ADAPTATION FUND

AFB/PPRC.24/5
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Project and Programme Review Committee
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Agenda item 5

REPORT ON THE FULL-COST-OF-ADAPTATION-REASONING

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 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). In December 2008, the Parties adopted through Decision 1/CMP.4, the Strategic Priorities, Policies and Guidelines of the Adaptation Fund which specifies in Annex IV that "Funding for projects and programmes will be on a full adaptation cost basis to address the adverse effects of climate change". The Operational Policies and Guidelines (OPG) and its annex 5 have further refined the notion and implication of the full cost of reasoning. The OPG and its Annexes have been last amended in October 2017 through Decision B.30/44. However, the section related to the full cost of adaptation quoted above was not amended.

2. For the Adaptation Fund the full-cost of adaptation has been interpreted as "the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change", as specified in the OPG main text. Further, as stated in the OPG annex 5 "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)".

3. Establishing clear links between the proposed activities and current and future climate vulnerabilities faced is important to prove climate rationale. However, proponents do not need to separate the costs of business-as-usual development from the cost of the adaptation measure (i.e., they do not have to calculate baseline development and the difference in baselines when climate change is considered).

4. At its nineteenth meeting, the Project and Programme Review Committee (PPRC) of the Adaptation Fund Board (the Board) reviewed a proposal seeking to enhance capacity of Micro, Small and Medium agricultural Enterprises (MSMEs) and their resilience to climate change through the provision of financial and non-financial services. The proposed programme planned to be partly funded by the Adaptation Fund, and co-financed by the Implementing Entity, a regional development bank.

5. During the presentation of this proposal to the PPRC, the secretariat explained that one of the challenges with the proposal was that it presented some issues related to the mandate of the Fund, and to the necessary arrangements for this type of projects with co-financing. Indeed, the document "*Instructions for preparing a request for project or programme funding from the Adaptation Fund*", contained in an annex 5 of the OPG, states, in the section related to the financing the full-cost of adaptation, that "*the AF project should be able to deliver its outcomes and outputs regardless of the success of other project(s)*".

6. The aforementioned proposal included activities that, if funded by the Adaptation 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, there was a need to explore ways to address cases where the delivery of Fund-supported activities was dependent on delivery of co-financed activities. Indeed, there was no specific guidance in the OPG on how to manage potential risks of the activities not being delivered in cases where the co-financing would not materialize. In addition, the OPG did not explicitly consider the potential stronger commitments towards outputs delivery from co-financiers and thus the increased effectiveness of adaptation interventions that co-financing could add. On the other hand, the OPG of the Fund stated on para 14 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.

7. Following that discussion, and having considered the comments and recommendation of the PPRC, the Board subsequently decided to 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 criteria (Decision B.28/33).

8. At its twentieth meeting, the PPRC discussed a proposal for clarifying the scope of application of the full cost of adaptation reasoning criterion, following which the Board decided to reconfirm the definition of “full costs of adaptation” as stated in the OPG and 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 PPRC at its twenty-second meeting (Decision B.29/3).

9. At its twenty-second meeting, the PPRC discussed an update on the full cost of adaptation reasoning criterion, following which the Board decided to request the secretariat to prepare an analysis of the full-cost-of-adaptation-reasoning criterion (document AFB/PPRC.22/25), revised in accordance with the medium-term strategy implementation plan contained in the Annex I to document AFB/B.31/5/Rev.1 and considering the views of governments of developing countries and relevant stakeholders of the Adaptation Fund on the issue, and to submit the analysis to the PPRC at its twenty-fourth meeting (Decision B.31/23).

10. During that same thirty-first meeting, the Board considered an implementation plan for the medium-term strategy for the Fund and subsequently decided to approve such plan for the medium-term strategy for the Fund for 2018-2022 contained in Annex I to document AFB/B.31/5/Rev.1 (Decision B.31/32).

11. This document has been developed following decision B.31/23: it builds on document AFB/PPRC.22/25 and the revisions are based on the medium-term strategy implementation plan (document AFB/B.31/5/Rev.1).

Methodology

12. The Adaptation Fund operates in an evolving architecture of development, climate finance, and country adaptation priorities and strategies. Therefore, the methodology chosen for the following analysis includes experiences and view of relevant stakeholder of the Adaptation Fund, as well as a review of practices followed by other climate funds, to better examine how the Adaptation Fund’s approach fits into this larger context. The report has a multimethod approach, with qualitative and quantitative analysis.

