



ADAPTATION FUND

AFB/B.30/6
10 October 2017

Adaptation Fund Board
Thirtieth meeting
Bonn, Germany, 11-12 October 2017

Agenda item 8. b)

**STRATEGIC DISCUSSION ON OBJECTIVES AND
FURTHER STEPS OF THE FUND: POTENTIAL
LINKAGES BETWEEN THE FUND AND THE GREEN
CLIMATE FUND**

Background

1. At its twenty-fourth meeting the Adaptation Fund Board (the Board) requested the secretariat to prepare a document containing elements on potential linkages of the Adaptation Fund (the Fund) with the Green Climate Fund (GCF), for consideration during the intersessional period between its twenty-fourth and twenty-fifth meetings. The secretariat produced document AFB/B.24-25/1, *Potential linkages between the Adaptation Fund and the Green Climate Fund*, which was built upon the options outlined in document AFB/B.20/5, *Strategic prospects for the Adaptation Fund*, discussed at the twentieth Board meeting in March 2013. Document AFB/B.24-25/1 analysed two scenarios in particular: (a) establishment of an operational linkage with the GCF, through either accreditation or an ad hoc agreement or memorandum of understanding; and (b) institutional integration between the two funds. By decision B.24-25/9 the Board decided to request the secretariat to further assess: (i) the potential for the Fund to apply as a financial intermediary of the GCF; and (ii) the feasibility of entering into some form of memorandum of understanding (MOU) or legal agreement under which the Fund could programme GCF funds; and present its conclusions to the twenty-fifth meeting of the Board.

2. In accordance with the Decision B.25/26, the secretariat, in consultation with the trustee, prepared and presented Document AFB/B.26/5 to the Board for consideration at its twenty-sixth meeting which contained further legal, operational, and financial analysis on the implications of various linkages with the GCF. Document B.26/5 focused on option (i), outlined in decision B.24-25/9, of accreditation of the Fund as intermediary of the GCF, considering that option (ii) of entering into a Memorandum of Understanding or legal agreement to programme GCF funds may take similar approach to option (i). In the ensuing discussion at the twenty-sixth meeting, in general, the Board was of the view that it was premature to seek accreditation under the GCF while there were differing opinions: some Board members saw accreditation as a means of ensuring the Fund's sustainability while others disagreed, and furthermore, stressed the need to separate the issues of linkages with the GCF and financial sustainability. It was noted that any operational linkage between the Fund and the GCF would need to avoid duplication and inconsistency of policies and procedures, reporting requirements, tracking of funds, and funding decisions in order to be effective and efficient.

3. Since the twenty-fifth meeting, the secretariat has continued interacting with the GCF secretariat in the areas identified by the Board to enhance complementarity, namely accreditation, readiness support, results-based management and project pipeline.

4. The Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) had, by decision 7/CP.21,¹ encouraged the GCF Board to improve its complementarity and coherence with other institutions, per paragraphs 33 and 34 of the governing

¹ <http://unfccc.int/resource/docs/2015/cop21/eng/10a02.pdf#page=10>.

instrument for the GCF² including by engaging with relevant bodies of the Convention, such as the Standing Committee on Finance.

5. At the twenty-ninth meeting of the Board, under the agenda item “Strategic discussion on objectives and further steps of the Fund”, the secretariat presented the document AFB/B.29/6, which it had prepared in consultation with the trustee in response to decision B.28/45, updating document AFB/B.26/5 containing further legal, operational and financial analysis on the implications of various linkages with the GCF. The discussion under that agenda item indicated a strong will among Board members to move forward with the process of establishing links with the GCF.

6. During the discussion, it was noted that the agenda for the 17th GCF Board meeting in early July 2017 included an item on an annual dialogue with climate finance delivery channels, in which the Adaptation Fund, as well as the Climate Investment Funds (CIFs), the GEF, the World Bank and other invited organizations, would be invited to participate. There was concern among Board members that the proposed dialogue on the agenda for the GCF Board meeting in July 2017, even if it took place, would be too general a forum for the desired discussion, as other climate finance entities were also invited. It was therefore suggested that a prior meeting be requested. It was also suggested that the Board seek a clear mandate from the CMP to begin negotiations with the GCF.

