



ADAPTATION FUND

AFB/B.28/7  
26 September 2016

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Adaptation Fund Board  
Twenty-eighth meeting  
Bonn, Germany, 6-7 October 2016

Agenda item 5

## **OPTIONS FOR A MEDIUM-TERM STRATEGY**

## Introduction

1. At its twenty-seventh meeting in March 2016, having discussed the agenda item “Issues remaining from the twenty-sixth meeting”, (c) “Proposal to modify the country cap”, the Adaptation Fund Board (the Board) noted that there was a need for broader consideration of the Fund’s strategic direction, and decided to:

[...]

*b) Request the secretariat to prepare, for consideration by the Board at its twenty-eighth meeting, options for a framework for a medium-term strategy for the Fund, that would reflect the strategic priorities of the Fund approved by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) and take into account the findings of the Phase I of the Overall Evaluation of the Fund, as well as, inter alia, the following matters:*

- (i) The financial situation of the Adaptation Fund, including the work done for resource mobilization for the Fund;*
- (ii) The progress being made on accreditation of implementing entities and developing readiness to access adaptation finance;*
- (iii) Allocation of funds, including the cap of 50 per cent set for proposals submitted by multilateral implementing entities by decision B.12/9, the cap per country set by decision B.13/23 and consideration of regional projects and programmes within and beyond the pilot programme for regional projects and programmes set up by decision B.25/28; and*
- (iv) The discussion on potential linkages between the Adaptation Fund and the Green Climate Fund (GCF).*

*Decision B.27/39*

2. The secretariat subsequently recruited an external consultant to help draft, under supervision by and in consultation with the secretariat, a document that would present options for a framework as outlined in Decision B.27/39.

3. The consultant’s work was agreed to include the following outputs:

Output 1: A stock-taking of the existing strategic direction of the Fund, in light of decisions made by the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP)/CMP and the Board, as well through discussion with representatives of the Board and the secretariat, to assess the relevance and coherence of the existing strategic guidance for the medium-term;

Output 2: A rapid assessment of the characteristics and strategic advantages of the Fund as described by the first phase of the overall evaluation of the Fund, as well as areas listed in Decision B.27/39, paragraph b;

Output 3: A brief mapping/benchmarking exercise of medium-term strategies or any similar strategic documents of other, comparable international funds, especially climate change related funds;

Output 4: Building upon the above items, a proposal for options for a framework for a medium-term strategy for the Fund.

4. The main body of this document focuses on Output 4. It explores the role of strategy in organisational performance, as well as conceptual models, structures, and processes for developing a meaningful and effective strategy. Meanwhile, Outputs 1 through 3 are contained in the addendum to this document. Drawing on available background material and subsequently crosschecked through follow-up interviews, those outputs suggest:

a) *Strategic direction:* The CMP first stipulated the Fund's priorities, principles and modalities more than ten years ago. Nonetheless, they remain highly relevant to today's task of operationalising the Paris Agreement. To move forward, however, the Fund will need to declare and occupy a clearer niche within the evolving architecture of international climate finance.

b) *Distinctive characteristics & strategic advantages:* The Fund's most significant characteristics are a working culture that encourages thinking outside the box, the free-flow of ideas, and collaborative versus competitive efforts; an exceptionally flexible and effective Board; and a highly uncertain operating environment. While the Fund's operational achievements-to-date convey a certain comparative advantage vis-à-vis other climate funds, this does not represent a durable strategic advantage. "Strategic advantages" reflect a combination of internal competencies and external relationships that allow an organisation to succeed in relation to others. The Fund's strategic advantages include innovation, learning, direct partnerships, and capacity strengthening, alongside other competencies. The Board will have to decide which of these it wants to be known for and then build upon them to develop special, durable and interlocking advantages that are resolutely best-in-class.

c) *Benchmarking:* The benchmarking exercise is instructive for a number of reasons. First, it highlights the importance of clarifying in advance whether decision makers want a "strategy" or "strategic plan," and why. Second, it illustrates how other international institutions have interpreted and applied best practices to their unique circumstances. Third, it prompts the Board to consider the pros and cons implicit in different strategy design processes.

