



ADAPTATION FUND

AFB/B.30/5/Rev.1
13 October 2017

Adaptation Fund Board
Thirtieth meeting
Bonn, Germany, 12-13 October 2017

Agenda item 8 a)

DRAFT 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. That document, AFB/B.28/7, “Options for a medium-term strategy”, including the confidential addendum AFB/B.28/7/Add.1, was presented by the secretariat to the Board at the twenty-eighth meeting. It included choices among options in three areas: the conceptual model to be used for the strategy, the structure of the strategy, and the type of design process to be followed. Having considered the above documents, the Board decided:

- a) To establish a task force to guide the work of the secretariat on the medium-term strategy for the Fund, composed of three members from Annex I countries and three members from non-Annex I countries to be elected intersessionally;*
- b) To request the secretariat to:*

- (i) *Arrange, if possible, a meeting of the task force, in the sidelines of the twenty-second session of the Conference of the Parties of the United Nations Framework Convention on Climate Change;*
 - (ii) *Prepare, under the supervision of the task force mentioned in subparagraph (a), elements including options for a medium-term strategy for the Fund, to be considered by the Board at its twenty-ninth meeting, with a view to developing the final strategy by the thirtieth meeting; and*
- c) *That the medium-term strategy would be developed according to the following options for the framework described in document AFB/B.28/7:*
- (i) *Conceptual model: Option 2: Strategy as dynamic;*
 - (ii) *Structure: Option 1: Strategic choices approach;*
 - (iii) *Design process: a combination of Options 1 and 2, so that at the initial stage, the first formulation of the strategy would be done engaging a focused group of stakeholders and decision-makers (Option 1) and that at the second stage, a more comprehensive process (Option 2) would be applied.*

(Decision B.28/46)

3. Following the twenty-eighth meeting of the Board, the election of officers to various positions in the Board and its subsidiary bodies was delayed as it was considered necessary to wait until after constituencies had nominated members and alternates to serve on the Board in conjunction with the twenty-second session of the Conference of the Parties of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) (COP22). The nomination of Board members and alternates was only finalized in January 2017. Subsequently, the secretariat liaised with the Chair and Vice-Chair of the Board in order to seek nominations from constituencies for members of the medium-term strategy task force. Some nominations were received but as those nominations did not reach the full composition outlined in subparagraph (a) of Decision B.28/46, it was agreed that while the nominated members could contribute to the process in an informal capacity, the election of task force members would be postponed until the twenty-ninth meeting.

4. At its twenty-ninth meeting, the Board decided, through decision B.29/1:

[...]

(c) To elect David Kaluba (Zambia, Africa), Mr. Naser Moghaddasi (Islamic Republic of Iran, Asia-Pacific), Mr. Aram Ter-Zakaryan (Armenia, Eastern Europe), Mr. Lucas Di Pietro Paolo (Argentina, Latin America and the Caribbean), Mr. Michael Jan Hendrik Kracht (Germany, Annex I Parties), Ms. Tove Zetterström-Goldmann (Sweden, Annex I Parties), and Mr. Marc-Antoine Martin (France, Annex I Parties) as members of the medium-term strategy task force [...]

5. At the twenty-ninth meeting, the Board also decided to:

(a) To request the secretariat:

- (i) *To draft the medium-term strategy, under supervision and guidance of the Task Force on the medium-term strategy;*
- (ii) *To publish the draft medium-term strategy for public consultation purposes; and*
- (iii) *To present a new version of the draft medium-term strategy for consideration by the Board at its thirtieth meeting.*

(Decision B.29/39)

6. During the intersessional period, under supervision and guidance of the medium-term strategy task force, the secretariat prepared a first draft for a medium-term strategy. In doing so, the secretariat was assisted by the consultant who had been instrumental in developing documents AFB/B.28/7 and AFB/B.29/5 and their respective addenda. As requested through decision B.29/39, the first draft was published on the Fund's website for public consultation purposes, and was also directly circulated to the Adaptation Fund NGO Network and other stakeholders together with a questionnaire designed to gather and organize feedback. The secretariat received 28 responses.

7. Following feedback from the civil society and other stakeholders, the secretariat prepared, under supervision and guidance of the medium-term strategy task force, a revised draft medium-term strategy that is presented in this document.

8. This revised version of document, AFB/B.30/5/Rev.1, reflects discussion and observations offered during the Board's thirtieth meeting. Specific changes to Annex 1 include:

- MTS divided into three parts (Context, Strategy, and Enabling Structures & Systems)
- Placeholder for Executive Summary inserted. Text will communicate, inter alia, how the MTS enables the Fund to better serve the Paris Agreement including but not limited to Articles 7, 10 and 11.
- "Will" changed to "might" in bullet point 3, section 2.3
- Illustration 3 to be changed using Figure 3.3 in UNEP's 2016 Adaptation Finance Gap Report as a model
- Linkages between the MTS and Paris Agreement emphasized over linkages with the 2030 Agenda for Sustainable Development in Part 2, "Strategy"
- Proposed AFB Steering Group deleted.
- Enhanced SoP under Article 6.4 referenced in section 6.6, "Resource Mobilization."

9. The secretariat has, at the Task Force's request, begun examining how the MTS could be efficiently implemented. Though further consideration and guidance from the Board will be required, it is important to note that all activities under SF1 and SF2 could be implemented through a combination of existing grant mechanisms and updates/modifications to the Fund's current OPG and annexes.

Recommendation

10. The Board may want to consider the draft medium-term strategy for the Fund, contained in Annex 1 of document AFB/B.30/5/Rev.1, and decide to:

- a) Adopt the medium-term strategy contained in Annex 1 of the document AFB/B.30.5/Rev.1 as amended by the Board and
- b) Request the secretariat to:
 - (i) Broadly disseminate the MTS and work with key stakeholders to build understanding and support
 - (ii) Prepare, under the supervision of the medium-term strategy task force, a draft Implementation Plan for operationalizing the MTS for consideration by the Board at its thirty-first meeting. This draft Implementation Plan will include a draft budget and address key assumptions and risks [including but not limited to funding and political risks]; and
 - (iii) As part of Implementation Plan, draft updates/modifications to Fund operational policies and guidelines so as to facilitate implementation of the MTS for consideration by the Board at its thirty-first meeting.

