipient countries”.⁷⁰

101. One example of operational linkages between the GEF and the Adaptation Fund can be observed in a project being implemented in the United Republic of Tanzania. This project includes the arrangements for UNEP, as an implementing entity accredited by the Adaptation Fund Board, to implement and execute the project jointly with a LDCF project in the same area of intervention in order to reduce costs, build synergies and avoid duplication.⁷¹

102. Accreditation procedures and requirements for direct access are currently seen by some Parties as being in need of consistency and streamlining, across the Adaptation Fund and other funds.⁷²

103. Furthermore, one Party, in a submission made on behalf of a group of Parties, stated that “the linkages between the Adaptation Fund and institutions outside of the Convention such as the United Nations Convention on Biological Diversity (UNCBD) and the United Nations Convention for Combating Desertification (UNCCD)” should be addressed “since they also cover adaptation issues. This linkage might engage financial support from different environmental conventions in addressing adaptation measures. In order to deliver this linkage...the current Task Force established under the Adaptation Fund Board must be given full power to negotiate with the institutions under and outside of the Convention regarding financial cooperation for adaptation activities and reduce vulnerabilities faced by the people and ecosystems in developing countries”.⁷³

Linkages with thematic bodies under the Convention

104. Operational linkages between the Adaptation Fund and constituted bodies under the Convention (particularly the SCF, Adaptation Committee, Technology Executive Committee (TEC) and Climate Technology Centre Network (CTCN) Advisory Board) could also improve coherence and complementarity across adaptation finance entities.

105. The SCF, at its third meeting,⁷⁴ discussed developing and strengthening linkages with other thematic bodies under the Convention as well as the GCF Board and the Adaptation Fund Board.

106. At its fifth meeting, the Adaptation Committee took stock of existing adaptation finance, including through a presentation made by the Adaptation Fund Board. The Co-Chairs of the committee are tasked with ensuring a continued dialogue with the Adaptation Fund Board, the GEF and the GCF Board, and a strategy is being elaborated. At the twenty-fourth Adaptation Fund Board meeting, held on 9 and 10 October 2014, a discussion was held between the co-chairs of the Adaptation Committee and members of the Adaptation Fund Board on how to enhance their collaboration.

107. Discussions have been held under the CGE, and the group felt that collaboration would contribute towards avoiding the duplication of work and making work more efficient

⁷⁰ FCCC/KP/CMP/2011/6/Add.1, annex, appendix IV, paragraph 14.

⁷¹ Details of the project are available at <<https://www.adaptation-fund.org/sites/default/files/ilovepdf.com-8.pdf>>.

⁷² As footnote 63 above.

⁷³ Submission from Nepal on behalf of the least developed countries on the second review of the Adaptation Fund, available at <[http://www4.unfccc.int/submissions/Lists/OSPSubmissionUpload/39_9_130452235324656731-Submission%20by%20Nepal%20on%20behalf%20of%20LDC%20Group%20on%20second%20review%20of%20AF%20\[final\].pdf](http://www4.unfccc.int/submissions/Lists/OSPSubmissionUpload/39_9_130452235324656731-Submission%20by%20Nepal%20on%20behalf%20of%20LDC%20Group%20on%20second%20review%20of%20AF%20[final].pdf)>.

⁷⁴ For the report of the third meeting of the SCF, see its document SCF/2013/3/7, paragraph 7.

among the different expert groups and other constituted bodies under the Convention. It did not explicitly discuss the Adaptation Fund Board.⁷⁵

108. The TEC has not been engaged in discussions on linkages with the Adaptation Fund Board thus far. The CTCN, however, has been engaged in discussions with the Adaptation Fund Board,⁷⁶ including at the twenty-fourth Board meeting, where a presentation was made by the Director of the CTCN.

109. Taking the above developments into consideration, options for possible future linkages that have been suggested include:

(a) For the SCF and Adaptation Committee to support, where appropriate, the Adaptation Fund Board in developing fundraising strategies;⁷⁷

(b) For the SCF mandate to be expanded to lead an assessment on enhancing complementarity and coherence between the LDCF, SCCF, Adaptation Fund and the GCF and the GEF, while ensuring their stand-alone status as totally separate entities.⁷⁸

D. The institutional arrangements for the Adaptation Fund

110. The Adaptation Fund 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. It is supervised and managed by Adaptation Fund Board. The interim secretariat of the Adaptation Fund Board is the GEF secretariat through a dedicated team of officials that provides secretariat services to the Adaptation Fund Board in a functionally independent and effective manner.⁷⁹ The interim trustee of the Adaptation Fund is the World Bank. The Trustee, in the performance of its functions under the terms and conditions agreed between the CMP and the World Bank, is accountable to the Adaptation Fund Board.⁸⁰ The mandate of the GEF secretariat will expire upon completion of the second review and the mandate of the World Bank will expire in June 2015.⁸¹

111. It was noted in the review of the interim arrangements of the Adaptation Fund, which was undertaken in 2011, that the interim arrangements served the Adaptation Fund well in its early years, but that a more formal organizational approach and/or independent structure might be more appropriate, so that the Adaptation Fund could operate without undue reliance on other parties. No deficiency or concern was noted regarding the secretariat services provided by the GEF. The findings of the review showed that growth of the Adaptation Fund “may well place pressures on the current arrangements from a governance, control and operational independence point of view”.⁸²

112. Furthermore, an assessment of options for enhancing coherence and complementarity between the LDCF, the SCCF, the Adaptation Fund, the GCF and the GEF could be helpful. There was a suggestion that it could be led by the SCF in coordination with the Adaptation Committee and in accordance with its mandate.⁸³

⁷⁵ FCCC/SBI/2013/17, paragraph 31.