13. Accordingly, Board decision B.31/32 has been addressed by asking to Designated Authorities (DA), Implementing Entities (IEs), and Civil Society Organizations (CSOs), through the AF NGO Network coordinated by Germanwatch, about their views on how the Adaptation Fund should consider co-financing under the different types of projects/programs and grants included in the Implementation Plan (IP) of the Fund Medium Term Strategy (MTS). The different types of projects/grants were used as a basis for this analysis because they are different in scope and encompass business as usual (BAU) modus operandi of the Fund, for example the concrete projects/programs in the Action pillar, and new areas of action under the three pillars (e.g. scale-up grants; large and small scale innovation grants; and learning grants). It seems, therefore important, to compile information on experiences from a BAU perspective, as well as to seek recommendations wheatear the Adaptation Fund should consider exploring options for a revision of the full-cost of adaptation reasoning, according to the new areas of action introduced by the MTS and the IP of the fund.

14. The analysis also includes a comparative review of practices on co-financing in key entities in the adaptation finance landscape. In particular, the Global Environmental Facility (GEF), the Least Developed Countries Fund (LDCS) and the Special Climate Change Fund (SCCF), and the Green Climate Fund (GCF) were selected being the four largest adaptation-focused climate funds.

Comparative review of existing practices on co-financing in comparable funds

The Global Environmental Facility

15. The Global Environment Facility (GEF) first adopted a co-financing policy in 2003, which was last updated in 2018 (GEF/C.54/10/Rev.01)[1]. Co-financing is defined by this policy as "*financing that is additional to GEF Project Financing, and that supports the implementation of a GEF-financed project or program and the achievement of its objective(s)*". The policy recognizes that "*Co-Financing contributes to the effectiveness, impacts and sustainability of GEF projects and programs, particularly by enabling the GEF to achieve longer-lasting and larger-scale global environmental benefits, and by strengthening partnerships with recipient country governments, multilateral, bilateral and national financing institutions, the private sector, and civil society*".

16. The GEF co-financing policy sets out a target for the overall GEF portfolio to reach a ratio of co-financing to GEF project financing of at least 7:1, and for the portfolio of projects and programs approved in upper-middle income countries and high-income countries that are not Small Island Developing States or Least Developed Countries to reach a ratio of investment mobilized (i.e. sub-set of co-financing that excludes recurrent expenditures) to GEF financing of at least 5:1. Countries with the capacity to do so are encouraged to seek even higher levels of co-financing and investment mobilized. The policy notes that over time all countries should seek to mobilize greater investments. The policy further adds that co-financing is required for all GEF-financed Full-Sized Projects, Medium-Sized Projects and programs and that co-financing is encouraged for all Enabling Activities, except under exceptional circumstances.

[1] http://www.thegef.org/sites/default/files/council-meeting documents/EN_GEF.C.54.10.Rev_.01_Co-Financing_Policy.pdf

17. The GEF does not impose minimum thresholds and/or specific types or sources of co-financing or investment mobilized in its review of individual projects and programs. In cases of proposed co-financing, the GEF assesses whether the indicative and confirmed, expected amounts, sources and types of co-financing and investment mobilized are adequately documented and consistent with the requirements of the policy in its review of Program Framework Documents, Project Identification Forms and Requests for CEO endorsement/approval. The GEFGEF secretariat collects data and information on expected and actual co-financing and investment mobilized across all GEF-financed projects and programs and reports annually to the Council on trends and progress against the level of ambition indicated in the policy. Agencies provide information on the actual amounts, sources and types of co-financing and investment mobilized in their mid-term reviews and terminal evaluations.

