



**ADAPTATION FUND**

**Medium Term Strategy 2018-2022**

*Draft text for stakeholder feedback*

**SURVEY ALTERNATIVE FOR STAKEHOLDERS WITHOUT  
ACCESS TO RELIABLE INTERNET**

**PLEASE RETURN TO THE ADAPTATION FUND SECRETARIAT  
BY 25<sup>TH</sup> AUGUST 2017**

## BACKGROUND

The Adaptation Fund (the Fund) was launched in December 2007 to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol. As such, 2017 marks a major milestone and presents stakeholders with a valuable opportunity to reflect on achievements to date, take stock of lessons learnt, and plan for the future – especially with regards to how the Adaptation Fund might best serve Parties to the Paris Agreement.

At its twenty-seventh meeting in March 2016, the Adaptation Fund Board therefore embarked on a journey to develop a Medium Term Strategy (Strategy, or MTS) for the 2018-2022 period. Following further deliberations at its twenty-eighth meeting in October 2016, the Board committed to crafting an agile Strategy *informed by* decisions under the UNFCCC as well as other, relevant, international frameworks, declarations and agendas, *based on* a clear Theory of Change, and *developed through* a transparent and participatory process involving Implementing Entities, contributing and recipient governments, civil society and sibling funds.

Key inputs into the Fund's draft MTS include COP decisions; the Cancun Adaptation Framework; the 2030 Agenda for Sustainable Development; the Sendai Framework for Disaster Risk Reduction; the Paris Declaration on Aid Effectiveness and subsequent Accra Agenda for Action; the Addis Ababa Action Agenda from the Third International Conference on Financing for Development; the Fund's Initial and Second Reviews; the Technical Paper for the Third Review as prepared by the UNFCCC Secretariat in cooperation with the Adaptation Fund Secretariat; and the Fund's independent First Phase Evaluation. The draft MTS has also been informed by Parties' views on governance and institutional arrangements, safeguards and operating modalities for the Adaptation Fund to serve the Paris Agreement, as submitted to the UNFCCC Secretariat.

This Survey complements an earlier round of interview-based consultations by reaching a much wider set of stakeholders and presenting you with a draft Strategy for peer review, careful consideration, and focused feedback.

Though forthcoming COP decisions and the evolving architecture of international climate finance are uncertain, the Strategy we hope to build with your input should be sufficiently well informed and flexible to accommodate a wide range of scenarios. Subject to further guidance from Parties to the Kyoto Protocol and Paris Agreement, this Strategy is expected to guide the Adaptation Fund's work over the 2018-2022 period with a view to achieving demonstrable results that catalyse and facilitate further action by our many partners.

The Survey is divided into six sections and may take 30 minutes or more to complete.

We look forward to receiving your input, with the aim of finalising the Adaptation Fund's Medium Term Strategy at the Board's next meeting in October

## **SECTION 1: INTRODUCTION**

### **Common cause and commitment**

In September 2015, the United Nations General Assembly adopted The 2030 Agenda for Sustainable Development. Its 17 Sustainable Development Goals (SDGs) and 169 Targets set out a detailed, ambitious and transformational vision for the future summarised in the Agenda's opening sentence: "We envisage a world free of poverty, hunger, disease and want, where all life can thrive."

The Agenda singles out climate change as a unique, crosscutting threat to that vision since it undermines the ability of all countries to achieve sustainable development. As a result, urgent action to combat climate change and its impacts is one of the Agenda's main goals. The UN Framework Convention on Climate Change (UNFCCC) is the primary intergovernmental forum for negotiating what this action will entail, who will do it, how and when. The Paris Agreement, which entered into force on 4<sup>th</sup> November 2016, builds upon this Convention. By uniting all Parties in common cause and commitment to undertake ambitious action, the Paris Agreement charts a new course in global efforts to both mitigate and adapt to the effects of climate change. The Agreement aims to enhance implementation of the Convention by:

- Holding the increase in global average temperature this century to well below 2°C and pursuing efforts to limit this rise to no more than 1.5°C above pre-industrial levels.
- Increasing Parties' ability to adapt to the adverse impacts of climate change while fostering climate resilience and sustainable development.
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development.

In pursuit of these goals, the Agreement stipulates that Parties will work together to establish a new technology framework, create a framework for enhanced capacity building, and provide appropriate financial resources to assist developing country Parties.