Annex 1



ADAPTATION FUND

Draft Medium Term Strategy 2018-2022





ADAPTATION FUND

Helping developing countries build resilience and adapt to climate change

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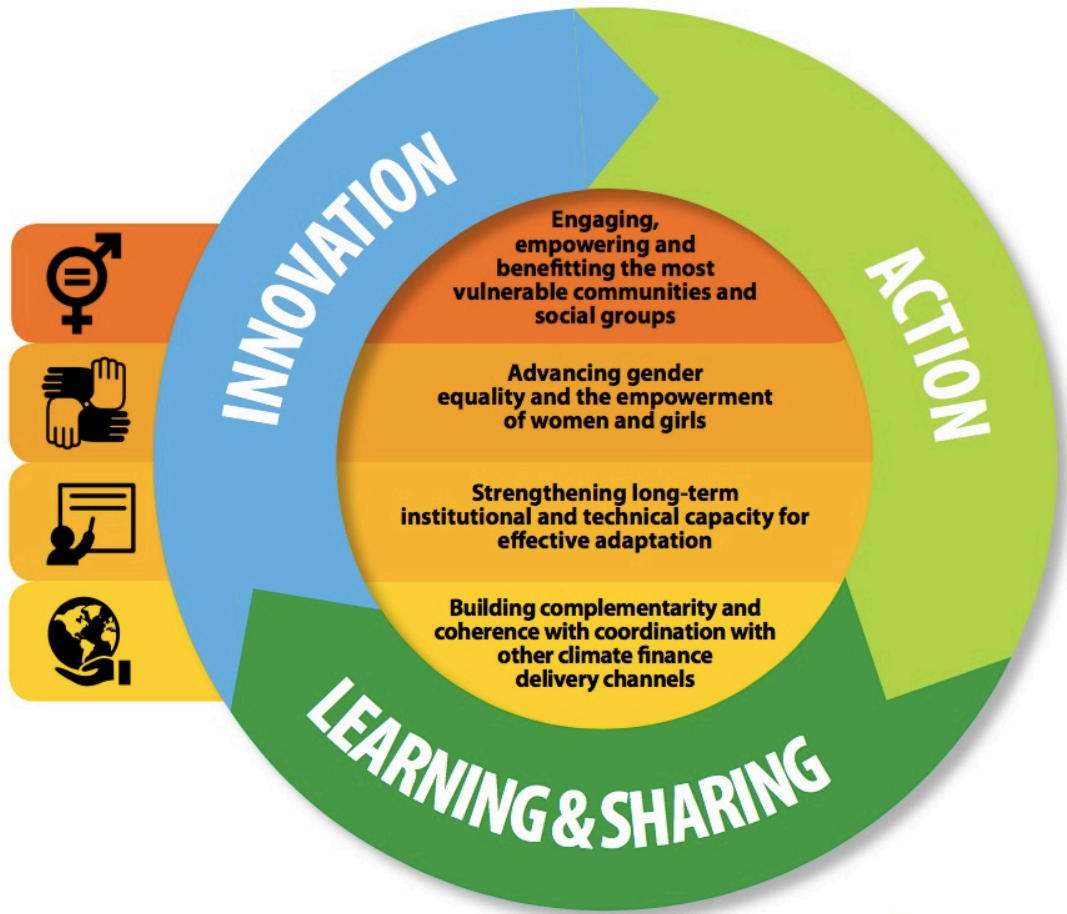
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List of Acronyms

AF	Adaptation Fund
AFB	Adaptation Fund Board
AM	Adaptive Management
AP	Accreditation Panel
CER	Certified Emission Reductions
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
COP	Conference of the Parties
EFC	Ethics and Finance Committee (Adaptation Fund)
ER	Expected Result
ESP	Environmental and Social Policy
GHG	Greenhouse Gas
LDCs	Least Developed Countries
MIE	Multilateral Implementing Entity
MTS	Medium Term Strategy
NGO	Non-Governmental Organisation
NIE	National Implementing Entity
RIE	Regional Implementing Entity
SDG	Sustainable Development Goal
OECD	Organisation for Economic Co-operation and Development
OPG	Operating Policies and Guidelines for Parties to Access Resources
PPRC	Project and Programme Review Committee (Adaptation Fund)
RBM	Results Based Management
SF	Strategic Focus
SIDS	Small Island Developing States
ToC	Theory of Change
UN	United Nations
UNEP	United Nations Environmental Programme
UNFCCC	United Nations Framework Convention on Climate Change

Illus. 1: Strategic Foci and Crosscutting themes



EXECUTIVE SUMMARY

PART I: CONTEXT

1.0 BACKGROUND

The Adaptation 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 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 culminating in its 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 MTS include COP decisions; the Cancun Adaptation Framework (UNFCCC 2011); the 2030 Agenda for Sustainable Development (UN 2015a); the Sendai Framework for Disaster Risk Reduction (UN 2015b); the Busan Partnership for Effective Development Cooperation (OECD 2012); the Addis Ababa Action Agenda from the Third International Conference on Financing for Development (UN 2015c); the Fund's Initial and Second Reviews (UNFCCC 2013a and 2014); and the Fund's independent First Phase Evaluation (TANGO International & ODI 2015). The MTS has also been informed by Parties' recently shared views on governance and institutional arrangements, safeguards and operating modalities for the Adaption Fund to serve the Paris Agreement (UNFCCC 2017b).

Implementing entities, contributor and recipient governments, the Adaptation Fund NGO Network, and other key stakeholders have provided critical input through two rounds of formal consultation. Though forthcoming COP decisions and the evolving architecture of international climate finance are uncertain, the resulting Strategy is 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,¹ this Strategy will therefore 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 its many partners.

2.0 INTRODUCTION

2.1 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

¹ Should Parties determine that the Adaptation Fund will serve the Paris Agreement and be subject to the authority of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.

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.

Climate change is one of the greatest challenges of our time and its adverse impacts undermine the ability of all countries to achieve sustainable development. Increases in global temperature, sea level rise, ocean acidification and other climate change impacts are seriously affecting coastal areas and low-lying coastal countries, including many least developed countries and small island developing States. The survival of many societies, and of the biological support systems of the planet, is at risk (UN 2015a, paragraph 14).

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 4th 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.