The Least Developed Countries Fund and the Special Climate Change Fund

18. The Least Developed Countries Fund (LDCF)a GEF trust fund that is has described its funding as "primarily aimed at financing the full cost of adaptation for National Adaptation Plan of Action (NAPA) projectsThe "[2]. However, the LDCF and the Special Climate Change Fund, which is another GEF trust fund that primarily finances definition of "full cost of adaptation, by and large follow" differs in marked ways from that of the GEF policies, including on co-financing. InAdaptation Fund: in its "*Guide for accessing resources under the LDCF*", the full adaptation cost is said to translate into the term "*additional cost*" as per COP decisions and LDCF/SCCF (Special Climate Change Fund) programming papers. This concept is used to explain how the costs of adaptation are added to costs of Business-As-Usual (BAU) development initiatives. BAU in this context refers to development activities that would be implemented regardless of climate change-related considerations. The full adaptation cost, i.e. the additional cost related to adaptation, is to be fully paid by the LDCF/SCCF. Therefore, co-financing in the context of LDCF-funded adaptation projects is defined as the cost which would be incurred for BAU. This amount is considered the project's baseline and constitutes the co-financing; beyond that, the full cost of adaptation is the so-called additional cost and is paid out of the LDCF. The rationale behind this concept of co-financing is to use the LDCF funds to catalyze adaptation to climate change in the context of a larger development initiative. As the LDCF has defined that it funds the full cost of adaptation in the aforementioned manner, it can also fund standalone projects, provided that what is being financed is shown to be exclusively adaptation interventions, which are not linked to BAU development. To materialize the co-financing procedure, the LDCF requires a declared commitment from relevant co-financier(s) of the existing BAU activities on which the LDCF will build upon. The co-financier(s) declare that they will allocate a certain part of their existing resources toward the LDCF project objective.

The Green Climate Fund

19. The governing instrument for the Green Climate Fund (GCF), paragraph 35, states that GCF "*will finance agreed full and agreed incremental costs for activities to enable and support enhanced action on adaptation, mitigation (including REDD-plus), technology development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries*". At its eleventh meeting, the GCF Board decided to review the proposal approval process with a view to, inter alia, strengthening project/programme eligibility criteria, including categories of incremental cost eligible for funding. At its seventeenth meeting, the GCF Board requested the GCF secretariat to prepare a proposal for "*the development and*

[2] https://www.thegef.org/publications/accessing-resources-under-ldcf

application of an incremental cost calculation methodology and/or alternative methodologies, as appropriate". At its nineteenth meeting, the GCF Board noted the linkages between incremental cost and concessionality and policy gaps identified at its eleventh meeting. It requested the secretariat to develop an integrated approach to resolve these interrelated issues for the Board's consideration at its twentieth meeting, including "*policies on the review of the financial terms and conditions of GCF instruments and concessionality, incremental costs, full costs, and co-financing*". This has now been deferred to the twenty-third meeting of the GCF Board.

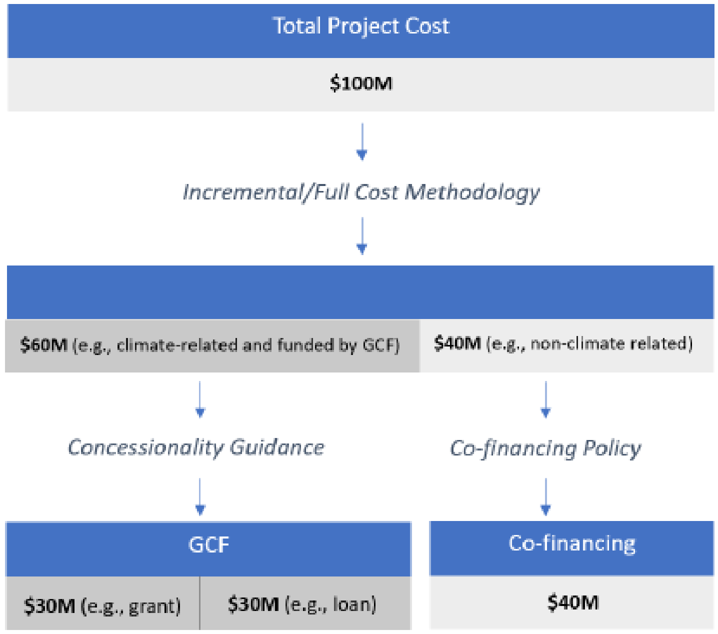
20. The "*Incremental and full cost calculation document*" [3], which has not yet been adopted by the GCF Board, proposes that, incremental costs are the additional expenses incurred with respect to a baseline to produce a new output or an equivalent output in a way that results in mitigation or adaptation impact[4]. Similarly, the full costs of a project or a component are the baseline costs plus the incremental costs, while the full costs of adaptation refer to the costs of any action needed to adjust natural or human systems in response to climate change. Because the full costs of adaptation in the GCF are defined in comparison to a baseline scenario absent of climate change, it can be classified as a type of incremental cost. The aforementioned document further adds that, when developing funding proposals, Accredited Entities (AEs)[5] and GCF need to determine in the cost of the project, the portion that should be financed by GCF, and the instruments[6] and level of concessionality GCF should use to finance its portion of the costs. When submitting a funding proposal, AEs should explain which project activities are being proposed based on incremental cost reasoning and which are based on a full cost basis. At a minimum, AEs should employ a qualitative approach connected to a strong theory of change. In addition, they will apply a quantitative methodology when feasible. The methodology for estimating incremental and full costs helps to determine these by estimating the incremental costs related to climate change and setting guidelines for when full cost funding is appropriate. Based on this assessment, GCF and AEs will agree on which part of the project is eligible to be funded by GCF and which may be better suited for co-financing. The concessionality guidance and its associated tools will be used to determine the appropriate financial instruments and terms for the portion financed by GCF to ensure efficiency and effectiveness. The co-financing policy will explain how those costs are to be classified and reported. The document adds that, given the wide variety of countries, results areas and AEs involved in GCF projects, GCF maintains flexibility in the criteria used to determine whether the GCF funds incremental costs or full costs for any given project. The determination of GCF eligibility and concessionality for funding proposals is summarized in the figure below.