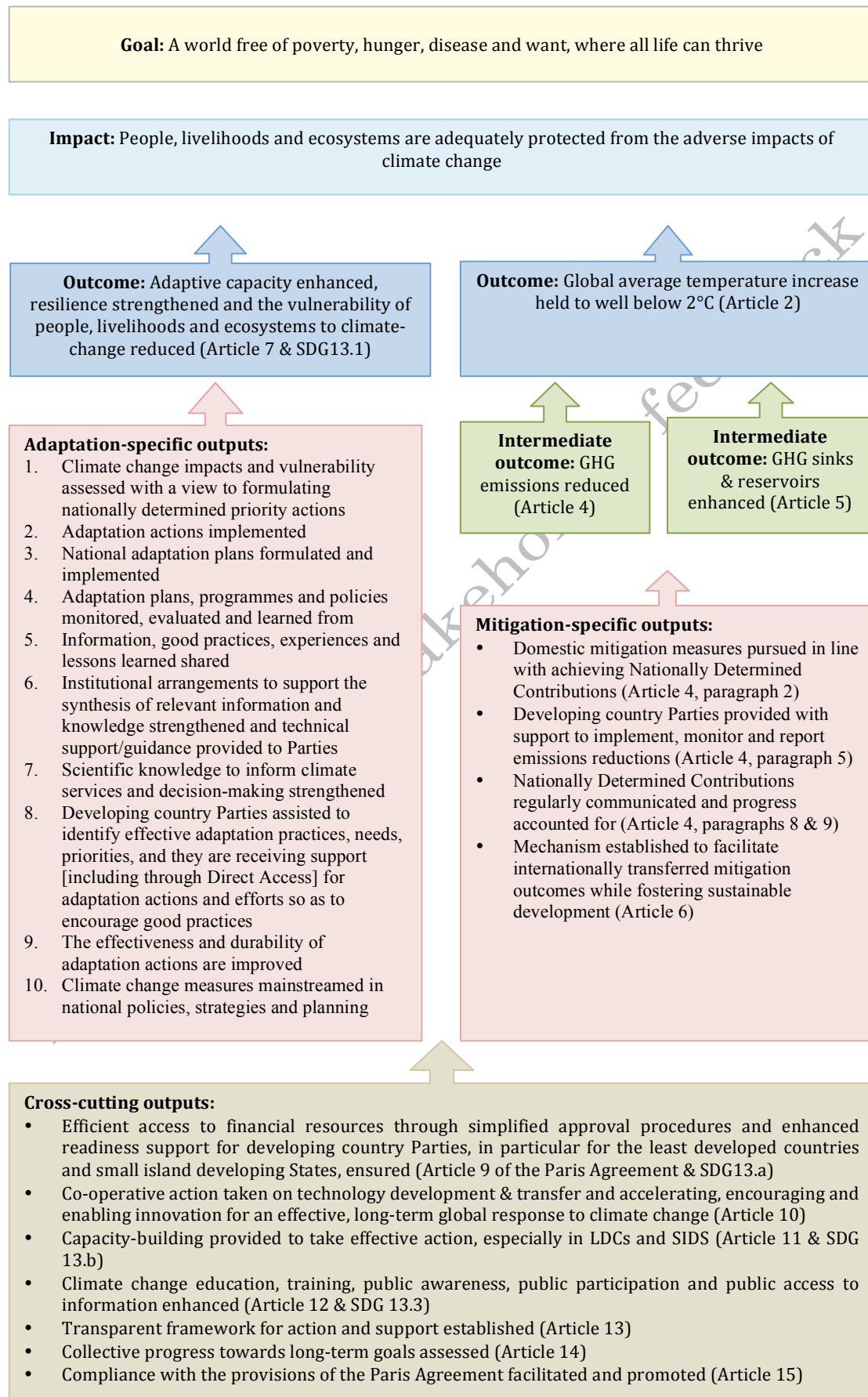
### **What it will take to get there**

Both the 2030 Agenda for Sustainable Development and the Paris Agreement are noteworthy for the degree to which they identify early and intermediate conditions of success. The following "Theory of Change" merges SDG 13, which is about taking urgent action to combat climate change and its impacts, with the Paris Agreement. It notes that "a world free of poverty, hunger, disease and want, where all life can thrive" is our overall goal. It recognises that protecting people, livelihoods & ecosystems from the adverse impacts of climate change is necessary to realising this goal, and it acknowledges early and mid-term changes critical to their protection.<sup>1</sup>

---

<sup>1</sup> "Articles" refer to Articles under the Paris Agreement. All adaptation-specific outputs in the ToC are derived from Article 7, paragraphs 7 or 9, except the final output, which is derived from SDG 13.2. As per the Fund's results based management system (AF 2010, 4), a goal is "the higher-order objective to which a development intervention is intended to contribute;" impacts are "positive and negative long-term effects on identifiable population groups produced by a development intervention;" and outcomes are "the intended or achieved short-term and medium-term effects of an intervention's outputs, usually requiring the collective effort of partners;" while outputs are "the products and services which result from the completion of activities within a development intervention."

Illus. 1: Theory of Change derived from the Agenda for Sustainable Development & Paris Agreement



## SECTION 2: Role of the Adaptation Fund

Both the 2030 Agenda for Sustainable Development and Paris Agreement recognise that holding the increase in global average temperature to well below 2°C is crucial to protecting people, livelihoods and ecosystems from the adverse impacts of climate change. Given existing and further, unavoidable increases in global average temperature, these efforts must progress in tandem with action to enhance adaptive capacity, strengthen resilience and reduce vulnerability. While this agenda is pertinent to all countries, the need for action is especially urgent and immediate in developing countries that are particularly vulnerable to the adverse effects of climate change. The Adaptation Fund exists to address this need.