7. The Board had agreed to pursue a two-track approach whereby the Chair, Vice-Chair and secretariat would continue a dialogue with their GCF counterparts and the secretariat would further investigate the legal, operational and financial issues surrounding linkages with the GCF. Having considered document AFB/B.28/6 and the update provided by the secretariat, the Board decided:

a) *Based on decision B.28/45 and in accordance with paragraphs 33 and 34 of the Governing Instrument for the Green Climate Fund (GCF), to request the Chair and Vice-Chair, assisted by the secretariat:*

(i) To write an official letter to the Co-Chairs of the GCF summarizing the Board discussions related to the operational linkages with the GCF, conveying the Board’s willingness to actively engage in structured conversation with the GCF Board with a view to exploring concrete steps to enhance complementarity and coherence between the Adaptation Fund and the GCF, and requesting a bilateral meeting between the Chair and Vice-Chair of the Adaptation Fund and the Co-Chairs of the GCF during the forty-sixth session of the Subsidiary Bodies to the United Nations Framework Convention on Climate Change, in May 2017, in Bonn, Germany; and

(ii) To attend ‘an annual dialogue’ to be initiated by the GCF at the seventeenth meeting of the GCF Board in July 2017 in order to enhance complementarity;

² See at https://www.greenclimate.fund/documents/20182/226888/GCF_B.13_08_-_Complementarity_and_coherence_with_other_funds.pdf.

- b) *To request the secretariat:*
- (i) To continue discussing the concrete activities in the area of complementarity and coherence identified by the Board in decision B.25/26 with the GCF Secretariat; and*
 - (ii) In consultation with the trustee, to prepare an assessment of practical solutions for linkages between the Adaptation Fund and the GCF and present it to the Board for consideration at its thirtieth meeting; and*
- c) *To request the Chair and the secretariat to report to the Board at its thirtieth meeting on the progress made in the activities described in sub-paragraphs (a) and (b).*

(Decision B.29/40)

8. Following the twenty-ninth Adaptation Fund Board meeting, an official letter was sent to the Co-Chairs of the GCF summarizing the Board discussions related to the operational linkages with the GCF, conveying the Board's willingness to actively engage in structured conversation with the GCF Board with a view to exploring concrete steps to enhance linkages between the Adaptation Fund and the GCF. The letter conveyed a request for a bilateral meeting between the Chair and Vice-Chair of the Adaptation Fund and the Co-Chairs of the GCF during the forty-sixth session of the Subsidiary Bodies to the United Nations Framework Convention on Climate Change (SBs), in May 2017, in Bonn, Germany. The Co-Chairs of the GCF had declined the invitation. During the SBs, the Chair of the Adaptation fund held an informal meeting with one of the two Co-Chairs of the GCF had an informal meeting. During the meeting, while conveying a GCF's interest in collaborating with the Adaptation Fund, the GCF Co-chair stated that a further dialogue between the two Boards has not been established mainly because the current focus of the GCF lies in establishing its own operations. The GCF Secretariat has also informed the AFB Secretariat that the Annual Dialogue meeting of the seventeenth meeting of the GCF Board in July 2017 had been postponed. As at the date of this document, the GCF Secretariat is allegedly looking at alternatives, such as hosting the Annual Dialogue event during COP23 in Bonn.

9. In consideration of UNFCCC decision 7/CP.21,³ paragraphs 33 and 34 of the GCF Governing Instrument,⁴ and GCF Board decision B.13/12, the GCF Secretariat presented document GCF/B.17/8 which contains a proposal for an Operational Framework on complementarity and coherence with other climate finance delivery channels, to the GCF Board at its seventeenth meeting in July 2017. The GCF Board adopted the Operational Framework on

³ Decision 7/CP.21, para. 26. "The Conference of Parties (COP) encouraged the Board of the GCF to improve complementarity and coherence with other institutions, as per paragraphs 33 and 34 of the governing instrument of the Green Climate Fund"

⁴ The Governing Instrument of the GCF, para.33 says that "The Fund shall operate in the context of appropriate arrangements between itself and other existing funds under the Convention, and between itself and other funds, entities, and channels of climate change financing outside the Fund." The para.34 says that "The Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional, and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacities. The Fund will promote coherence in programming at the national level through appropriate mechanisms. The Fund will also initiate discussions on coherence in climate finance delivery with other relevant multilateral entities."

complementarity and coherence with the work of other funds contained in annex II to document GCF/B.17/8.⁵ The Operational framework consists of four operational pillars: (i) Board-level discussions on fund-to-fund arrangements; (ii) Enhanced complementarity at the activity level; (iii) promotion of coherence at the national programming level; and (iv) complementarity at the level of delivery of climate finance through an established dialogue.