[3] https://www.greenclimate.fund/documents/20182/1270184/GCF_B.21_03_-_Incremental_and_full_cost_calculation_methodology.pdf/ba48f1ac-5881-9a8f-1641-70089ef29df9 . It is worth noting that this document is based on a study commissioned by the GCF: https://www.greenclimate.fund/documents/20182/1270184/GCF_B.21_Inf.03_Add.01_-_Approach_and_scope_for_providing_support_to_adaptation_activities___Addendum_I__The_GCF_s_approach_to_adaptation__analysis_and_implications_for_the_Fund.pdf/d178b4f3-412c-29b6-2530-f7792e2114fb

[4] Baselines refer to development baselines pertaining to the country context, not the level of development in a proposed project activity, as referred to in GCF/B.21/Inf.03/Add.01.

[5] The GCF works through a wide range of Accredited Entities to channel its resources to projects and programmes. Such entities can be private or public, non-governmental, sub-national, national, regional or international.

[6] Grants, loans, guarantees, equity



21. Similarly, the document GCF/B.21/29/Rev.01 on "*co-financing matters*"[7] recognizes that "*the lack of a clear definition of what constitutes co-finance or leveraged finance can lead to inconsistencies across funding proposals*". As a result, it "*aims to provide clarity through a statement of definitions, supports further granularity in determining causality and thus attribution between funding streams, and presents guiding principles to calculate, track and report co-finance, thereby providing clarity to both countries and AEs as they prepare funding proposal*". Its draft policy on co-financing mentions that "*Co-financing is encouraged for all GCF funding proposals as a means to maximize the opportunity for strategic partnerships towards achievement of the highest possible impact and ambition in accordance with the GCF mandate and the Paris Agreement*". It further adds that "*Co-financing is desirable for all GCF funding channels, including the Readiness and Preparatory Support Programme and the Project Preparation Facility*". The draft policy includes as guiding principles, among others, that i) Project proposals should seek to incorporate appropriate levels of co-financing to maximize the impact of GCF resources, as determined on a case-by-case basis; ii) While maximizing co-financing is desirable in some proposals, GCF should avoid using co-financing metrics as stand-alone targets; iii) Where GCF funding is covering the incremental costs of a project, the non-climate related costs should be provided by co-financing.