The Adaptation Fund was established in 2001 to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol (Decision 10/CP.7 seventh Conference of the Parties to the Kyoto Protocol, UNFCCC 2002). In 2005, this Decision was endorsed at the first Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) under Decision 28/CMP.1, paragraphs 1 and 2 (UNFCCC 2006), wherein Parties determined that:

*...the Adaptation Fund established under Decision 10/CP.7 shall finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol, as well as activities identified in Decision 5/CP.7, paragraph 8*

The need to finance concrete adaptation projects and programmes in developing countries is at least as great today as it was in 2005. However, the Fund's fundamental value proposition has grown.

Today, the Adaptation Fund's purpose is clearly aligned with the Paris Agreement's stated goal of "enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change" (Article 7, paragraph 1). But while the Fund may be narrowly associated in many stakeholders' minds with financing concrete adaptation projects, in fact it does much more. Indeed, the Fund has - since its inception - contributed action, innovative approaches to climate finance (e.g. Share of Proceeds and Direct Access) as well as learning to benefit the most vulnerable countries and communities. In light of goals stipulated in the 2030 Agenda for Sustainable Development and Paris Agreement, early and intermediate conditions of success identified by Parties, the Fund's surrounding context and internal conditions, *Action, Innovation and Learning* will remain the Fund's focus going forward.

### **SECTION 3: Strategic Focus 2018-2022**

The Adaptation Fund's Medium Term Strategy updates and refines the Fund's niche to better serve the evolving needs of Parties to the UN Framework Convention on Climate Change. Towards this end, the Fund's Vision, Goal and Impact are derived from the 2030 Agenda for Sustainable Development (especially SDG 13.1), the Paris Agreement (especially Articles 7, 9 and 11), and their implied Theory of Change.

**Vision:** *Developing country Parties are successfully enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change. Their actions address the special needs of vulnerable social groups, communities and ecosystems; are based on and guided by the best available science and knowledge; and are purposefully contributing towards sustainable development and the eradication of poverty.*

**Goal:** People, livelihoods and ecosystems are adequately protected from the adverse impacts of climate change.

**Impact:** *Adaptive capacity enhanced, resilience strengthened and the vulnerability of people, livelihoods and ecosystems to climate-change reduced.*

The Fund's unique role within this big picture is informed by standing guidance from Parties, lessons on aid effectiveness and disaster risk reduction, the Fund's external context, internal conditions, and insights shared by stakeholders during the consultative MTS process.

**Mission:** *The Adaptation Fund serves the Paris Agreement by accelerating and enhancing the quality of adaptation action in developing countries. The Fund does so by supporting country-driven projects, innovation, & global learning for effective adaptation. All of the Fund's activities are designed to help build gender-responsive capacity to reach and benefit the most vulnerable.*

The Fund will pursue this Mission during the 2018-2022 period through three Strategic Foci.

## Strategic Focus 1: Action

*SF1: Action – Support eligible countries to undertake high quality adaptation projects consistent with their priority needs, goals and strategies*

COP Decision 10/CP.7 established the Adaptation Fund in 2001 to finance concrete adaptation projects and programmes in developing countries. In 2007, Parties elaborated on the Fund's mandate under Decision 1/CMP.3, directing it to:

1. Assist developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation
2. Finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties

In 2008, the Board proposed Strategic Priorities, Policies and Guidelines of the Adaptation Fund (Decision B.3/7), which were subsequently approved by Parties during CMP4 (Decision 1/CMP.4). This stated that the Fund's central objective was to:

*...provide international finance to help developing countries undertake concrete adaptation projects/programmes consistent with their development needs, goals and strategies.*

SF1 builds on the Fund's well-recognised niche supporting smaller (typically less than US\$10 million), country driven adaptation projects. However, in response to rising expectations expressed by Parties in Articles 7, 9 and 11 of the Paris Agreement, the Fund's Medium Term Strategy places new emphasis on the *quality* of concrete activities and *long term capacity strengthening* for effective adaptation.

Under SF1, the Fund will support eligible Parties to design and implement high quality adaptation projects showcasing best practices. With firm technical and institutional foundations established, many Fund-supported "Beacon" or "model" projects will be ready for scaling up by others. SF1 will, simultaneously, build the capacities and track record that national institutions require to access significantly higher levels of adaptation finance.

**Expected Results.** The Expected Results of SF1 are:

- *ER1 – Vulnerability reduced, resilience strengthened, and adaptive capacity enhanced.* Project/programme beneficiaries' vulnerability to climate variability and change reduced, their resilience strengthened, and adaptive capacity enhanced
- *ER2 – Institutional capacity strengthened.* Long-term capacity of national and regional institutions to implement and execute high quality adaptation projects/programmes strengthened through Fund processes, including accreditation and adaptive management
- *ER3 – Effective action scaled up.* Countries readied to scale up effective projects/programmes with support from other climate funds and finance channels (including private sector).

**Delivery Model.** The Fund will facilitate the design and implementation of Beacon projects/programmes through:

- An enhanced Readiness Programme for Climate Finance, encompassing technical support for accreditation and project/programme design
- Additional technical support during project/programme implementation, as necessary, to achieve expected results
- Existing grant mechanisms and processes for eligible Parties, especially through Direct Access
- Existing grant mechanisms and processes for Regional Projects and Programmes
- Enhanced Direct Access involving sub-national institutions and civil society organisations

Decisions on the allocation of Fund resources will be guided by paragraphs 9 and 10 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*.