10. The current document is presented to the Board in response to paragraph b) (ii) of Decision B.29/40 and presents further analysis on the implications of various linkages with the GCF.

Discussion between the AFB and GCF Secretariats on concrete activities in the area of complementarity and coherence

11. During the SBs in May 2017, the AFB Secretariat met with the GCF Secretariat to discuss collaboration in the areas of accreditation, readiness and projects respecting the principle of country driven approach. The two Secretariats recognized a potential for scaling up and/or replicating AF projects through GCF funding and agreed to further explore collaboration in these areas. As part of the joint efforts for such collaboration, in September 2017, the AFB and GCF Secretariats jointly submitted an application to organize a session on “Scaling-up country-owned adaptation measures: early lessons from the Adaptation Fund and Green Climate Fund”, at the 5th International Climate Change Adaptation Conference (Adaptation Futures 2018), to be held in Cape Town, South Africa, on 18-21 June 2018. Government representatives and direct access entities accredited to both funds will participate in the session and discuss efforts in their respective countries to build on AF projects through GCF funding.

12. Other areas of possible collaboration discussed between the AFB and GCF secretariats are:

- Enhancing complementarity between the Readiness support programs on joint capacity building activities;

⁵ GCF DECISION B.17/04.

The Board, having considered document GCF/B.17/08 titled “Operational Framework on complementarity and coherence”:

- (a) *Adopts* the Operational Framework on complementarity and coherence contained in annex III to this document;
- (b) *Requests* the Secretariat to present a report on the progress made and outputs from the Operational Framework on complementarity and coherence in line with decision B.13/12, paragraph (c), for consideration by the Board in 2018, and to provide an annual update thereafter;
- (c) *Encourages* the Executive Director to host the Annual Dialogue with climate finance delivery channels in the margins of the eighteenth meeting of the Board (B.18) and to utilize it as a forum for exchange between the GCF and relevant climate finance delivery channels;
- (d) *Requests* the Secretariat to include outcomes and updates related to complementary and coherence in the report to the Conference of the Parties for its consideration by the Board, and to continue cooperation with the Standing Committee on Finance, in line with Decision B.13/11.

- Conducting joint outreach events;
- Exploring an approach to so-called 'coordinated funding' where entities, such as national and regional implementing entities, can access resources of the two Funds simultaneously or sequentially, while the Funds cooperate in providing more coordinated support to the entities than individual support from each fund;
- Exploring coordinated post accreditation support;
- Fostering dialogue among accredited national and regional implementing entities of the two funds.

Analysis of an operational linkage with the GCF through accreditation

13. The ways for an entity to engage with the GCF can be generally categorized into two options: (i) to become an Accredited Entity of the GCF; and (ii) to work with GCF Accredited Entities, which does not necessarily require an accreditation with the GCF. The latter includes, but is not limited to, (i) partnering with an Accredited Entity on implementing its approved GCF project; (ii) co-financing projects with an already accredited Entity; and (iii) as a readiness delivery partner, provided that the entity can demonstrate relevant expertise, experience and ability to implement project.⁶ This section focuses on an analysis of the first option of engagement with the GCF, accreditation.

14. In line with Decision B.29/40, in consultation with the trustee, the secretariat prepared an assessment of the feasibility and challenges for the Adaptation Fund Board to obtain accreditation with the GCF by engaging a former member of the Adaptation Fund Accreditation Panel to conduct an analysis based on the GCF accreditation criteria. The assessment is prepared through an extensive desk review of the documents and information related to the Adaptation Fund, similar to what an applicant implementing entity would be generally required to submit to apply for an accreditation with the GCF.