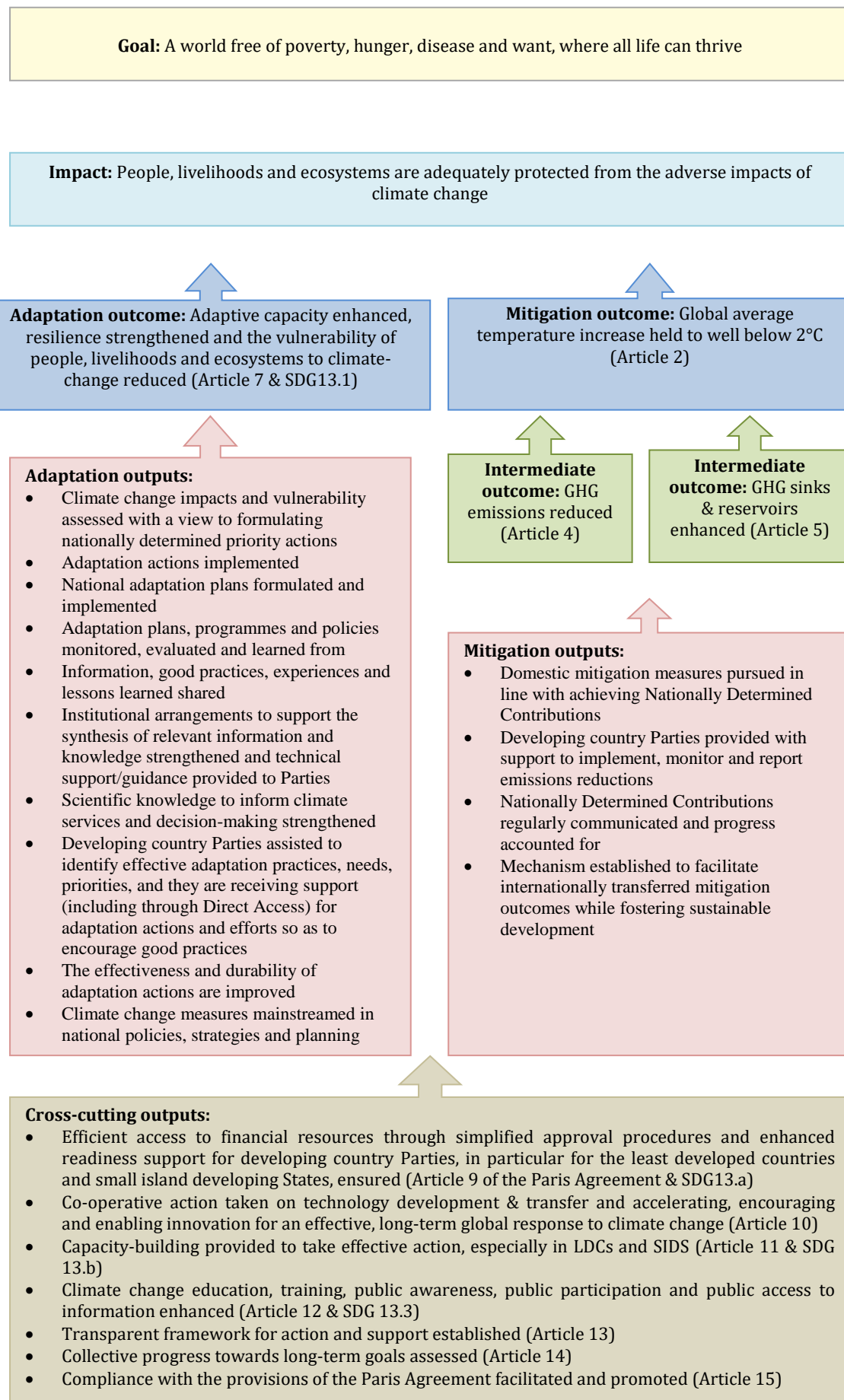
2.2 What it will take to get there

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.² 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.³

² A "Theory of Change" (ToC) describes what it will take to reach a desired end. It is an outcomes-based framework for helping stakeholders clearly define long-term goals and then map backwards to identify preconditions of success. ToCs often specify critical enabling conditions - such as the right kinds of partnerships, particular kinds of technical assistance, and tools and processes that help people operate more collaboratively or be more results focused. Perhaps the greatest value of ToCs is their identification of early and mid-term changes that need to happen in order for longer-term goals to be reached.

³ "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

Illus. 2: Theory of Change derived from the Agenda for Sustainable Development & Paris Agreement



2.3 Risks and assumptions

Theories of Change are only as sound as their risks and assumptions. Risks are things that might happen which would make it harder to realise desired outcomes. While the list of risks inherent in SDG 13 and the Paris Agreement may be long, several are especially pernicious and relevant to the adaptation challenge, including:

- Parties might fail to hold the increase in global average temperature to well below 2°C above pre-industrial levels, thereby reducing the effectiveness and increasing the cost of adaptation actions
- Developed country Parties might fail to reach their finance mobilisation targets to help address climate change needs in developing countries
- International and national institutions might fail to learn quickly from each others' successes and failures, thereby reducing the effectiveness and increasing the cost of adaptation actions
- National adaptation priorities might fail to reflect the priorities of historically marginalised communities and social groups
- National institutions might not develop the capacity to access or make efficient and effective use of public and private, domestic and international climate finance.

An assumption is a conviction that something is true or that something will happen under certain conditions. Assumptions stem from and represent the values, beliefs, norms and ideological perspectives that inform our interpretations and understanding of reality. Assumptions are personal, but can also reflect collective convictions. We often take assumptions for granted even though they are sometimes wrong. Because of this, major assumptions merit monitoring and analysis to inform future action.

The strategic thinking reflected in SDG 13 and the Paris Agreement includes underlying assumptions about human agency, knowledge, institutions, and social change processes. Key examples include:

- *If* adaptation action is to be effective, *then* it must be country-driven, gender-responsive, participatory and fully transparent, 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 (Article 7, paragraph 5)
- *If* the long-term global response to climate change is to be effective, *then* all Parties must mainstream climate change measures in national policies, strategies and planning (SDG 13.2); all Parties must formulate, implement monitor, learn from and share their experiences with national adaptation plans, programmes and policies (Article 7, paragraph 7); human and institutional capacity to make information-based decisions and manage international climate finance in developing countries must be strengthened (Article 7, paragraph 7; Article 11; SDG 13.b); developed country Parties must help finance climate action in developing countries (Article 7, paragraph 13 and SDG 13.a); all Parties must undertake co-operative action to accelerate, encourage and enable innovation (Article 10); and a regular assessment of collective progress must takes place (Article 14).

These risks and assumptions, together with the goals, impacts, objectives, and outputs derived from SDG 13 and the Paris Agreement, provide the highest level of context informing the Adaptation Fund's Medium Term Strategy for the 2018-2022 period.

2.4 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.

3.0 EXTERNAL CONTEXT

The context in which the Adaptation Fund currently operates is considerably different from when it was first established. In particular, our understanding of adaptation costs is greater, the landscape of international climate finance is more complex, and expectations for effective action are higher.

3.1 Adaptation costs and the finance gap

The more global temperatures climb, the larger the challenge of adapting to climate change. As a result, mitigation necessarily plays a key role in intergovernmental strategies to avert the worst impacts. Nonetheless, communities around the world already contend with shifting weather patterns and increasingly severe weather events.

Coupled with rising sea levels that threaten to displace hundreds of millions of people, inundate fertile river deltas, and swamp coastal industries and infrastructure, the potential costs of adaptation are staggering. For many countries, especially the least developed and small island states, these costs grossly exceed financial capacity.

Numerous efforts have been made to estimate the likely cost of adaptation, with profoundly divergent conclusions based on methodological and ethical choices made, as well as economic frameworks and underlying assumptions used. The first widely-cited figures were produced by the UNFCCC in 2007, suggesting that overall adaptation costs would reach US\$48 to US\$171 billion per year by 2030, of which between half and two-thirds would accrue to developing countries (UNFCCC 2007a). In 2010, the World Bank published a study that tried to redress methodological shortcomings in the UNFCCC report, concluding that adaptation in developing countries alone would cost between US\$70 and US\$100 billion per year during the 2010-2050 period (World Bank 2010). This figure was subsequently cited in the Intergovernmental Panel on Climate Change's Fifth Assessment Report (IPCCC 2014).

UNEP's 2014 Adaptation Finance Gap Report built on lessons learnt and calculated that actual costs of adaptation are likely to be two to three times higher than previous estimates and potentially four to five times higher by 2050 (UNEP 2014). UNEP's follow-up report in 2016 affirmed its earlier methodology, concluding that adaptation efforts in developing countries could cost from US\$140 billion to US\$300 billion per year by 2030, and between US\$280 billion and US\$500 billion by 2050 (UNEP 2016).