22. GCF/B.21/Inf.03/Add.01[8] provides an overview on co-financing across the GCF portfolio. Currently, co-financing for GCF's adaptation-only projects is US$ 1,686.33 million, with a ratio of funding approved to co-financing of 1:1.57. The cross-cutting projects have US$ 2,285.77 million in co-financing, but this number is not limited to funding for the adaptation components of cross-cutting projects. Sources of co-financing include United Nations agencies, multilateral

[7] https://www.greenclimate.fund/documents/20182/1270184/GCF_B.21_29_Rev.01_-_Co-financing_matters.pdf/ea9bb4ea-a4d7-aa39-a623-70f735c2d5df

[8] https://www.greenclimate.fund/documents/20182/1270184/GCF_B.21_Inf.03_Add.01_-_Approach_and_scope_for_providing_support_to_adaptation_activities___Addendum_I__The_GCF_s_approach_to_adaptation__analysis_and_implications_for_the_Fund.pdf/d178b4f3-412c-29b6-2530-f7792e2114fb

development banks (MDBs), non-MDB regional development banks, bilateral sources, national governments, local sources, and universities, think tanks, and non-governmental organizations (NGOs). It adds that most of the adaptation-only projects have some level of national government co-financing, which may be, in part, due to the GCF's investment framework indicators for country ownership. Only one project received private sector co-financing. Finally, it adds that "*While none of the funds require co-financing, GCF, PPCR*[9]*, LDCF, and SCCF encourage some level of co-finance. PPCR has co-financing of US$2,132 million across its portfolio of 66 projects, nearly sixty-six percent from MDBs, 19 percent from recipient governments, nine percent from bilateral actors, and four percent from the private sector. Similarly, LDCF and SCCF co-financing comes primarily from MDBs, recipient governments, and bilateral donors.*"

Stakeholder experiences and views on the full cost of adaptation

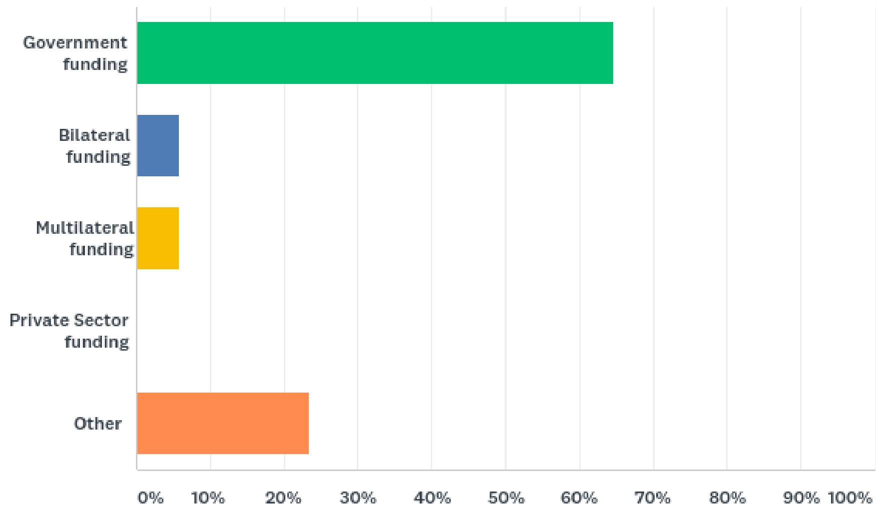
23. The secretariat prepared and circulated a survey to all the Designated Authorities, the Implementing Entities of the Adaptation Fund and to Civil Society Organizations (CSO), through the Adaptation Fund NGO Network coordinated by Germanwatch (see Annex 1), to seek the views of representatives from developing countries and other relevant stakeholders, on how the Adaptation Fund should consider the co-financing options under the three pillars of the Medium-term Strategy (MTS).

24. The following part of the analysis focuses on general information about the type of co-financing secured under the AF projects/programs and the stakeholders' practical experiences on the implication on the co-financed part in the implementation of the project/program.

25. A total of 39 respondents participated in the survey (of these one was incomplete). The majority of the respondents were the Designated Authorities (11), followed by CSOs (10), National Implementing Entities (9), Multilateral Implementing Entities (6), and a Regional Implementing Entity (1). Of the respondents, 59.5% reported that the AF project didn't receive any co-financing, while 40.5% stated that the project benefitted from co-financing. The below graph illustrates the type of co-financing received. The majority is co-financing from the government, while the category "other" includes blending of loan and grant by the NIE and other Banks, as well as co-financing from the CSOs even if only in-kind. In most of the cases co-financing was planned at the project/programme design phase (50%), though sometimes was secured during the project/programme design phase (25%) or during its implementation (25%).

