



ADAPTATION FUND

AFB/PPRC.22/25
12 March 2018

Adaptation Fund Board
Project and Programme Review Committee
Twenty-Second Meeting
Bonn, Germany, 20-21 March 2018

Agenda item 10

UPDATE ON THE SCOPE OF APPLICATION OF THE FULL COST OF ADAPTATION REASONING CRITERION

Background

1. At its second meeting in November 2006, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) decided that the Adaptation Fund (the Fund) would be guided by a series of principles, among which was “Funding on full adaptation cost basis of projects and programmes to address the adverse effects of climate change” (Decision 5/CMP.2).
2. At its seventh meeting (October 2009), the Adaptation Fund Board (the Board) adopted Operational Policies and Guidelines (OPG) through Decision B.7/2. This document and associated annexes have further refined the notion and implication of the full cost of adaptation reasoning from the text of the provisional OPG [adopted by the Board through Decision B.5/4], and read “*Funding will be provided on full adaptation cost basis of projects and programmes to address the adverse effects of climate change. Full cost of adaptation means the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change. The Fund will finance projects and programmes whose principal and explicit aim is to adapt and increase climate resilience. The project proponent is to provide justification of the extent to which the project contributes to adaptation and climate resilience. The Board may provide further guidance on financing priorities, including through the integration of information based on further research on the full costs of adaptation and on the lessons learned*”. This first operational version of the OPG introduced the possibility for the Board to provide further guidance on financing priorities based on further research on the full costs of adaptation and on lessons learned.
3. At its twenty-second meeting (October 2013), through decision B.22/23, the Board approved amendments to the operational policies and guidelines for Parties to access resources from the Adaptation Fund, its related templates, and instructions. These instructions, “Instructions for preparing a request for project or programme funding from the Adaptation Fund”, thereafter contained in Annex 5 of the OPG formalized a working definition for full cost of adaptation that had been established through the work of the Board and the secretariat, and included the following section: “The Adaptation Fund does not require co-financing for the projects/programmes it funds. The principal and explicit aim of the project/programme should be to adapt and to increase resilience of a specific system or communities, to the adverse effects of climate change and variability. Therefore, the proposal should demonstrate that the project/programme activities are relevant in addressing its adaptation objectives and that, taken solely, without additional funding from other donors, they will help achieve these objectives. Although co-financing is not required, it is possible and often cost-effective to implement Adaptation Fund projects in parallel with projects funded from other sources. In such a situation, the Adaptation Fund project should be able to deliver its outcomes and outputs regardless of the success of the other project(s) [...]”. These instructions introduced the idea that, in the case of projects or programmes funded from other sources, the Adaptation Fund project should be able to deliver its outcomes and outputs regardless of the success of the other (co-financed) project(s).

4. At its nineteenth meeting the Project and Programme Review Committee (PPRC) of the Board, reviewed a programme proposal to be partly funded by the Adaptation Fund, and co-financed by the Implementing Entity, a regional development bank. The aforementioned proposal included activities that, if funded by the Fund, would have been highly dependent on the implementation and delivery of other adaptation activities from a co-financed component of the project. As a result, the secretariat identified a need to explore ways to address cases where the delivery of Fund-supported activities was dependent on delivery of co-financed adaptation activities. The secretariat also explained that, on the other hand, the OPG stated that the Board might provide further guidance on financing priorities, including through the integration of information based on further research on the full costs of adaptation and on lessons learned.

5. Following that discussion, the PPRC, having considered the implications that the current guidance contained in the Annex 5 of the OPG may represent for innovative project/programme proposals that include adaptation co-financing, decided to recommend that the Board request the secretariat to prepare a proposal for consideration by the PPRC at its twentieth meeting clarifying the scope of application of the full cost of adaptation reasoning criterion (decision B.28/33).

6. Consequently, the secretariat developed a document that included a proposal for clarifying the scope of application of the full cost of adaptation reasoning criterion, that was presented for consideration by the PPRC at its twentieth meeting.

7. The below listed options for defining the scope of application of the full cost of adaptation reasoning criterion, were presented:

1. Option 1: Status Quo (For proposals with co-financed adaptation activities, the Adaptation Fund component should be able to deliver on its related outcomes and outputs regardless of the success of the co-financed component);
2. Option 2: The Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component' outcomes and outputs could be tied with the delivery of the co-financed component;
3. Option 3: The Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component's outcomes and outputs could be tied with the delivery of the co-financed component, under certain conditions;
4. Option 4: Status quo (For proposals with co-financed adaptation activities, the Adaptation Fund component should be able to deliver on its related outcomes and outputs regardless of the success of the co-financed component) and request the secretariat to perform an analysis of the full costs of adaptation.