Methodologies for assessing adaptation costs continue to advance, incorporating ever more data and nuance. Regardless, the case for immediate, enhanced mitigation and substantial adaptation assistance to developing countries is abundantly clear. With this as starting point, the UNFCCC has called on developed country Parties to jointly mobilise at least US\$100 billion per year by 2020 for climate action in developing countries (UNFCCC 2010. See also UN 2015a, Goal 13.a).

Actual flows from public and private sector sources remain far short of what is needed. For example, a 2015 assessment report by the Organisation for Economic Co-operation and Development in collaboration with the Climate Policy Initiative suggests that public climate finance flowing from developed to developing countries during the 2013-2014 period amounted to an annual average of US\$57 billion (OECD with CPI 2015).⁴ Of this, approximately US\$9.3 billion was directed to adaptation while a further US\$3.7 billion was directed to dual adaptation-mitigation projects (*ibid.*).

In October 2016, developed countries delivered a "Roadmap" (Australia *et al.* 2016) to meeting the collective goal of mobilising US\$100 billion a year in climate finance for developing countries by 2020. The Roadmap aims to provide increased predictability and transparency about how the goal will be reached, and sets out the range of actions developed countries will take to meet it.

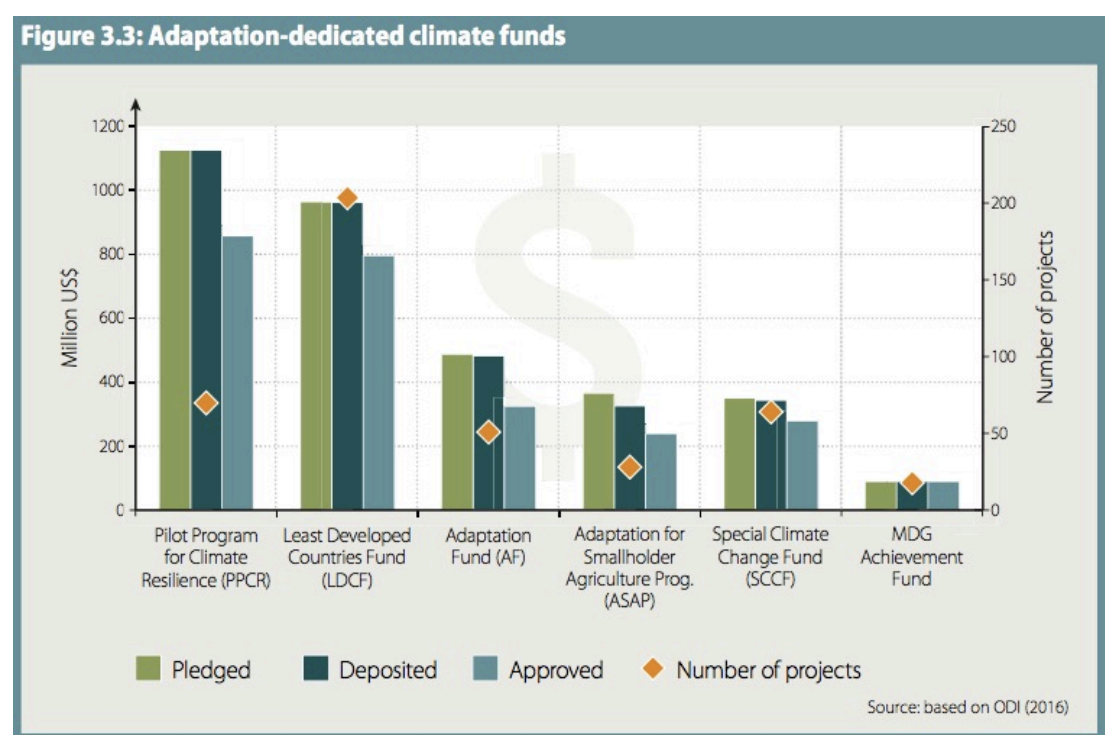
At the same time as there is a need for more ambitious adaptation finance, it is also important to acknowledge that capacity constraints are still a major bottle neck to effective planning and implementation of adaptation action. Thus, it is also crucial to continue with capacity building and readiness support.

⁴ The UNFCCC's Standing Committee on Finance calculates a somewhat lower amount of US\$51.4 billion over the same period (SCF 2016). All calculations of climate finance flows should be regarded as indicative rather than authoritative pending further improvements in coverage, accuracy and comparability. See, for example, Climate Policy Initiative 2016 for further discussion.

3.2 The evolving architecture of international climate finance

Resources for climate action are being raised, channelled and deployed by an increasingly complex constellation of public and private institutions. Multilateral climate funds play a large and growing role in this system, proliferating over the past two decades in response to need and negotiations. As a result, some multilateral funds are dedicated to accelerating the spread of clean technologies, while others focus on reducing emissions from deforestation, supporting adaptation, or pursue a mixed-mandate.

Illus. 3: Multilateral climate funds (excluding REDD-focused)



Key:

- AF – Adaptation Fund, US\$ 640.22 million mobilised (pledges + share of proceeds) as of 7/2017
- ASAP – IFAD Adaptation for Smallholder Agriculture Program, US\$366 million pledged as of 7/2017
- CTF – Clean Technology Fund, US\$5.47 billion pledged as of 10/2016
- GCF – Green Climate Fund, US\$10.255 billion pledged as of 10/2016
- GEF – Global Environment Facility, US\$5.3 billion approved as of 7/2017
- LDCF – Least Developed Country Fund, US\$1.17 billion approved as of 7/2017
- PPCR – Pilot Program for Climate Resilience, US\$1.11 billion pledged as of 10/2016
- SCCF – Special Climate Change Fund, US\$367 million pledged as of 10/2016, with \$288 million already approved for adaptation projects and (SCCF-A) and US\$60.7 million for technology transfer projects as of 7/2017
- SREP – Scaling-up Renewable Energy Program, US\$744 million pledged as of 10/2016

Sources: AF, ASAP, GEF, LDCF and SCCF data provided by fund managers. All other data collated from original records by Climate Funds Update (climatefundsupdate.org).

Funds also differ in terms of operating modalities, with some working primarily through multilateral development banks and UN agencies while others (including the Adaptation Fund) also channel resources directly to institutions in developing countries. As a result of these and other differences, it may be impossible – and, perhaps, undesirable – for any one fund to try meeting the full range of climate finance needs. Indeed, there may be benefits, including speed, flexibility, accessibility and innovation, to some degree of multiplicity in international climate finance.

Regardless, policymakers are under growing pressure to rationalise the number and nature of multilateral funds so that the architecture of international climate finance is increasingly coherent, efficient and responsive to developing country needs.⁵

3.3 Rising expectations

The international community has learnt a great deal about adaptation and development cooperation since the Fund's inception. It is essential that these lessons be put into practice. As observed by UNEP in its 2016 Adaptation Finance Gap Report, "Greater emphasis must be put on the question of effectiveness. Increasing the volume of finance only increases resilience if it is spent wisely" (UNEP 2016, xi).