## Strategic Focus 2: Innovation

*SF 2: Innovation* – Support the development and diffusion of innovative adaptation practices, tools, and technologies

Article 10, paragraph 5 of the Paris Agreement highlights the central importance of innovation to meeting the many challenges posed by climate change:

*Accelerating, encouraging and enabling innovation is critical for an effective, long-term global response to climate change and promoting economic growth and sustainable development.*

Nonetheless, the development and diffusion of innovative adaptation practices, tools and technologies are frequently beset by barriers and bereft of champions. SF2, therefore, builds on the Adaptation Fund's operating modalities, internal competencies and external relationships to accelerate, encourage and enable innovation by others.

According to stakeholders interviewed during the Fund's first phase evaluation, it is well suited to "generating timely lessons about ... scalable and replicable action benefiting the most vulnerable communities and social groups" (*ibid.* 11). The independent evaluation team elaborated, concluding that the Fund's "...design supports pilot activities with substantial potential for scaling up impact at sub-national, national, and regional levels" (*ibid.*). Under SF2, the Fund will therefore support countries to test, evaluate, roll out and scale up innovative adaptation practices, products and technologies.

**Expected Results.** The Expected Results of SF2 are:

- *ER1 – Successful innovations rolled out.* Innovative adaptation practices, tools and technologies that have demonstrated success in one country spread to new countries/regions
- *ER2 – Viable innovations scaled up.* Innovative adaptation practices, tools and technologies that have demonstrated viability at a small scale piloted at larger scales
- *ER3 – New innovations encouraged and accelerated.* Development of innovative adaptation practices, tools and technologies encouraged and accelerated
- *ER4 – Evidence base generated.* Evidence of effective, economical adaptation practices, products and technologies generated as a basis for implementing entities and other funds to assess scaling up.



**Delivery model.** The Fund will support countries to test, roll out and scale up innovation through:

- A dedicated Innovation Facility consisting of:
  - A large grant (<\$5m) mechanism to roll out proven solutions in new countries/regions or to scale up innovations already demonstrated to work at a small scale
  - A micro-grant (<\$250k) mechanism to develop and/or test innovative adaptation products (e.g. project management tools) and technologies
- Partnerships, competitions and other approaches to stimulate innovative adaptation practices, tools and technologies

Proposals will be open to NIEs, RIEs, and MIEs, with a preference for South-South collaboration and an emphasis on impact at an economical cost. NGOs and private sector entities are encouraged to access the Innovation Facility through NIEs, RIEs, and MIEs.

### **Strategic Focus 3: Learning and sharing**

*SF3: Learning and Sharing – Support learning and sharing about adaptation finance and action*

The Paris Agreement places unprecedented emphasis on adaptation learning and sharing - especially by and with developing country Parties. For example, in Article 7 paragraphs 7 and 9:

*7. Parties should strengthen their cooperation on enhancing action on adaptation, taking into account the Cancun Adaptation Framework, including with regard to:*

*(a) Sharing information, good practices, experiences and lessons learned, including, as appropriate, as these relate to ... implementation in relation to adaptation actions*

*(b) Strengthening institutional arrangements, including those under the Convention that serve this Agreement, to support the synthesis of relevant information and knowledge, and the provision of technical support and guidance to Parties*

*(d) Assisting developing country Parties in identifying effective adaptation practices, adaptation needs, priorities, support provided and received for adaptation actions and efforts, and challenges and gaps, in a manner consistent with encouraging good practices*

*9. Each Party shall, as appropriate, engage in adaptation planning processes and the implementation of actions, including the development or enhancement of relevant plans, policies and/or contributions, which may include:*

*(d) Monitoring and evaluating and learning from adaptation ... actions*

The importance of learning is further underscored given substantive questions about how Parties will deliver projects meeting standards suggested in Article 5:

*... adaptation action should follow a country-driven, gender-responsive, participatory and fully transparent approach, taking into consideration vulnerable groups, communities and ecosystems, and should be based on and guided by the best available science and, as*

*appropriate, traditional knowledge, knowledge of indigenous peoples and local knowledge systems, with a view to integrating adaptation into relevant socioeconomic and environmental policies and actions, where appropriate.*

The Adaptation Fund's third Strategic Focus is, therefore, learning and sharing to enhance its own processes and activities, as well as those of others. SF3 will build on the Fund's recently revised Knowledge Management Framework and Action Plan (2016i) to continuously:

- Improve Fund policies and performance through effective, "whole-of-organisation" learning and sharing,
- Support collaborative learning and sharing across adaptation communities of practice.

Accordingly, the Fund will work with partners to generate knowledge from its processes (e.g. accreditation and direct access) as well as projects and communicate lessons learnt to audiences around the world. The Fund will also support cross-project learning on themes periodically selected by the Board for their pragmatic value (e.g. "How do we ensure that an adaptation project is truly "gender-responsive?" or "How can the project design process effectively integrate traditional knowledge, the knowledge of indigenous peoples or local knowledge systems?").