### **The role of "strategy" in organisational performance**

5. The terms "strategy" and "strategic plan" are often treated interchangeably. They are, in fact, very different concepts with distinct strengths and limitations. Most strategic plans are structured as "medium term strategic plans" that envision a desired future and translate this into

broadly defined goals or objectives and a sequence of steps to achieve them.<sup>1</sup> This type of plan tackles mission-critical questions like how, when, where, who, and what. As such, it is a good thing to have. In fact, it may be vital. Nonetheless, developing a plan should not be the first step.

6. A strategy is bigger than a strategic plan. It addresses fundamental questions, such as "How can we make a difference? What is our niche and where should we focus our efforts? What types of action should we take to succeed, and what kinds of abilities and systems will we require?" A strategy is broader than a strategic plan. It is long term, flexible and capable of adapting to new circumstances.

7. Put more succinctly, a strategic plan sets out *what* will be done while a strategy explains *why*. In a perfect world, strategies are developed before plans and shape the details of those plans. In so doing, strategies ensure relevance while enhancing effectiveness, efficiency and sustainability. In the real world, many organisations operate for years before reaching a crisis or other inflection point that prompts them to step back, ask the big questions, and finally develop a comprehensive strategy.

8. To date, the Adaptation Fund has functioned remarkably well without an explicit strategy. However, it will soon be ten years old; and the Fund now faces a significantly different - and markedly more complex - landscape than it did at inception. A long term, *adaptive* strategy may be crucial to navigating the way forward.

9. The Fund has developed a number of guidance documents, action plans and work plans over its years of operation. As such, it may be tempting to make the Fund's strategy fit around them. That would be a mistake. Previous plans and guidance documents – as well as lessons learned through their implementation – should inform development of a forward looking strategy but not limit or otherwise prevent the Fund from coming up with brand new answers to old questions.

## Choices

10. An industry of specialised consultants has sprung up over the past sixty years to help organisations develop strategies, and their experiences have been documented and analysed by academics. This has resulted in a sea of evolving and, sometimes, competing conceptual models, structures and processes from which the Board will have to choose.

### *Conceptual model*

11. Several patterns are evident in contemporary thinking about organisational strategy. The first is that we live in an especially volatile, uncertain, complex and ambiguous (VUCA) time; and that we therefore require a new approach to strategy. This new way is called "adaptive strategy," "discovery-driven strategy," "emergent strategy," "lean strategy," or "agile strategy," to name a few brands. While our world may or may not be more VUCA than ever,<sup>2</sup> the creation

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<sup>1</sup> This is in contrast to a Long Term Strategic Plan, which typically begins by describing current conditions and charts a path to meeting probable future needs (usually extrapolated from present/known needs), or a Short Term Strategic Plan, which is typically tactical in nature and focuses on achieving narrowly defined interim objectives.

<sup>2</sup> See Martin, 2014 for a contrary view.

and communication of information has certainly reached unprecedented speeds. Many organisations are, like the Adaptation Fund, finding that an innovation-oriented organisational culture (characterised by a relatively flat hierarchy and an emphasis on experimentation, risk taking and collaboration vs. competition) is the only way they can absorb, learn from, and respond to this deluge.

12. Due to its distinctive characteristics discussed in Annex 3, the Fund is already well disposed to pursue an agile approach to strategy design and management. According to Dana O'Donovan and Noah Rimland Flower (2013):

*Creating strategies that are truly adaptive requires that we give up on many long-held assumptions. As the complexity of our physical and social systems make the world more unpredictable, we have to abandon our focus on predictions and shift into rapid prototyping and experimentation so that we learn quickly about what actually works. With data now ubiquitous, we have to give up our claim to expertise in data collection and move into pattern recognition so that we know what data is worth our attention. We also know that simple directives from the top are frequently neither necessary nor helpful. We instead find ways to delegate authority, get information directly from the front lines, and make decisions based on a real-time understanding of what's happening on the ground. Instead of the old approach of "making a plan and sticking to it," which led to centralized strategic planning around fixed time horizons, we believe in "setting a direction and testing to it," treating the whole organization as a team that is experimenting its way to success (O'Donovan & Rimland Flower, 2013).*

13. This dynamic approach to strategy (i.e. "set a direction and test to it"), which emphasises empowerment and shared responsibility, stands in stark contrast to more conventional, static approaches (i.e. "make a plan and stick to it") that focus on decision-making authority and operational accountability. Though the former model is more challenging to implement, it may offer distinct long-term advantages to the Fund by enabling timely adaptation to, and innovation within, the evolving architecture of international climate finance.