8. During its twenty-ninth meeting, the Adaptation Fund Board having considered the comments and recommendation of the PPRC, and in line with the OPG, which stipulate that "The Board may provide further guidance on financing priorities, including through the integration of information based on further research on the full costs of adaptation and on the lessons learned", decided:

- (a) *To reconfirm the definition of “full costs of adaptation” as stated in the Operational Policies and Guidelines (OPG); and*
- (b) *To request the secretariat, taking into account the orientations provided by the medium-term strategy of the Adaptation Fund, to perform an analysis and collect lessons learned on how the full costs of adaptation has been applied by the Adaptation Fund and make recommendation on the way forward including potential further conceptual development of applying the full costs of adaptation, for consideration of the Project and Programme Review Committee (PPRC) at its twenty-second meeting.*

(Decision B.29/3)

9. That decision was in line with option 4 of the proposal clarifying the scope of application of the full cost of adaptation reasoning criterion.

Overview of the latest operational developments in relation to the current full-cost adaptation reasoning criterion

10. At the thirtieth Adaptation Fund Board meeting in October 2017, the OPG main text and Annex 5 were amended, however, the section related to the full cost of adaptation quoted above remained unchanged (Decision B.30/44).

11. Additionally, at its thirtieth meeting, the Adaptation Fund Board considered the draft medium-term strategy (MTS) for the Adaptation Fund, based on document AFB/B.30/5/Rev.1 prepared by the Adaptation Fund Board Secretariat, and decided:

- (a) *To adopt the medium-term strategy as amended by the Board, as contained in the Annex 1 of the document AFB/B.30/5/Rev.1 (the MTS)”, and*
- (b) *Request the secretariat to “prepare, under the supervision of the MTS task force, a draft implementation plan for operationalizing the MTS [to be presented in this current Board Meeting (AFB.31)], containing a draft budget and addressing key assumptions and risks, including but not limited to funding and political risks, for consideration by the Board at its thirty-first meeting”; and “to draft, as part of the implementation plan, the updates/modifications to the operational policies and guidelines of the Adaptation Fund needed to facilitate implementation of the MTS, for consideration by the Board at its thirty-first meeting”.*

(Decision B.30/42)

12. The MTS mentions the status quo on the full-cost of adaptation but at the same time it gives no limitations on this concept, which enables exploring new avenues. The MTS organizes activities primarily along the three strategic foci (pillars): action, innovation, and learning and sharing, and has four cross-cutting areas being one of them “Building complementarity and

coherence with other climate finance delivery channels”. The objective of the strategic focus area on action is to “Support eligible countries to undertake high quality adaptation projects and programmes consistent with their priority needs, goals and strategies”, and its expected result (ER) 3, refers to effective action scaled up, where countries are readied to scale up effective projects/programmes with support from other climate funds and finance channels (including private sector).

13. The objective of the strategic focus area on innovation is to “Support the development and diffusion of innovative adaptation practices, tools, and technologies”. This represents a new area of operation for the Fund, that will require special technical support and a phased operationalization, expected to generate lesson learned for scaling up investments in this strategic area. New financing modalities could be envisaged under this pillar, namely through the delivery model of seeking “partnerships, competitions and other approaches to stimulate innovative adaptation practices, tools and technologies”¹, and this might broaden the current modus operandi of the Fund.

14. The secretariat prepared, under the supervision of the MTS task force, a draft implementation plan for operationalizing the MTS [to be presented in this current Board Meeting (AFB.31)]. The plan includes new areas of work/activities and entails opportunities and risks.

15. To facilitate the implementation of the MTS, updates/modifications to the operational policies and guidelines of the Adaptation Fund will be needed, as requested by the Board (Decision B.30/42). Nevertheless, the analysis conducted by the secretariat should be supported by a clarification related to how the Board decides to implement the MTS.

16. Additionally, the secretariat has been engaging in informal talks with governments and multilateral entities, which are showing interest in exploring co-financing adaptation schemes.

17. Referring to the OPG and how the Adaptation Fund might be operationalizing its MTS, a broader definition of the full-cost of adaptation criterion might be necessary. The current definition might, in fact, restrict new ideas related to co-financing schemes on adaptation coming from the private sector, as well as other organizations, that could potentially foster transformational impacts, sustainability and scalability of the Adaptation Fund projects and programmes.

Recommendation

18. Having considered the update provided by the secretariat, and given that at present stage the MTS implementation plan and arrangements need to be finalized (see B. 30/42), the Project and Programme Review Committee (PPRC) may want to consider and request the secretariat to prepare an analysis of the full-cost of adaptation criterion revised in accordance to the Medium-Term Strategy implementation plan [following Board’s approval], to be presented at the twenty-fourth PPRC meeting.

¹ See https://www.adaptation-fund.org/wp-content/uploads/2017/10/AFB.B.30.5.Rev_.1-Draft-medium-term-strategy.pdf page 23.