



ADAPTATION FUND

AFB/B.31/6
16 March 2018

Adaptation Fund Board
Thirty-first meeting
Bonn, Germany, 22-23 March 2018

Agenda item 10 b)

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

Background

1. The Adaptation Fund Board (the Board) has been engaged, over a period of time, in discussions on the topic of the potential linkage between the Adaptation Fund (the Fund) and the Green Climate Fund (GCF) (please see Annex 1 to this document for a detailed background). These discussions have been taking place at two levels: through participation of the Chair and Vice-Chair of the Board in the annual dialogue and in formal meetings with the co-chairs of the GCF, and through ongoing discussions between the secretariats of the Fund and the GCF on concrete activities in the area of complementarity and coherence.

2. At its thirtieth meeting the Board discussed document AFB/B.30/6 which includes a background on the GCF adoption of an operational framework on complementarity and coherence with other funds¹. The GCF framework consists of four operational pillars, one of which was board-level discussions on fund-to-fund arrangements. It was specified, also in AFB/B.30/6, that ways on engaging with the GCF could include a memorandum of understanding (MOU), accreditation with the GCF, co-financing of projects or joint activities, such as for capacity building.

3. The Board requested the Adaptation Fund Board Secretariat (the secretariat) to continue to work on a “two-track” approach vis-à-vis exploring linkages with the GCF: (i) by initiating the process toward accreditation and (ii) continuing discussions on practical fund-to-fund collaboration on operational matters (Decision B.30/43). Specifically, the Board decided:

(a) Based on decision B.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 to actively engage in a structured conversation with the GCF board, with a view to exploring concrete steps to enhance complementarity, including options for fund-to-fund arrangements and accreditation;

(b) To request the secretariat:

(i) To initiate the process toward accreditation with the GCF;

(ii) To prepare an assessment of options for fund-to-fund arrangements, as described in pillar 1 in the GCF operational framework for complementarity and coherence, as contained in document GCF/B.17/08, for consideration by the Board at its thirty-first meeting;

(iii) To prepare an information document on the comparative advantages of the Adaptation Fund for the purposes of board-level discussions between the two funds on fund-to-fund arrangements, including joint financing and the decision-making process; and

¹https://www.greenclimate.fund/documents/20182/751020/GCF_B.17_08_-_Operational_Framework_on_complementarity_and_coherence.pdf/55b8605f-518a-4b91-8362-02eae5a566a

(iv) To continue discussions with the GCF secretariat on the concrete activities in the area of complementarity and coherence identified by the Board in decision B.26/26; and

(c) 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 subparagraphs (a) and (b).

4. The current document is presented to the Board to provide an update on Decision B.30/43 on way forwards various linkages with the GCF.

Discussion between the Fund and the Green Climate Fund at the Annual Dialogue and the AF-GCF technical workshop

5. During the twenty-third session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP23) in Bonn on 14 November 2017, the GCF held the first Annual Dialogue with representatives of the respective Boards and the secretariats of climate finance delivery channels (Adaptation Fund, Global Environment Facility (GEF), Climate Investment Funds (CIFs), and GCF), which was recognised as an important progress for complementarity and coherence among all the participating funds, and between the Green Climate Fund and the Adaptation Fund. The Chair and Vice-Chair of the Fund, one co-Chair of the GCF and the CEO of the GEF participated in the meeting. As a follow-up to the annual dialogue which happened in Bonn, the GCF Secretariat held a series of meetings in Washington, D.C., in February 2018, including a bilateral meeting with the secretariat. Further details on the bilateral meeting between the GCF and the secretariat are provided in the sections below.

Issues to be considered before pursuing an accreditation with the GCF

6. On the topic of accreditation, a formal communication on this issue was initiated by the secretariat, requesting the GCF's guidance on if and how the Fund may proceed on initiating the process toward accreditation, considering any relevant implications on the fund-to-fund collaboration. The letter from the manager of the secretariat, addressed to the Executive Director of the GCF was transmitted on 22 February 2018, to which a response letter was received on 14 March 2018. The letter advised on the core responsibilities of the GCF Accredited Entities (AEs) as follows:

- a) On an operational level, AEs of the GCF are expected to, inter alia:
 - i. Cover the full project and programme cycle in engaging with the GCF, starting from engaging with developing countries via the National Designated Authorities and focal points in order to respond to and align potential projects/programmes with country priorities, strategies, approaches and needs on climate change;
 - ii. Develop and periodically update an Entity Work Programme in order to deliver country-owned, high-impact proposals in a strategic manner;

- iii. Design projects and develop funding proposals to be considered by the GCF for financing and
 - iv. Implement and deliver results on such activities.
- b) On an administrative level, including fiduciary and legal matters, AEs of the GCF must, inter alia:
- i. Demonstrate institutional capacities to undertake the overall management, implementation and oversight of climate change projects and programmes in line with the GCF fiduciary standards, environmental and social safeguards and gender policy;
 - ii. Provide evidence of institutional systems, policies and procedures in terms of those standards as well as the track record of implementing such institutional systems, policies and procedures for undertaking the projects and programmes;
 - iii. Demonstrate (i) its capacity to ensure that its downstream executing entities apply the same standards; and (ii) its ability to monitor, report and verify that the relevant GCF standards, safeguards and policies are being upheld; and
 - iv. Possess legal personality to sign legal agreements with the GCF, notably the Accreditation Master Agreement and any Funded Activity Agreements resulting from approved funding proposals.