### Structure

14. A second pattern in contemporary thinking about organisational strategy is the value placed on simplicity. According to some of the world's top strategy gurus (Lafley, Martin and Riel, 2013: 5):

*Despite all the different tools available (or perhaps because of them), strategy can seem mysterious and scary, with huge rewards for success, disastrous implications for failure and many unknown dangers lurking along the way. That needn't be the case. We believe strategy can be defined and created using a simple framework that entails answering five questions — the same five questions, no matter the type, size or context of the organization.*

1. What is your winning aspiration?
2. Where will you play?
3. How will you win?
4. What capabilities must be in place?
5. What management systems are required?

15. The Monitor Institute, a unit of Deloitte Consulting that specialises in support to mission-driven organisations, has translated these questions into language more fitting to the Adaptation Fund (O'Donovan & Rimland Flower, 2013).

THE CASCADE OF STRATEGIC CHOICES:



16. This can be condensed still further to ask:

- What is your vision for the future, and what will it take to get there?
- What part will you play in making that happen?
- How will you succeed?
- What capabilities will this require?<sup>3</sup>

17. Regardless of whether or not the Board decides to develop a comprehensive medium term strategy, answering these tightly interrelated questions may be helpful. The results could probably be summarised in just one page. If it takes more than four, the process may have morphed into strategic planning.

18. Defining the essence of an effective strategy and setting out the useful details for internal and external stakeholders are distinct tasks. Given the breadth of the Fund's stakeholders and the complexity of its operating environment, there may be a number of advantages to developing a fully fleshed strategy. The frameworks used by UNEP and UNESCO (see addendum, Annex 4) to package and communicate their medium term strategies illustrate many best practices. For instance, both strategies incorporate robust reflections on external and internal conditions, lessons learned, point-of-difference/value propositions,

<sup>3</sup> Within this rubric, Lafley, Martin and Riel's last two questions are subsumed under "What capabilities will we need?"

resource mobilisation, and the role of knowledge management in achieving their objectives. Building on these and other examples, a practical framework for the Fund's medium term strategy might resemble:

1. *An introduction setting out the overarching challenge the Fund seeks to address, its vision for the future, and what it will take to get there (i.e. theory of change)*
2. *An assessment of the Fund's external context, including current, emerging, and "what if?" scenarios in international cooperation for adaptation finance, as well the Fund's position within this architecture (including the Nairobi Work Programme, Cancun Adaptation Framework, and National Adaptation Planning processes)*
3. *An assessment of the Fund's internal context, including programmatic achievements, operational achievements, lessons learnt, and distinctive characteristics (especially strengths and weaknesses)*
4. *Strategic focus*, stipulating what role the Fund aims to play in bringing about its desired future
5. *Success strategy*, including the actions it will take to succeed; the role that "experimentation," "pattern recognition," and "execution by the whole" might play within the Fund's success strategy; its financial model; its organisational model; and the metrics against which it will gauge success
6. *Required capabilities and relationships*, identifying the distinctive characteristics, internal competencies, and external relationships necessary to build and maintain the Fund's strategic advantages
7. *Required management systems*, setting out the management systems (e.g. results-based management, knowledge management, human resources, and financial management) that must be instituted to build and maintain the Fund's strategic advantages.

19. Additional content: In light of the Fund's particular history, circumstances and opportunities, the Board may also wish to ensure the following are adequately addressed within its medium term strategy:

- a) Key "trade-offs" implicit in the Fund's strategic choices (e.g. funding caps set out in Decisions B.12/9 and B.13/23), how the consequences of these choices will be monitored, and agile review mechanisms.
- b) The Fund's unique capacity to promote direct access, accredit National Implementing Entities (NIEs), and unlock funding flows > than the current US\$ 10 million per country cap (whether through lifting this cap or enabling access to other climate funds).
- c) How the Fund's operating modalities will build capacity in countries where the challenges are greatest, especially Least Developed Countries (LDCs) and Small Island Developing States (SIDS).