[9] Pilot Program for Climate Resilience

Graph 1: category of co-financing



26. In cases where a project/programme benefited from co-financing it seems there were no implications in the implementation of the co-financed activities, which could consequently hinder the implementation of the project. The only issue identified by the survey results, suggested that delays in the approval of the co-financing may be potentially problematic. In other cases, co-financing is seen as an opportunity to provide a baseline investment, which can support the adaptation funding. In some cases, co-financing is used to support administrative costs associated with a project extension or is supporting the provision of leadership support within the NIE, beyond what is covered through the IE fee.

27. The following part of the analysis introduces the recommendations stemming from the stakeholders on how the AF should consider co-financing under the three pillars of the MTS.

28. The survey explicitly considers different types of funding windows under the three pillars (action, innovation and learning & sharing) of the MTS. For each funding window, respondents were asked to choose between four options that the AF should consider for co-financing:

a) there should be no co-financing;
b) co-financing is not required but may be possible (status quo);
c) co-financing should be required with exceptions (for example, except in LDCs and SIDS); and
d) co-financing should be required without exceptions.

Concrete projects and programmes

29. In the Action pillar, under concrete projects and programmes the majority of respondents (59%) affirm that the AF should retain the status quo option for optional co-financing, followed by 23.5% of respondents indicating that the AF should request co-financing with exceptions (for example, except in LDCs and SIDS). Finally, the proportion of respondents seeming to be more co-financing adverse constitute 5.9%.

30. The most common advantage of no co-financing requirement identified by the respondents was the possibility to reduce the burden of supplemental adaptation costs for governments or small organizations that are unable to provide additional resources especially in LDCs, SIDS and in countries where there is an NIE. More specific issues identified include:

i. timing, as it might take a few years for a project to be approved, which might result in the pledged co-financing to expire;

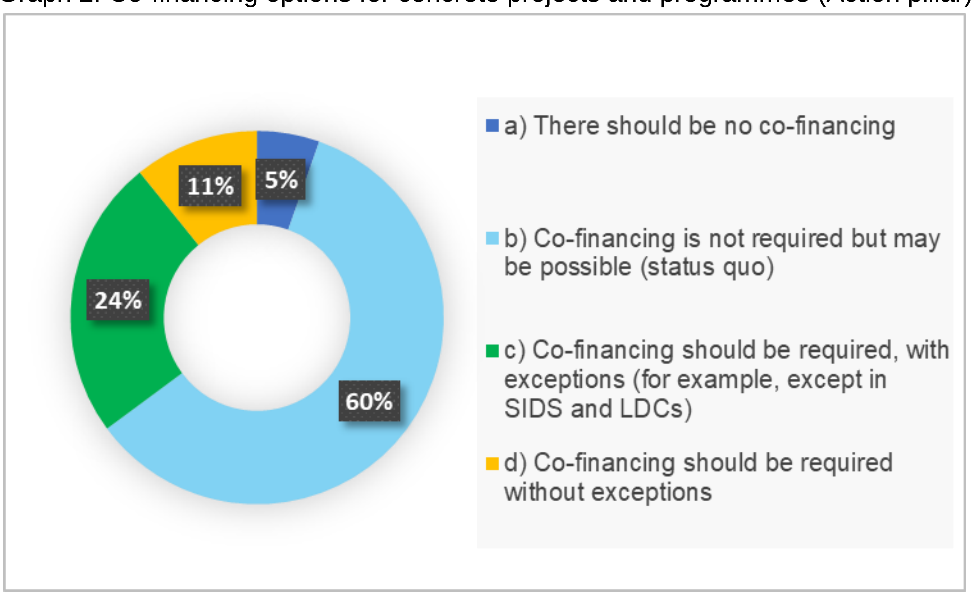
ii. administrative burden on the project. Where co-financing was drawn from existing/already-planned activities, it often may not result in reinforced synergies between the projects/activities, but required additional time-consuming processes (e.g. coordination meetings, monitoring, reporting). In general, if there are multiple donors, there could be budget reporting complications for institutions with limited capacity. For example, in-kind contributions are hard to verify and quantify; and

iii. co-financing, in terms of institutional support, is difficult to quantify and can be dialed up or down depending on project needs. Estimating co-financing requirements at a project design phase is therefore a theoretical exercise, rather than a practical one.