15. GCF Accredited Entities are categorized into two types: (i) Direct Access Entities, which refer to sub-national, national and regional organizations; and (ii) International Access Entities, which include United Nations agencies, multilateral development banks, international financial institutions. Therefore, given that the Adaptation Fund Board, (rather than the Adaptation Fund), has legal personality as explained in more detail in the document AFB/ B.29/6,⁷ the analysis finds that the Board could be more appropriate to apply for accreditation through the international access track.

16. The GCF Accreditation process consists of three stages: (i) Stage I of completeness check by the Secretariat; (ii) Stage II – Step 1 of Accreditation Panel review and Step 3 of Board decision; and (iii) Stage III of legal arrangement (signing of Accreditation Master Agreement). An entity

⁶ See at <http://www.greenclimate.fund/gcf101/getting-accredited/accreditation-process>.

⁷ See at https://www.adaptation-fund.org/wp-content/uploads/2017/03/AFB-B-29.6_Potential-linkages-between_AF-and-GCF.pdf.

applying for GCF accreditation is subject to accreditation fee⁸ and the fit-for-purpose accreditation approach.⁹ At Stage I, the Secretariat conducts completeness check and an institutional assessment of the applicant entity's legal status, institutional track record of applying the systems, policies, procedures and guidelines, an alignment with the GCF's mandate, objectives and guiding principles.¹⁰ At Stage II (step 1), the GCF Accreditation Panel assess an applicant entity against: (i) the GCF basic fiduciary standards (including the Interim Policy on Prohibited Practices¹¹) and applicable specialized fiduciary standards; (ii) the GCF's interim environmental and social safeguards (ESS) (including GCF's Information Disclosure Policy with requirements to disclose E&S reports for certain categories of E&S risk); and (iii) GCF's gender policy.

Overview of an operational linkage with the GCF through a legal agreement or Memorandum of Understanding (MoU)

17. Apart from accreditation with the GCF, the other option presented in document AFB/B.26/5 is a legal agreement or MoU between the two Funds. The document indicated that if politically feasible, this option might allow more flexibility to tailor the operational linkage between the funds to the specific situations, features and types of projects/programmes funded by the Adaptation Fund and to come up with an option that may avoid duplication and inconsistency, and reduce administrative costs.

Recommendation

18. Having considered documents AFB/B.30/6 and AFB/B.30/6/Add.1 as well as the update provided by the secretariat, the Adaptation Fund Board may want to consider and decide:

- (a) Based on decision 29/40, to request the Chair and Vice-Chair, assisted by the secretariat, to attend 'an annual dialogue' to be initiated by the GCF in order to enhance complementarity; and
- (b) To request the Chair and the secretariat to report to the Board at its thirty-first meeting on the progress made in the activities described in sub-paragraph (a).

⁸ For the GCF policy on fees for accreditation, see document GCF/B.08/45 (<http://www.greenclimate.fund/documents/20182/818273/1.10 - Policy on Accreditation Fees.pdf/b4d44215-5593-4531-987e-6ea80c746dbc>).

⁹ Fit-for-purpose approach is a tiered accreditation system of the GCF which classifies applicant entities based on the nature of their organizations and the intended scale, nature and risks of their proposed climate finance activities. More information on fit-for-purpose accreditation approach can be found in document GCF/B.08/02 (<http://www.greenclimate.fund/documents/20182/24946/GCF B.08 02 - Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach.pdf/1f57ef6b-b6c9-421c-aaf0-c35cc0e3f7a4>).

¹⁰ Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards (GCF/B.07/02, 7 May 2014).

¹¹ See document GCF/B.12/32, Exhibit A of the template Accreditation Master Agreement (<http://www.greenclimate.fund/documents/20182/184476/GCF B.12 32 - Decisions of the Board Twelfth Meeting of the Board 8 10 March 2016.pdf/020edfa1-53b2-4abf-af78-fccf5628db2a?version=1.1>).

The Board may also wish to decide on any necessary next steps to be taken by the secretariat, for instance related to continuation of discussion with the GCF Secretariat on concrete activities in the area of coherence and complementarity identified by the Board in decision B25/26.