Activities under SF3 will be implemented, to the greatest degree feasible, in partnership with NIEs, EEs, national research institutions/centres, and national NGOs so as to ensure relevance and strengthen analytical capacity in developing country Parties. Some activities may also be implemented with international institutions offering unique expertise.

**Expected Results.** The Expected Results of SF3 are:

- *ER1 - Lessons learnt and shared.* Practical lessons from Fund processes and projects/programmes captured and effectively communicated to adaptation actors around the world
- *ER2 - Knowledge and guidance developed.* Practical knowledge gained and guidance provided vis-à-vis select themes (e.g. improving the durability of adaptation actions).
- *ER3 - Analytical capacity strengthened.* Long-term analytical/learning capacity strengthened in developing country Parties.

**Delivery model.** The Fund will support learning and sharing about adaptation through:

- Implementation of its Knowledge Management Framework and Action Plan
- Enhanced technical support to project-level learning processes
- Strategic partnerships with knowledge-institutions and existing fora/networks for sharing knowledge about adaptation
- Micro-grants (<\$150k) facilitating south-south learning and the sharing of information, good practices, experiences and lessons learnt

### **Crosscutting themes**

In order to continue promoting consistent, critical thinking and improved outcomes in line with Parties' aspirations, the Adaptation Fund will work with its partners to mainstream the following themes across Fund processes and the projects/programmes it supports:

- Gender equality and women's empowerment
- Reaching the most vulnerable communities and social groups
- Building long-term institutional and technical capacity for effective adaptation

The Fund holds itself accountable for mainstreaming these themes through regular reflection, innovation and collaborative learning to set new norms.

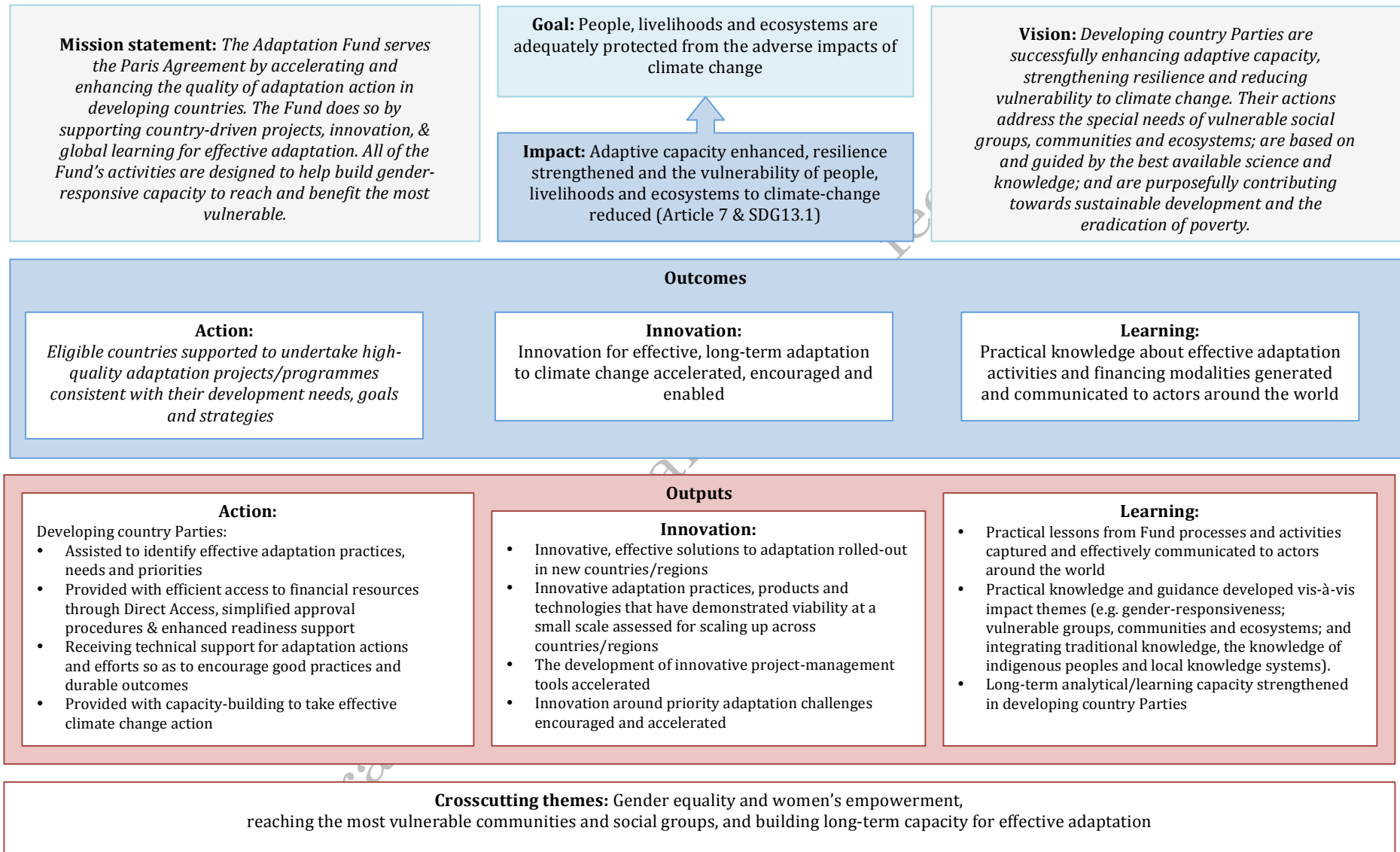
### **Financial implications & allocations**

The Fund's MTS can be implemented with a budget of US\$100 million per year during the 2018-2020 period. It is, though, sufficiently flexible to accommodate substantial scaling up.