Reflecting on the Adaptation Fund's experience supporting concrete projects and programmes – as well as the broader sea of experience that underpins the Cancun Adaptation Framework, the Sendai Framework for Disaster Risk Reduction, and OECD principles on aid effectiveness – several lessons stand out as especially germane.

Ownership matters. Climate change and development projects are more effective and sustainable when there is strong country ownership. This is recognised in the OECD's Paris Declaration and Accra Action Agenda on Aid Effectiveness, the Busan Partnership for Effective Development Co-operation (OECD 2005, 2008 and 2012), as well as the UN's Addis Ababa Action Agenda from the Third International Conference on Financing for Development (UN 2015c). Strong country ownership of projects/programmes is established through alignment with national strategies, the vesting of decision making authority in national institutions, and – where feasible – the use of national systems to access resources and ensure accountability (i.e. Direct Access) without going through international intermediaries.

Quality matters. While pressure is growing to substantially increase the *quantity* of climate finance flowing to developing countries, so too are expectations about the *quality* of action. In COP Decision 1/CP.16, Section I, also known as the Cancun Adaptation Framework, Parties express high hopes for the quality, or nature, of their activities:

... enhanced action on adaptation should ... follow a country-driven, gender-sensitive, 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 and indigenous knowledge, with a view to integrating adaptation into relevant social, economic and environmental policies and actions (UNFCCC 2010, Section I, paragraph 12)

These expectations are reiterated in Article 7, paragraph 5 of the Paris Agreement, where the wording "gender-sensitive" had been strengthened to "gender-responsive" in

⁵ See, for example, World Resources Institute (2017) and Pickering, Betzold and Skovgaard 2017 for further perspective.

order to reflect that proactive gender integration is crucial to the effectiveness and sustainability of climate action.

Local participation and empowerment matter. Early adaptation efforts tended to take a top-down approach, moving from large-scale climate models to sectoral impact studies and then to expert-driven assessments of adaptation options (whether by national or international experts). In stark contrast, the Paris Agreement encourages a more bottom-up, participatory and transparent approach. This mirrors broad changes in thinking about effective development and disaster risk reduction (e.g. OECD 2012 and UN 2015b), the spread of human rights-based approaches,⁶ and issues specific to climate change risk, vulnerability and capacity assessment.⁷ The Sendai Framework’s Guiding Principles (*ibid.*, paragraph 19.d), which emphasises empowerment and inclusive participation, is indicative of this increasingly mainstream, all-of-society approach to tackling “wicked problems.”

4.0 INTERNAL CONDITIONS

In 2016, the Adaptation Fund Board undertook an assessment of organisational strengths, weaknesses, opportunities and challenges as input for the design of its MTS. Drawing on the first phase of the Fund’s independent evaluation (TANGO International & ODI 2015) as well as follow-up interviews with Board members, the Secretariat and thought leaders, this stocktaking exercise identified key characteristics and strategic competencies that help explain what the Fund has accomplished to date and will shape what it can achieve going forward.

4.1 Key characteristics

Characteristic 1: It’s working. One of the most frequently cited strengths of the Adaptation Fund is that it is *already* supporting concrete activities in developing country Parties *and* it’s doing a good job. As of June 2017, the Fund had mobilised nearly US\$650 million in support of adaptation projects and programmes, including US\$ 197.8 million from the sale of Certified Emission Reductions (CERs), US\$ 442.4 million in voluntary contributions, and US\$ 9.3 million in investment income earned on trust fund balances. These resources have been channelled into 66 approved projects in Africa (22 projects), Asia (18 projects), the Pacific (5 projects), Latin America and the Caribbean (20 projects) and Eastern Europe (1 project) directly benefiting more than 5.41 million people. Of these projects, 27 per cent are in LDCs and 18 per cent in SIDS. Furthermore, according to its first phase independent evaluation, the Fund’s

The Adaptation Fund is the only multilateral instrument under UNFCCC specifically established to finance concrete adaptation projects and programmes in developing country Parties.

... design is coherent with and complementary to other adaptation efforts under the United Nations Framework Convention on Climate Change (UNFCCC). It contributes directly to various adaptation work streams and complements the role of other climate funds by extending access to all developing countries. Though small in size, the Adaptation Fund is amplifying financial support to developing countries and helping close the adaptation finance gap. The Adaptation Fund’s design is appropriate to generating timely lessons about effective approaches to adaptation finance, especially with regards to “direct access,” and scalable and replicable action benefiting the most

⁶ See, for example, the UN Portal on Human Rights Based Approaches (HRBA) Portal.

⁷ See, for example, Aalst et al. (2008) for further discussion.

vulnerable communities and social groups. The Adaptation Fund's design supports pilot activities with substantial potential for scaling up impact at sub-national, national, and regional levels (TANGO International & ODI 2015, 11).

The Fund has developed a robust framework of operating policies, safeguards, guidance documents, and management systems that result in a highly relevant, effective organisation providing Parties with “good value for money” (*ibid.* 12). It has pioneered Direct Access as a means of ensuring country ownership and building national capacity, while its Enhanced Direct Access modality is supporting country-led efforts to drive ownership and capacity down to the grass roots; and the Fund's Readiness Programme for Climate Finance is helping some of the world's most vulnerable countries take critical first steps.

Characteristic 2: Creative organisational culture. The Fund delivers value to Parties through a combination of structures, systems, and processes tempered by its less tangible but no less important leadership and organisational cultures. "Organisational culture" refers to a system of shared assumptions, values, and beliefs that shape how people act and interact at work. Every organisation develops and maintains a unique culture that sets behavioural expectations and boundaries. The Fund's independent evaluation repeatedly stressed that its internal culture was a major determinant of success to date.

All parties consulted during the course of this Independent Evaluation concur that the small, dedicated Secretariat within the Global Environment Facility (GEF) provides good quality work that is mission-driven and conducive to collaboration and dynamic results.... the AFB Secretariat has established a flat organizational structure and a working environment that encourages the free-flow of ideas, thinking outside the box, and collaborative versus competitive efforts. This – alongside the team's passion to reduce people's vulnerability to climate change – is a key reason it has achieved so much on such a small and unpredictable budget (TANGO International & ODI 2015, 48).

In sum, the Secretariat's capacity to develop and rapidly evolve client-oriented solutions stems from an organisational culture that encourages staff to take initiative and think outside the box.

Characteristic 3: Flexible and effective leadership. The creative, non-hierarchical culture established within the Secretariat has its analogue at Board level, as evidenced by the latter's willingness to explore innovative approaches and rapidly evolve its policies within the overall context of guidance from Parties to the UNFCCC. Indeed, the Board's operational culture encourages new ideas to be tabled and openly discussed, with the voices of small and poorer countries carrying equal weight to those of donors.

4.2 Strategic competencies

Competency 1: Innovation. The Adaptation Fund has demonstrated competency in innovating valuable new products (e.g. Direct and Enhanced Direct Access), systems (e.g. fiduciary standards, accreditation standards and processes), and services (e.g. the Readiness Programme for Climate Finance and South-South Programme for Capacity Support). The Fund's first phase independent evaluation documented a range of ways in which these products, systems and services have benefitted Parties and advanced both the Nairobi Work Programme and Cancun Adaptation Framework. As a result, several major innovations have already been adopted by others including the GCF, which has built upon the Adaptation Fund's Direct Access and Enhanced Direct Access models, as well as its Readiness Programme.