31. As identified by the respondents, there are also some cases where co-financing is provided voluntarily and at the community level during the course of the application of the adaptation measures. In these cases, co-financing is already happening and can be beneficial, (even though it may not be systematically tracked), but for other cases it can be difficult to secure, thus limiting actors, especially NIEs. Yet co-financing remains a desirable arrangement, and it is suggested that proponents submitting proposals to the AF should inform on how the funding is helping them to leverage and scale up the intervention.

32. Finally, it is suggested that if co-financing is defined as baseline funding, whereby a cost of non-climate drivers is duly covered, then co-financing can be required, though there is recognition that this distinction can be difficult to draw in practice. However, if co-financing is defined as cost sharing the cost of adaptation it will counter the principle of a full cost of adaptation.

Graph 2: Co-financing options for concrete projects and programmes (Action pillar)

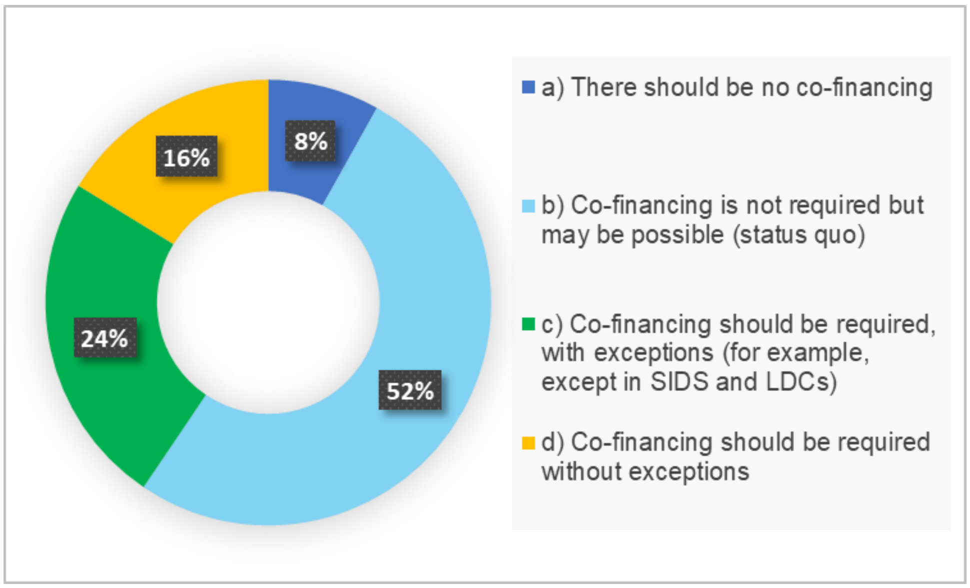


Scale-up micro grants

33. For the scale-up micro grants, similar to the concrete projects and programmes, the majority of respondents suggest that the AF should retain the status quo option for co-financing (53%), followed by 23.5% indicating that the AF should request co-financing with exceptions (for example, except in LDCs and SIDS). In favor of this position, it is noted that project preparation grants do not need to apply a full cost of adaptation principle, and micro-grants for the preparation of proposals for scaling up of AF projects may require co-financing from the Implementing Agency and / or the government, with an exception of LDCs and SIDS where the resources may be limited.

34. In addition, respondents felt that the opportunities to find co-financing for project formulation/scale-up can be difficult to obtain. Thus, co-financing may be possible but should definitely not be required for the project scale-up micrograms. Finally, beneficiaries of micro-grants may not have financial resources to contribute to co-financing, but in-kind contributions (time) can facilitate the impact of the project anticipated.