⁷⁶ Adaptation Fund Board document AFB/B.24/3, annex.

⁷⁷ As footnote 63 above.

⁷⁸ Suggested by the Group of 77 and China during SBI 40.

⁷⁹ Decision 1/CMP.3, paragraph 18, and decision 1/CMP.4, annex II.

⁸⁰ Decision 1/CMP.4, annex III, appendix, paragraph 4.

⁸¹ Decision 4/CMP.8, paragraphs 3 and 5.

⁸² FCCC/KP/CMP/2011/6/Add.1, annex I, paragraph 11.

⁸³ As footnote 64 above.

113. Permanent arrangements for the trustee and secretariat are being considered. The costs, timeframes and legal and financial implications differ greatly amongst the options. The review undertaken in 2011 also pointed out possible “threats”, including that growth in the operational pipeline and workload might not be accompanied with growing resources; and that a “growth of operations within another entity may not lead to synergy but potentially to competition over resources and overlap leading to the Adaptation Fund’s own objectives not being met fully”.⁸⁴

114. To fundamentally change the institutional location and nature of the Adaptation Fund is not necessarily the only option to solve the problems that the Fund is currently facing. Narrowing options and minimizing the diversity of institutional arrangements for climate finance might adversely affect the sum of money that could be mobilized through voluntary contributions. Complementarity and harmonized approaches among funds could deliver resources to developing countries and could provide an alternative to the folding of any institutional arrangements.

115. Regarding the possible institutional arrangements of the Adaptation Fund beyond the current period set out by the CMP, some options for the trustee and secretariat are discussed below. It should be noted that any extension or transformation of the arrangements would require relevant agreements by the relevant entities.

Extension of the interim arrangements

116. The interim institutional arrangements of the Adaptation Fund Board secretariat and the trustee could be extended until the third review of the Adaptation Fund.⁸⁵ If this option was to be adopted, further possible operational improvements could be undertaken to ensure growth and efficiency of the Adaptation Fund. A new subwindow could also be considered under the Adaptation Fund for institutional strengthening and capacity development of national implementing entities and country project pipelines.

Transformation into permanent arrangements

117. The interim arrangements for both the trustee and secretariat could be transformed into permanent institutional arrangements. It has also been mentioned that the Adaptation Fund benefits from its secretariat being housed in the GEF secretariat, in terms of the complementarity between the different funds, and between the Adaptation Fund and GEF secretariats.⁸⁶

The conduct of an open and competitive bidding process

118. An open and competitive bidding process for the secretariat and trustee could be held. This could be informed by the technical paper produced in 2013 on “steps and time frames to conduct an open and competitive bidding process for selecting host institutions for entities under the Convention”.⁸⁷ Mainly based on lessons learned from the selection of the host of the Climate Technology Centre, the paper found that it is important that the process is clearly defined. This can help to ensure the integrity, fairness, transparency and credibility of the selection process. Based on lessons learned, it could take a number of years to undertake the process, which could undermine the efficiency, predictability and continuity of the operation of the Adaptation Fund.

119. It was recommended that to ensure a fair and transparent process, as a minimum, the following elements should be considered in developing a selection process:

⁸⁴ FCCC/KP/CMP/2011/6/Add.1, annex, paragraph 21.

⁸⁵ Suggested by the Alliance of Small Island States during SBI 40.

⁸⁶ FCCC/KP/CMP/2011/6/Add.1, annex, appendix IV, paragraph 14.

⁸⁷ FCCC/TP/2013/1.

- “(a) The nature of the expected services and scope of the responsibilities and accountabilities to be assigned to the host institution, is fully developed;
- “(b) The criteria to be met by the host institution candidate in terms of its institutional resources, experience and specific capabilities that are relevant to the fulfilment of its duties as the host institution, is defined and included in the requests for proposals;
- “(c) The steps and timelines to be followed throughout the selection process, clearly outlining specific milestones that will ensure adequate understanding of the process and respective responsibilities by all stakeholders and interested parties;
- “(d) The evaluation criteria for assessing the applications;
- “(e) The entity of body responsible for assessing the applications and providing recommendations to a decision-making body;
- “(f) The decision-making entity and timelines for the decision-making process;
- “(g) Elaboration on how offers/proposals are to be solicited and tendered”.⁸⁸

Establishment of an independent secretariat of the Adaptation Fund Board

120. When the initial review of the Adaptation Fund was undertaken, the following options for an independent secretariat were presented in the addendum to the report of the Adaptation Fund Board to CMP 7 on the review of the interim arrangements of the Adaptation Fund:⁸⁹

- (a) “Take the opportunity of the legal capacity available to it and consider whether an independent and fully resourced secretariat may better serve the objectives of the organisation (akin to the Multilateral Fund model)”.⁹⁰
- (b) “Adopt a GEF-like model by having the existing dedicated Adaptation Fund Secretariat remain within the International Bank for Reconstruction and Development’s organisational and physical structure but as a stand-alone body”.⁹¹

⁸⁸ FCCC/TP/2013/1, paragraph 101.

⁸⁹ FCCC/KP/CMP/2011/6/Add.1, annex.

⁹⁰ FCCC/KP/CMP/2011/6/Add.1, annex, paragraph 23.

⁹¹ FCCC/KP/CMP/2011/6/Add.1, annex, paragraph 24.