Competency 2: Learning. Stakeholders interviewed during the Fund's first phase independent evaluation repeatedly flagged its ability to generate uniquely valuable learning around vulnerability, effective adaptation, access modalities, capacity strengthening and the role of international cooperation in climate finance. Innovation and learning are interlocking, or mutually reinforcing competencies, that offer the Fund real opportunities for transformational impact.

Competency 3: Direct partnerships. The Fund has established close ties with national and regional entities (including Designated Authorities, National Implementing Entities, and Regional Implementing Entities), civil society, and other climate funds. These invaluable relationships have been critical to building finance-readiness in some of the most vulnerable developing countries, as well as helping the Fund understand and resolve evolving client needs. Through these relationships, the Fund has come to appreciate and begin addressing the special obstacles that the least developed countries and very small states face in accessing adaptation finance.

Competency 4: Reaching the most vulnerable. The Adaptation Fund stands out amongst its multilateral peers for supporting concrete projects/programmes that directly engage, empower and benefit the most vulnerable communities and social groups. This strategic priority was first expressed in the Fund's 2008 Operating Principles and Guidelines, was reiterated in its 2016 revised Operating Principles and Guidelines, and has been elaborated upon in the Fund's Project Review Criteria and Project Proposal Template; Environmental and Social Policy; Gender Policy and Action Plan; and associated guidance documents. The Fund has also pioneered the use of Enhanced Direct Access to more effectively identify and address nuanced adaptation needs within vulnerable communities. Indeed, the Fund's model of Enhanced Direct Access, which devolves control over project approval processes to national institutions, enables local actors to define and implement appropriate activities via small grants.

Illus. 4: Adaptation Fund "at a glance"

The Adaptation Fund enhances adaptive capacity, strengthens resilience, and reduces the vulnerability of people, livelihoods and ecosystems to the adverse effects of climate change.



ALREADY ALLOCATED
US\$436 million
 to 66 concrete adaptation projects/programmes in 54 countries, including 12 SIDS and 18 LDCs.



DIRECT ACCESS PIONEER:
35% of portfolio
 is allocated to direct access projects in 16 countries, promoting country owned and driven processes, and strengthening local institutions.



STRONG GOVERNANCE:
 fully established and positively reviewed policies and guidelines



BENEFITING
5.41 million
 DIRECT BENEFICIARIES in the most vulnerable communities in developing countries.



SWIFT PROJECT REVIEW CYCLE:
 in as little as nine weeks



SUCCESSFUL TRACK RECORD
 of building institutional capacity through the direct access modality, from accreditation to implementation and evaluation of nationally designed projects and programmes.



DELIVERING
 replicable and scalable projects of up to **US\$10 million***



CAPACITY BUILDING:
 readiness programme supports NIEs in accessing funds for adaptation, including through South-South cooperation support, provides technical assistance grants for environmental and social safeguards and gender, and has established community of practice among NIEs to exchange knowledge and experiences.



EXPERTISE
 of the Adaptation Fund has been shared with other climate funds: the Green Climate Fund (GCF) has used "fast track" accreditation of Adaptation Fund accredited implementing entities to accredit 9 out of 18 National Implementing Entities to date.



GROWING DEMAND:
 record number of project and programme proposals received from vulnerable developing countries since 2015, with particularly large increases in proposals from national and regional implementing entities.

The Adaptation Fund is already serving Parties to 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, and 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

PART II: STRATEGY

5.0 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 Paris Agreement (especially Articles 7, 9 and 11), the 2030 Agenda for Sustainable Development (especially SDG 13.1), and their implied Theory of Change.

Vision: *Developing country Parties are successfully enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change through participatory, transparent and accountable processes. 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 and programmes, innovation, and multi-level learning for effective adaptation. All of the Fund's activities are designed to engage, empower and benefit the most vulnerable communities and social groups; advance gender equality and the empowerment of women and girls, strengthen long-term institutional and technical capacity for effective adaptation; and build complementarity and coherence between climate finance delivery channels.*

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

5.1 Strategic Focus 1: Action

SF1: Action – Support eligible countries to undertake high quality adaptation projects and programmes 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 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/programmes. 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 and programmes showcasing appropriate best practices (e.g. gender-responsiveness, local participation, capacity strengthening, and adaptive management). With firm technical and institutional foundations established, many Fund-supported "Beacon" or "model" projects and programmes will be ready for scaling up by others. SF1 will build the capacities and track record that NIEs require to access significantly higher levels of adaptation finance.

Successful projects are already being scaled up by the Green Climate Fund

In 2011, the Adaptation Fund approved nearly US\$9 million to pilot an integrated water management project in the Maldives. Four years later, UNDP received US\$28 million from the GCF to replicate and scale up lessons learnt. Meanwhile, in Pakistan, the GCF allocated more than US\$37 million to another UNDP project kick-started by the Adaptation Fund. As stated in its proposal to the GCF, the project Scaling-up of Glacial Lake Outburst Flood (GLOF) Risk Reduction in Northern Pakistan, "is building upon the experiences, data, information and coordination networks created by the GLOF I project financed by the Adaptation Fund. By expanding scope of proven interventions, based on existing institutional and management frameworks, the proposed project is more cost-effective than the implementation of a separate new initiative. Additionally this approach builds upon strengthened local capacities and previous experiences that will maximize effectiveness of proposed interventions on which future investments can build on" (UNDP 2016, 36).

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 design, implementation and real-time learning from Beacon projects/programmes through:

- An Enhanced Readiness Programme for Climate Finance, encompassing both 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
- Enhanced technical support and micro-grants to facilitate project-level learning (via mechanisms established under SF 3)

Funding decisions for SF 1 will be guided by paragraphs 9 and 10 of the Strategic Priorities, Policies and Guidelines of the Adaptation Fund.⁸

5.2 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:⁹

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.¹⁰

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

⁸ Level of vulnerability; Level of urgency and risks arising from delay; Ensuring access to the fund in a balanced and equitable manner; Lessons learned in project and programme design and implementation to be captured; Securing regional co-benefits to the extent possible, where applicable; Maximizing multi-sectoral or cross-sectoral benefits; Adaptive capacity to the adverse effects of climate change.

⁹ The Paris Agreement does not define "innovation." In the absence of further guidance from Parties, the Adaptation Fund understands innovation to be the process of translating an idea or invention into a valuable good or service at an economical cost.

¹⁰ The Adaptation Fund will continue encouraging both Implementing and Executing Entities to improve the relevance, efficiency, effectiveness, impact and sustainability of SF1 project/programmes through innovation. Particularly promising experiences could receive additional support under SF2.

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, efficient 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. NIEs, RIEs, and MIEs are encouraged to include NGOs and private sector entities in proposals to the Innovation Facility.