- d) How regional projects and programmes, beyond the pilot programme for regional projects and programmes set up by Decision B.25/28, will figure into the Fund's "way to play" - if they will figure at all.
- e) How the Fund will manage overlap between climate and more traditional development assistance - especially between climate change adaptation and disaster risk reduction. Indeed, it may be helpful to clearly define the Fund's role within this broader landscape as a means to guide partners, the secretariat and future Board decisions.
- f) How the Fund will maximise learning & sharing lessons gleaned from its activities.
- g) The role of Designated Authorities (DA), as well as Ministries of Planning and Finance, in ensuring country ownership of all Fund activities and coherence with national priorities.
- h) The importance and means of capacity strengthening throughout the proposal development chain, from DAs all the way through to accredited entities.
- i) An aspirational spend profile setting out Board targets for the pace and volume of project approval. This would need to be in line with previous decisions and acknowledge that funding decisions will ultimately depend on the quantity and quality of proposed projects.
- j) Reporting mechanism to the CMP.

### *Design process*

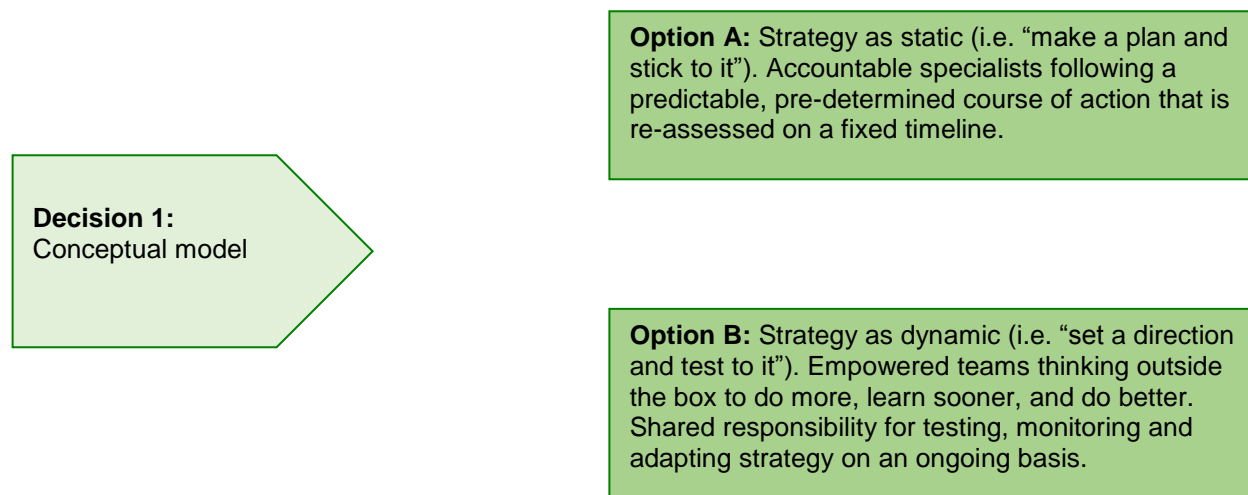
20. The Board will need to consider the pros and cons of how to develop a medium term strategy. It could, for instance, pursue a more streamlined process engaging a narrow group of stakeholders (e.g. the secretariat, the Global Environment Facility (GEF), the World Bank and the Board itself). Or it could opt for a more participatory and transparent process involving client countries, donors, other funds and civil society. While the latter would be more time-consuming and expensive, the benefits of a better-informed and more widely understood product may be worthwhile.

21. UNEP, through the "foresight process," adopted a particularly bold approach to informing its medium term strategy. Indeed, UNEP tapped a dedicated panel and over 400 leading scientists and experts from around the world to identify emerging issues that are recognised as very important to human well-being but have not yet received adequate attention (UNEP, 2012). It would not be feasible for the Adaptation Fund to undertake a comparably ambitious process. Nor would it be necessary. The unique value of the foresight process was the degree to which it enabled UNEP's strategy to reflect what its context (probably) "will be" rather than "what it has been." Given the rapidly shifting landscape of climate finance, a humble derivative of this approach could be invaluable to the Adaptation Fund if the Board decides to develop a medium term strategy.