7. Furthermore, in the letter it is noted that, in the event that the AF wishes to pursue accreditation with the GCF, any challenges or potential conflicts that might arise as a result of pursuing accreditation with the GCF and maintaining activities with the GCF under the GCF complementarity and coherence framework in parallel would need to be considered, particularly to the extent that agreed areas of collaboration under the complementarity and coherence framework intersect or are inconsistent with the responsibilities of the AEs of the GCF, as summarized above. Such consideration, for example, might comprehend activities related to collaboration on programming, accreditation fast-tracking, and cross-Fund exchange of information to determine if such activities would remain appropriate in light of the relationship the GCF expects to maintain with its AEs and AE applicants.

Assessment of options for fund-to-fund arrangements

8. The areas for collaboration between the two funds which were identified at the Annual Dialogue in November 2017 and the Workshop in February 2018 included: accreditation support for direct access by national implementing entities to the Adaptation Fund and the Green Climate Fund; project development and the potential for joint programming; coordination and harmonization of policies on environmental and social safeguards and, monitoring, reporting and verification.

9. All the options above are feasible and the two secretariats are collaborating on developing specific activities (see section below on concrete activities).

10. It is noteworthy that, as indicated above, it needs to be considered in advance whether pursuing accreditation with the GCF will lead to potential conflicts in the Fund's pursuing the identified collaborative activities with the GCF.

Status of discussions with the GCF Secretariat on the concrete activities in the area of complementarity and coherence

11. At the meeting between the GCF Secretariat and the AFB Secretariat on February 8, 2018, it was mutually agreed to put together a list of options for joint activities which could include:

- Engaging jointly on country readiness, shared entities;
- Conducting joint survey to assess entities' gaps and needs;
- Undertaking joint country programming (for example, with scalability as a strategic consideration, and country-drivenness as a key operating principle);
- Holding a joint COP24 side event, among others, along with a provisional timeline; and
- Engaging in more substantial dialogue on knowledge management, results and indicators.

12. In addition, the two secretariats agreed to inform each other on upcoming workshops and other meetings, and to improve the opportunities of participating in those between the funds.

Conclusion

13. In light of the information provided by the GCF and contained in the letter dated on 14 March 2018, the secretariat is of the view that exploring linkages with the GCF by moving forward on a two-track approach of initiating the process toward accreditation and continuing discussions on practical fund-to-fund collaboration on operational matters with the GCF would need to be further considered. This relates in particular to potential conflicts that may arise in the Fund's pursuing accreditation with the GCF and maintaining at the same time the identified collaborative activities with the GCF under the GCF complementarity and comprehensive framework.

Recommendation

14. The Board may want to consider:

- a) To request the Chair and Vice-Chair, assisted by the secretariat to continue pursuing active engagement with the GCF Board through its co-Chairs, with a view to exploring

concrete steps to enhance complementarity and coherence, during the forty-eighth session of the Subsidiary Bodies to the United Nations Framework Convention on Climate Change, in May 2018, in Bonn, Germany;

- b) To request the secretariat:
 - (i) To continue discussions with the GCF secretariat to advance the collaborative activities identified at the Annual Dialogue in 2017 in order to enhance complementarity between the two Funds;
 - (ii) To seek further information from the GCF on options for fund-to-fund arrangements, as described in pillar 1 in the GCF operational framework for complementarity and coherence, as contained in document GCF/B.17/08.
- c) To request the Chair and secretariat to report to the Board at its thirty-second meeting on the progress made in the activities described in subparagraphs a) and b).

15. In addition, the Board may wish to consider the issue of potential conflict referred to above, and to decide on an appropriate way forward.

ANNEX 1: Background information on the Strategic Discussion on the Potential Linkage between the Fund and the Green Climate Fund

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 Adaptation Fund Board Secretariat (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.

1. 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.

2. 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.

3. The Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) had, by decision 7/CP.21,² encouraged the GCF Board to improve its complementarity and coherence with other institutions, per paragraphs 33 and 34 of the governing

² <http://unfccc.int/resource/docs/2015/cop21/eng/10a02.pdf#page=10>.

instrument for the GCF³ including by engaging with relevant bodies of the Convention, such as the Standing Committee on Finance.

4. 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.

5. 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.

6. 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 [S]ecretariat:*

(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;

³ See at https://www.greenclimate.fund/documents/20182/226888/GCF_B.13_08_-_Complementarity_and_coherence_with_other_funds.pdf.

- b) *To request the [S]ecretariat:*
- (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 [T]rustee, 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 [S]ecretariat 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)

7. 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 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 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.

8. In consideration of UNFCCC decision 7/CP.21,⁴ paragraphs 33 and 34 of the GCF Governing Instrument,⁵ 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

⁴ 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 [...]"

⁵ 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."

its seventeenth meeting in July 2017. The GCF Board adopted the Operational Framework on complementarity and coherence with the work of other funds contained in annex II to document GCF/B.17/8.⁶ 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.

⁶ *GCF DECISION B.17/04*: The [GCF] 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.