5.3 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 and programmes 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; integrating traditional knowledge, the knowledge of indigenous peoples and local

knowledge systems into adaptation actions; and the role of adaptive management in project implementation)

- *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
- Strategic partnerships with international knowledge-institutions and fora/networks
- Collaboration with other climate funds to triangulate lessons and consolidate messages, as feasible
- Enhanced technical support to project-level learning processes, especially through knowledge-institutions in recipient countries
- Micro-grants (<\$150k) facilitating south-south learning and the sharing of information, good practices, and lessons learnt from failures as well as success

5.4 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:

- Engaging, empowering and benefitting the most vulnerable communities and social groups¹¹
- Advancing gender equality and the empowerment of women and girls
- Strengthening long-term institutional and technical capacity for effective adaptation
- Building complementarity and coherence with other climate finance delivery channels

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

5.5 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).

¹¹ With regard to climate change, "vulnerability" is a function of physical exposure to climate change effects, sensitivity, and adaptive capacity. While vulnerability is hazard-specific, certain generic factors – such as livelihoods, poverty, caste, gender, level of education, and lack of social networks or other social support mechanisms – aggravate or affect vulnerability irrespective of hazard type (Cardona et al. 2012). Communities and social groups contending with a confluence of such factors are especially vulnerable to climate change. As indicated in Principle 3 of the Adaptation Fund's Guidance Document for Implementing Entities on Compliance with the Adaptation Fund Environmental and Social Policy, particularly vulnerable social groups often include children, women and girls, the elderly, indigenous people, tribal groups, displaced people, refugees, people living with disabilities, and people living with HIV/AIDS (2016h, 7).

Illus. 5: Summary framework of the Adaptation Fund's Medium Term Strategy, 2018-2022

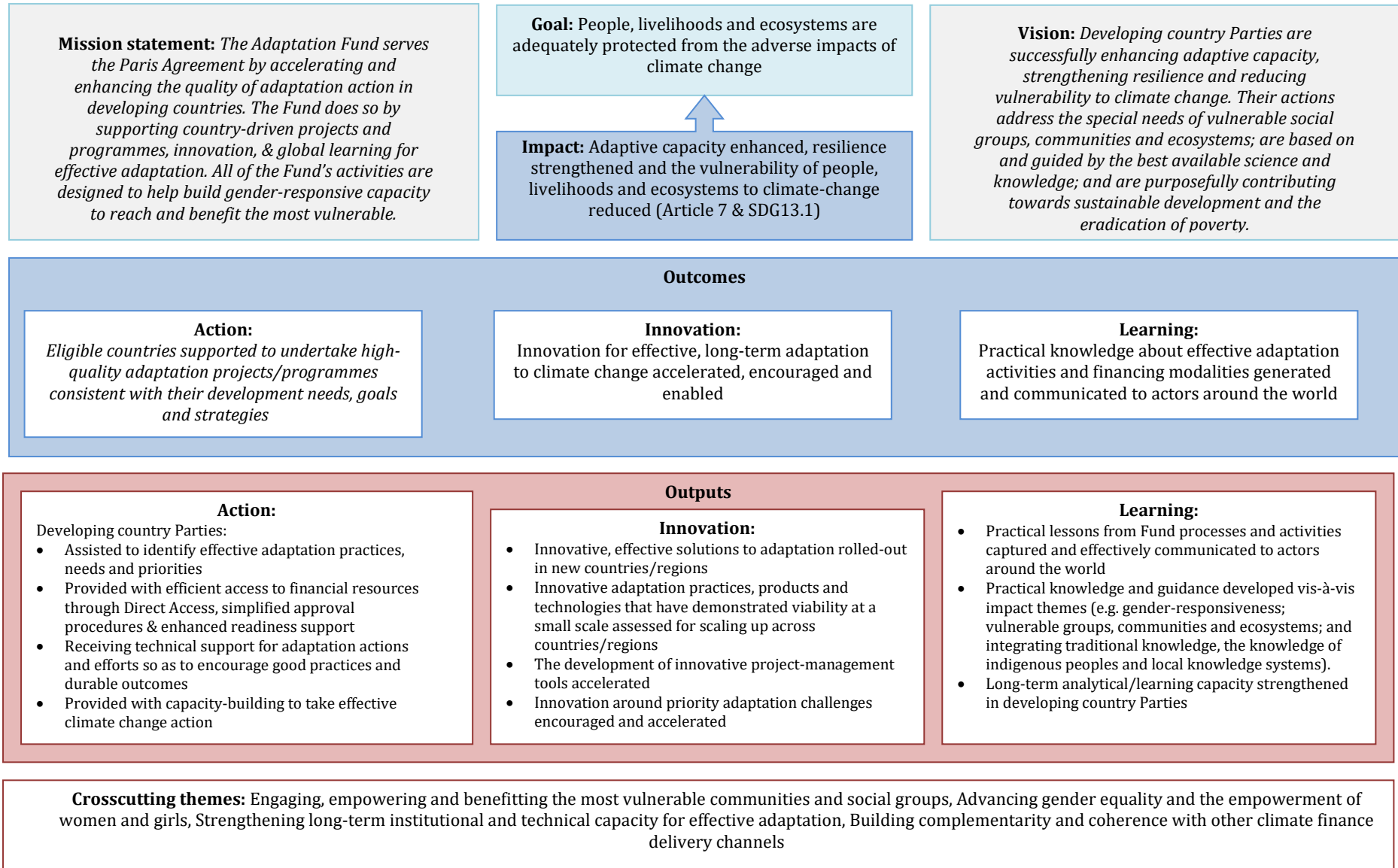


Table 1: Linkages between Strategic Foci, the Paris Agreement and SDG 13

Medium Term Strategy of the Adaptation Fund, 2018-2022		
Strategic Focus	Expected Results	Intended contribution to SDG and/or desired output of the Paris Agreement
Action	<p><i>ER1 – Vulnerability reduced, resilience strengthened, and adaptive capacity enhanced</i></p> <p><i>ER2 – Institutional capacity strengthened</i></p> <p><i>ER3 – Effective action scaled up</i></p>	<ul style="list-style-type: none"> • Ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States (SDG 13.a and Article 9, paragraph 9 of the Paris Agreement) • Assist developing country Parties to identify effective adaptation practices, needs, priorities, and provide support for adaptation actions and efforts so as to encourage good practices (Article 7, paragraph 7.d) • Improve the effectiveness and durability of adaptation actions (Article 7, paragraph 7.e) • Support the implementation of adaptation actions (Article 7, paragraph 9.a) • Build capacity to take effective climate change action (Article 11, paragraph 1 & SDG 13.b)
Innovation	<p><i>ER1 – Successful innovations rolled out</i></p> <p><i>ER2 – Viable innovations scaled up</i></p> <p><i>ER3 – New innovation encouraged and accelerated</i></p> <p><i>ER4 – Evidence base generated</i></p>	<ul style="list-style-type: none"> • Support the implementation of adaptation actions (Article 7, paragraph 9.a) • Accelerate, encourage and enable innovation for an effective, long-term global response to climate change (Article 10, paragraph 5) • Enhance North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation (SDG 17, paragraph 17.6)
Learning	<p><i>ER1 – Lessons learnt and shared.</i></p> <p><i>ER2 – Knowledge and guidance developed.</i></p> <p><i>ER3 – Analytical capacity strengthened.</i></p>	<ul style="list-style-type: none"> • Share information, good practices, experiences and lessons learned in relation to adaptation actions (Article 7, paragraph 7.a) • Strengthen institutional arrangements to support the synthesis of relevant information and knowledge (Article 7, paragraph 7.b) • Assist developing country Parties in identifying effective adaptation practices... in a manner consistent with encouraging good practices (7.d) • Improve the effectiveness and durability of adaptation actions (Article 7, paragraph 7.e) • Support Parties to monitor and evaluate and learn from adaptation... actions (Article 7, paragraph 9.d). • Build capacity to take effective climate change action (Article 11, paragraph 1 & SDG 13.b)