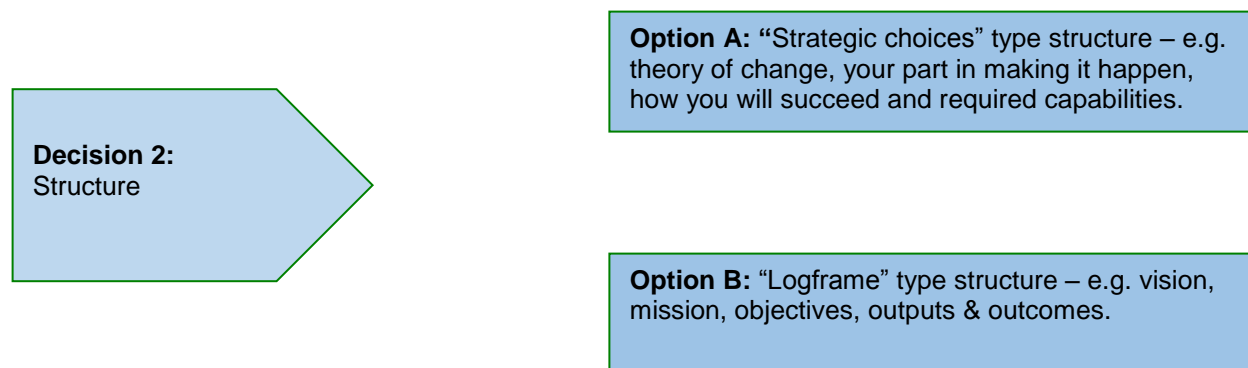


## Summary of key decisions and major options

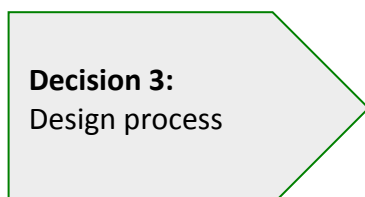
22. If the Board decides to develop a medium term strategy, it will need to choose between conceptual models, structures and processes. Drawing on business management literature and the practices of comparable institutions, key decisions and major options include:



23. *Summary of pros & cons:* The static model is suited to organisations that put a premium on predictable, accountable implementation of top-down decisions. The dynamic model requires a different mind-set to work, specifically: less reliance on decision-making hierarchies, more emphasis on innovation, and greater tolerance for experiments gone wrong. As such, it is not a viable option for all organisations. Those that can pursue this model will find it consumes more resources but enables timely adaptation to – and valuable innovation of services within – the evolving architecture of international climate finance.



24. *Summary of pros & cons:* A strategic choices type structure is less specific but more robust than a logical framework (“logframe”). It is also a more powerful tool for communicating the underlying rationale of a strategy to external stakeholders. Nonetheless, it may not meet the expectations of important stakeholders that are only familiar with conventional logframes. A logframe type structure is better at encapsulating top-down mandates.



**Option A:** Streamlined process engaging a narrow group of stakeholders and decision makers

**Option B:** More participatory and transparent process involving client countries, donors, other funds, civil society, etc.

25. *Summary of pros & cons:* The streamlined approach is quicker, less expensive, and more predictable. As such, it may be seen as the “safer” option. The participatory approach will be more time consuming, costly, and less predictable - but this last point may be decidedly beneficial as the results can be more reliable and nuanced. If well managed, a participatory process can also increase stakeholder buy-in.

### Recommendation

26. The Board may want to consider the options for a framework for a medium-term strategy for the Fund, and request the secretariat to prepare a draft medium-term strategy for the Fund, to be considered by the Board at its [twenty-ninth] [thirtieth] meeting, so that the strategy would be developed according to the following options:

- a) Conceptual model: [Option 1: Strategy as static] [Option 2: Strategy as dynamic]
- b) Structure: [Option 1: Strategic choices approach] [Option 2: Logical framework approach]
- c) Design process: [Option 1: Streamlined process engaging a narrow group of stakeholders and decision makers] [Option 2: More participatory and transparent process involving client countries, donors, other funds, civil society, etc.]