The Adaptation Fund Board will take a flexible approach to the annual allocation of resources between Action, Innovation and Learning activities. The great majority of resources, though, will continue to be reserved for concrete adaptation projects/programmes under SF1 (Action) and SF2 (Innovation).

Draft text for stakeholder feedback

Illus. 2: Summary framework of the Adaptation Fund's Medium Term Strategy, 2018-2022



## **SECTION 4: Success Strategy**

The Adaptation Fund has a solid track record of supporting concrete adaption projects/ programmes in vulnerable countries through established systems, standards, and relationships. The Fund's success strategy for the 2018-2022 period builds upon these foundations, adding or refining only where necessary to ensure the Fund's arrangements and modalities remain effective, efficient and fit for purpose under the Paris Agreement.

### **Governance and institutional arrangements**

The Adaptation Fund is supervised and managed by an international Board, which has been hosted by the Federal Republic of Germany since 2009. The World Bank currently serves as interim Trustee and the Global Environment Facility provides Secretariat services, also on an interim basis. The World Bank sells Certified Emissions Reductions (CER) certificates to support the Fund and manages the Adaptation Fund Trust Fund. The Secretariat consists of a dedicated team providing research, advisory, administrative, and an array of other services to the Board.

Successive reviews of the Adaptation Fund by the Subsidiary Body for Implementation of the Kyoto Protocol (UNFCCC 2013 and 2014), as well as an independent evaluation of the Fund in 2015 (TANGO International & ODI 2015), concluded that these arrangements work well and should be maintained. There is no inherent conflict between these arrangements and the Fund's intention to serve Parties to the Paris Agreement, nor are there evident conflicts between these arrangements and the Fund's MTS. Therefore, the Fund presumes a continuation of existing institutional arrangements subject to future guidance from Parties.

In 2009, the Adaptation Fund Board established an Ethics and Finance Committee, Project and Programme Review Committee, and Accreditation Panel. All three have fulfilled crucial roles in an effective and efficient manner (TANGO International & ODI 2015). As such, they will be maintained with no changes to their respective terms of reference anticipated.

Civil society contributes to the Adaptation Fund in a variety of ways, including resource mobilisation, real-time updates on and assessments of supported projects, input from the intended beneficiaries, and knowledge management. Though current practices are reasonably effective in terms of transparency and even accountability to civil society organisations, there is still scope for improvement (TANGO International & ODI 2015, paragraphs 85-86). The Board, therefore, aims to work with the Adaptation Fund NGO Network to explore modalities for even greater collaboration during the 2018-2022 period.

A Steering Group composed of the Board Chair, Vice-Chair and Committee leads will oversee implementation of the Fund's Medium Term Strategy. Implementation of the Fund's Medium Term Strategy may require the Secretariat to recruit additional staff. Staffing decisions will be made on the basis of specific action plans reviewed by the Board on an annual basis.

## Principles and modalities

Decision 5/CMP.2, paragraphs 1 and 2, established an initial set of principles and modalities to guide the Adaptation Fund (UNFCCC 2007b). In 2008, these principles and modalities were updated and expanded upon by Parties, as per Decision 1/CMP.4, Annex IV (UNFCCC 2009). This second set of guiding principles and modalities was incorporated into the Fund's Operating Policies and Guidelines and is broadly consistent with Decision 5/CMP.2 (UNFCCC 2007b) as well as the Accra Agenda for Action (OECD 2008) and strategic goals under the Sendai Framework for Disaster Risk Reduction (UN 2015b).

Neither the Paris Agreement nor subsequent CMA decisions as of July 2017 provide a new set of principles or modalities to guide the Adaptation Fund. However, a framework of expectations is already in place under Article 7 (Adaptation) and Article 11 (Capacity Building). While the Adaptation Fund's Medium Term Strategy cannot presume future decisions by Parties, it can ensure harmony with existing text and avoid conflict with earlier guidance. Towards this end, the Fund's Strategic Priorities, Policies and Guidelines will be updated, pending further guidance from Parties.

The Fund will affect these overarching principles and modalities during the 2018-2022 period through its Operating Policies and Guidelines for Parties to Access Resources, Environmental and Social Policy, Gender Policy and Action Plan, Knowledge Management Strategy and Action Plan, Open Information Policy, Zero Tolerance Policy Against Corruption, Ad-Hoc Complaint Handling Mechanism, and annexes, updates, amendments and guidance documents deemed appropriate by the Board.