Table 2: Linkages between Crosscutting Themes, SDGs and UNFCCC processes

Crosscutting Themes	Intended contribution to UNFCCC and SDG processes
<i>Engaging, empowering, and benefitting the most vulnerable communities and social groups</i>	<ul style="list-style-type: none"> • Build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters (SDG 1, paragraph 1.5) • Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities (SDG 13, paragraph 13.b)
<i>Advancing gender equality and the empowerment of women and girls</i>	<ul style="list-style-type: none"> • Achieve gender equality and the empowerment of women and girls (SDG 5) • Promote and consider gender equality and the empowerment of women (Preamble to the Paris Agreement) • Follow a gender-sensitive approach to adaptation action (Article 7, paragraph 5 of the Paris Agreement) • Capacity building in developing countries should be gender-responsive (Article 11, paragraph 2 of the Paris Agreement)
<i>Strengthening long-term institutional and technical capacity for effective adaptation</i>	<ul style="list-style-type: none"> • Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities (SDG 13, paragraph 13.b) • Develop effective, accountable and transparent institutions at all levels (SDG 16, paragraph 16.6) • Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the sustainable development goals, including through North-South, South-South and triangular cooperation (SDG17, Capacity Building Target) • Enhance the capacity and ability of developing country Parties, in particular countries with the least capacity, such as the least developed countries, and those that are particularly vulnerable to the adverse effects of climate change, such as small island developing States, to take effective climate change action, including, inter alia, to implement adaptation actions (Article 11, paragraph 1 of the Paris Agreement)
<i>Building complementarity and coherence with other climate finance delivery channels</i>	<ul style="list-style-type: none"> • Enhance coherence, coordination and complementarity of adaptation related efforts under the UNFCCC, including the delivery of climate change financing (e.g. Cancun Adaptation Framework. See also UNFCCC 2017a – specifically Annex to Decision 1/CMP.12 and Decision 2/CMP/12 – as well as 2013b).

PART III: STRUCTURES AND SYSTEMS

6.0 SUCCESS STRATEGY

The Adaptation Fund has a solid track record of supporting concrete adaptation 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.

6.1 Niche

The Adaptation Fund will maintain its specialised niche within the evolving architecture of international climate finance, characterised by its focus on:

- Concrete action in developing country Parties
- Small-scale ("starter") projects/programmes, typically under US\$10 million for a single-country project or US\$15 million for a regional programme
- Direct and Enhanced Direct Access modalities
- Building the capacities and track records that NIEs require to access significantly higher levels of adaptation finance
- Testing new practices, tools, and technologies for effective adaptation
- Pragmatic learning and sharing, especially through south-south collaboration

6.2 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 2014¹²), 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.

The Adaptation Fund aims to embody the highest aspirations of transparency and accountability. 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.

¹² The Third Review of the Adaptation Fund is scheduled to be finalized at CMP13 in November 2017.

Civil society already 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.

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.

6.3 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), the Busan Partnership for Effective Development Cooperation (OECD 2012), 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 the Agreement's Preamble as well as 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.¹³

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

¹³ In his Letter to the UNFCCC Subsidiary Body for Scientific and Technological Advice, the UN Special Rapporteur on human rights and the environment described the Adaptation Fund's ESP as a strong example to be followed by others (Knox 2016).

Illus. 6: Constellation of existing policies, strategies and guidance documents



6.4 Complementarity, coherence and coordination

Enhanced complementarity, coherence and coordination between climate finance delivery channels pose significant opportunities to advance the Adaptation Fund’s effectiveness, efficiency and sustainability. As important, enhanced complementarity, coherence, and coordination may make accessing and managing climate finance easier and less costly for developing country Parties. Therefore, the Fund is committed to working with the Standing Committee on Finance, the Adaptation Committee, and other climate finance delivery channels during the 2018-2022 period to increase complementarity, coherence and coordination in the delivery of climate finance.

Key opportunities for enhanced complementarity, coherence and coordination include:

- Approaches to environmental and social safeguards, long-term capacity-strengthening, achieving gender equality, and empowering women and girls
- Climate finance readiness support
- Diffusion of innovative adaptation products, systems, and technologies
- Fiduciary policies and financial safeguards
- Fast-tracking of accredited implementing entities
- Learning and sharing
- Monitoring systems and the measurement, reporting and verification of support provided/outcomes achieved
- Private sector engagement
- Streamlined pathways for scaling up successful projects/programmes
- Mobilisation of financial resources

6.5 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.

6.6 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.¹⁴ 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 consider an enhanced share of proceeds under Article 6 paragraph 4 of the Paris Agreement and reflect the Fund's experiences to date, especially with regards to the diversity, flexibility, and reliability of income streams.

7.0 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.

7.1 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 / programme 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

¹⁴ The Fund received 36 project proposals from developing country Parties during its most recent review cycle, amounting to a total request of US\$219.4 million. This compares with 37 proposals for the same review cycle in 2015 and nine proposals in 2013.

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.

7.1.1 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. The Fund will encourage participatory impact assessments as part of a comprehensive framework for project/programme-level M&E and sharing lessons learnt from failures as well as successes. 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 and crosscutting themes advanced 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 from failures as well as successes, 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.

7.1.2 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.

7.2 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).

Table 3: Policies and procedures applicable to each type of risk

Type of Risk	Board Members and Alternates	Secretariat staff, consultants & trustee	Implementing Entities
Ethical	<ul style="list-style-type: none"> • Rules of Procedure • Code of Conduct • Zero Tolerance Policy on Corruption 	World Bank rules and procedures	<ul style="list-style-type: none"> • Operational policies and guidelines • Ad-Hoc Complaint Handling Mechanism • Agreement
Financial	<ul style="list-style-type: none"> • Rules of Procedure • Code of Conduct • Zero Tolerance Policy on Corruption 	World Bank rules and procedures	<ul style="list-style-type: none"> • Operational policies and guidelines • Ad-Hoc Complaint Handling Mechanism • Agreement
Environmental/Social	N/A	N/A	<ul style="list-style-type: none"> • Operational policies and guidelines (esp. Environmental and Social Policy, Gender Policy and Action Plan, and related guidance documents) • Ad-Hoc Complaint Handling Mechanism • Agreement

Source: (Adapted from AF 2014b, 3)

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.

7.3 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.

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