**Operating policies and guidelines:** The Fund's Operating Policies and Guidelines for Parties to Access Resources (OPG) were established in 2009 (AF 2009). and updated to reflect further guidance from Parties in 2014 (AF 2014a) and 2016 (AF 2016a). The OPG, along with its annexes and ancillary policy documents, describes funding priorities, eligibility requirements, fiduciary standards, accreditation and re-accreditation processes, the Fund's complaint handling mechanism, its policy for dealing with project/programme delays, as well as environmental, social, gender, and monitoring and reporting requirements.

**Environmental and social safeguards:** The Adaptation Fund has had a comprehensive Environmental and Social Policy (ESP) since 2013 and ESP Guidance Notes for Implementing Entities since 2015, both of which were updated in 2016 (AF 2016d and 2016h). The ESP requires project/programme proposals to identify, avoid, minimize, or mitigate environmental and social harms that might result from funded projects/programmes (e.g., impacts to marginalized and vulnerable groups, human rights, gender equality and women's empowerment, indigenous people, biological diversity). The ESP, which built upon the Fund's pre-existing policies, operating procedures, and project cycle, is now integral to the accreditation process.

**Gender:** The Fund's Gender Policy and Action Plan was updated in March 2016 (AF 2016e). It systematically integrates key ESP principles, especially the principles of access and equity, consideration of marginalised and vulnerable groups, and human rights. The Fund's Gender Policy extends the principle of gender equity and women's empowerment to a legal mandate of "gender equality." The Fund's Gender Policy is human rights-based and congruent with the relevant international instruments.

**Transparent and open governance:** Since its inception, the Fund has disclosed information and published policies, meeting reports, project proposals, project reviews, project performance reports, and related documents on its website. In 2013, the Fund formalised these practices under its Open Information Policy (AF 2013b) and began using the International Aid Transparency Initiative standard to ensure compliance with Parties' expectations of transparent and open governance. The Fund strives to be a leader in transparent decision-making and, therefore, continues to adapt and improve transparency. As part of its effort to provide information in more accessible formats, the Fund has recently deployed an interactive mapping portal on its website, giving users full access to financial and other data across its project/programme portfolio.

**Learning and sharing:** The Fund's Knowledge Management Strategy and Action Plan was thoroughly revised in 2016 (AF 2016i). It aims to:

- Enhance developing countries' knowledge about effective adaptation, especially in relation to the most vulnerable communities
- Improve the design and effectiveness of concrete adaptation activities by learning and sharing lessons from projects/programmes
- Share knowledge about Direct Access, accreditation and adaptation finance readiness
- Share data, information and knowledge about reducing vulnerability and increasing adaptive capacity so as to position adaptation as a global priority

### **Culture and competencies**

The Adaptation Fund's organisational culture and core competencies are essential to the success of its Medium Term Strategy. The Board, therefore, commits to monitoring and safeguarding:

- Its own operational culture – especially the Board's non-hierarchical working environment and willingness to rapidly evolve Fund policies within the overall context of guidance from Parties
- The Secretariat's organisational culture – especially its non-hierarchical working environment that encourages the free-flow of ideas, thinking outside the box, and collaborative versus competitive efforts

The Board also takes responsibility for monitoring, reinforcing and capitalising on the Fund's capacity to innovate vis-à-vis its own processes, structures, and strategies; work directly with vulnerable countries (including, *inter alia*, LDCs and SIDS); and target the most vulnerable communities and social groups.

### **Resource mobilisation**

The Adaptation Fund's initial resource mobilisation model relied primarily on a 2% share of proceeds arising from the sale of Certified Emission Reductions (CERs). In 2008, this innovative mechanism was projected to generate revenues of around €480 million for the 2008-2012 period. Unfortunately, CER values crashed; and the Fund has relied on the effort of Board members, its Secretariat, civil society, and Parties to meet fundraising targets through *ad hoc* infusions from contributing governments.

The Fund's minimum resource mobilisation target for the 2016-2017 period was US\$80 million per year, expected to rise to US\$100 million per year for the 2018-2020 period

in response to growing demand. Given that its share of proceeds arising from the sale of CERs is likely to remain depressed throughout the current Kyoto commitment period, the Adaptation Fund's resource mobilisation strategy will continue to rely on voluntary contributions.

The US\$100 million target is a lower limit. If the Fund continues accrediting three to four implementing entities per year, annual demand under SF1 alone will likely reach US\$180-200 million by 2020. However, the last two years have seen a surge in interest by developing country Parties. If the Fund's rate of accrediting new entities doubles in response, as seems wholly plausible, demand will be significantly higher – perhaps reaching US\$260-300 million per year by 2020 (AF 2017b: 10-11).

The Board looks forward to working with stakeholders and developing a finance model capable of meeting Parties' rapidly growing expectations. This collaborative effort should reflect the Fund's experiences and lessons learnt to date, especially with regards to the diversity, flexibility, and reliability of income streams.

Draft text for stakeholder feedback



## SECTION 5: Management Systems

The Adaptation Fund has a robust set of management systems in place, with only minor adjustments required to better support implementation of its Medium Term Strategy.

### Adaptive Results-based Management

Results-based Management (RBM) is an integrated approach to performance improvement that has been widely adopted by governments, UN agencies, development banks, and NGOs. It links monitoring, evaluation and learning with strategic planning and budget allocation processes to:

- Ensure alignment between goals, impacts, outcomes and outputs
- Enable ongoing, evidence-based decisions to improve organisational and project performance

The Adaptation Fund's RBM system is described in its Approach to Implementing Results-Based Management (2010), Strategic Results Framework (*ibid.*, Annex I), Fund-Level Effectiveness and Efficiency Results Framework (*ibid.*, Annex II), and Project-Level Results Framework and Baseline Guidance (2011a). During the 2018-2022 period, the Fund will improve this system by adding indicators and targets for operational processes, organisational culture, and strategic competencies. The Fund will also endeavour to render its RBM system more inclusive and integrate key principles of Adaptive Management (AM).

Inclusiveness is an important RBM principle (UNDG 2011, 5-6). Strong RBM systems engage stakeholders in the development of results frameworks and implementation of monitoring, evaluating, and learning processes. Within the context of the Fund's Medium Term Strategy, AM implies an explicitly experimental approach to managing structures, systems, and processes. Specifically, AM is the integration of design, management, and monitoring to systematically test assumptions, learn and adapt. Within this formula:

- "Testing assumptions" is about trying different actions to achieve a desired outcome. The goal is to develop an understanding of *which* actions work and *why*.
- "Learning" is about systematically documenting processes and results. This documentation is used to avoid making the same mistakes in the future and, through sharing, enable the broader community to benefit from the Fund's experiences.
- "Adaptation" is about taking action to improve Fund structures, systems and processes based on the results of monitoring. If the Fund is not achieving expected results, this can only be due to faulty assumptions, poor execution, changing circumstances, or a combination of these problems. Adaptation involves changing assumptions and/or execution to respond to new information obtained through monitoring efforts.

### Monitoring, evaluation and reporting system

This Medium Term Strategy constitutes the Fund's highest-level Results Framework for the 2018-2022 period and, as such, is the basis against which the Fund will be evaluated for both learning and accountability purposes. Towards this end:

- Implementing Entities will monitor, evaluate and report on projects/programmes funded under SF1 and SF2 in order to assess performance and distil valuable lessons that can improve the outcomes and impact of future projects. In keeping with the

Fund's commitment to transparency and accountability, as well as current policy Project Performance Reports (PPRs) will be posted online.

- The Secretariat will monitor whether activities under SF1, SF2 and SF3 are being implemented in line with the Fund's 2018-2022 Strategy, standards are being met, risks are being managed, targets are being reached, and resources are being used efficiently. Findings and recommendations will be submitted to the Board in an Annual Performance Report. This, along with additional materials it may deem fit, will inform the Board's Annual Report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) or Paris Agreement (CMA).
- The Board will commission an independent performance evaluation of SF1, SF2, and SF3 activity portfolios, focusing on progress towards Expected Results, lessons to be learnt, and implications for Fund-level outputs and objectives. This evaluation will specifically assess the relevance, efficiency, effectiveness and potential long-term impact of activities under SF1, SF2 and SF3, as well as the Fund's Medium Term Strategy as a whole. The Board will also commission an independent process evaluation, examining the relevance, efficiency, effectiveness and sustainability of the Fund's institutional arrangements, strategic priorities, policies and processes. These two independent evaluations will be finalised in time to inform the Fund's Medium Term Strategy for the 2023-2027 period.

Additional evaluations may be conducted during the 2018-2022 period should the Board expect findings to improve Fund performance or processes.

### **Knowledge management system**

Knowledge management and learning are key components of RBM and are important components for any organisation dealing with adaptation to climate change. Learning encompasses a cycle of planning, periodic performance assessment and organizational learning – all of which are supportive of knowledge creation and sharing. It is important to ensure that learning influences strategy development and programme/project design, and that lessons are fed back into programme/project implementation. A learning component is also critical for identifying and managing risks while bearing in mind the expected results and resource levels. This involves increasing knowledge by learning, knowledge dissemination and feedback into decision making, project design and strategy development.

### **Risk management system**

The Adaptation Fund recognises that ethical transgressions, financial mismanagement and adverse project/programme impacts could interfere with its Mission. Though these risks cannot be eliminated, they can be identified and mitigated. The Fund, therefore, established a comprehensive Risk Management Framework in 2010, which was amended in October 2014 (AF 2014b). This document describes risk management roles and responsibilities for the Board, Secretariat, and Implementing Entities. It also describes the processes and mechanisms the Fund has in place for each category of risk, including the Fund's Rules of Procedure (2009), Code of Conduct for Board Members (2013a), Zero Tolerance Policy on Corruption (2014c), OPG (2016a), ESP (2016d), and Ad-Hoc Complaint Handling Mechanism (2016j). This Framework, its supporting policies, and related procedures have proven effective to date and are expected to suffice during the period of the Fund's 2018-2022 Strategy.

### **Human resources management system**

The World Bank Group provides human resource infrastructure and management services to the Adaptation Fund through the Group's Human Resource Management (HRM) system. This system must be able to recruit, retain, and motivate high quality staff and consultants capable of implementing the Fund's Medium Term Strategy. These arrangements work well and, as such, will be maintained subject to further guidance from Parties.

*Draft text for stakeholder feedback*