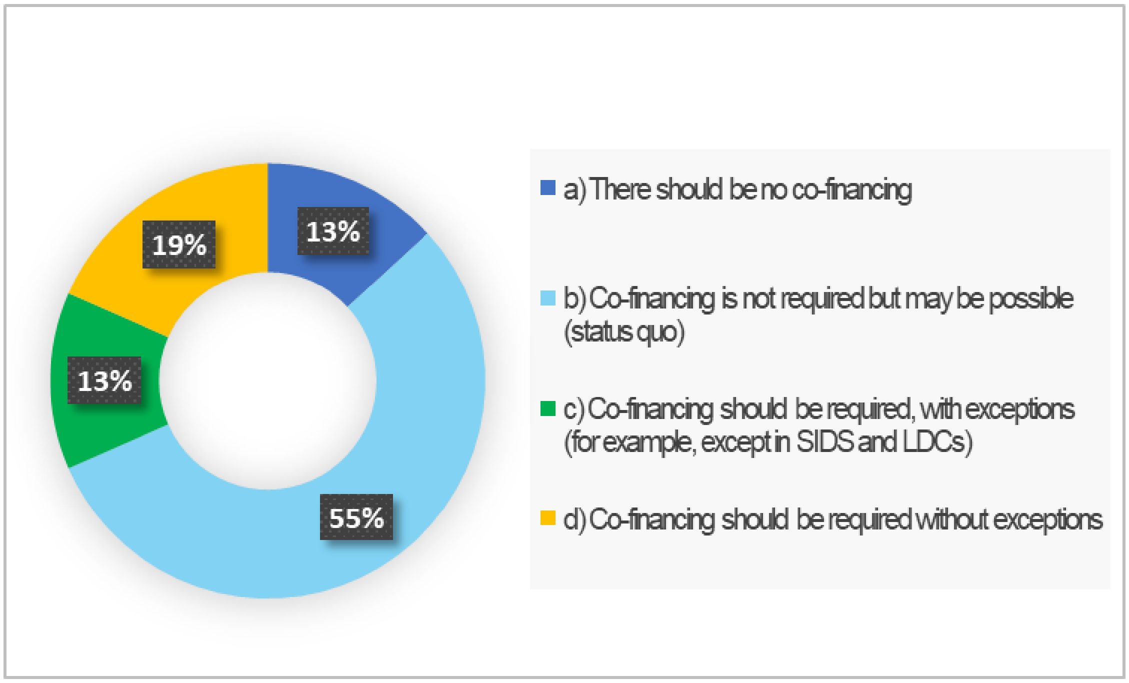
Graph 3: Co-financing options for scale-up micro grants (Action pillar)



Large scale and small-scale innovation grants

35. Under the innovation pillar, the majority of the respondents indicate that the AF should consider the status quo option for co-financing (59%), while 18% recommend that co-financing should be required without exceptions, closely followed by 15% indicating that there should be no co-financing requirements.

Graph 4: Co-financing options for innovation grants (Innovation pillar)



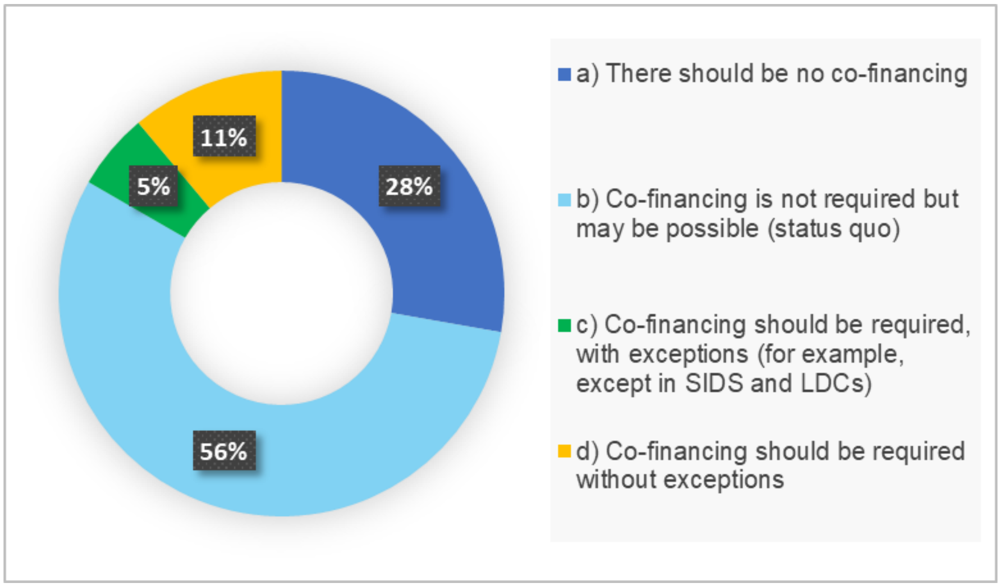
36. The survey's outcomes show that the trend of choice for the status quo option does not differ from the choice indicated in the action pillar. Under the innovation funding window, the main benefits of co-financing, identified by the respondents, are its support to innovative adaptation technologies and adaptation business models. In this way co-financing can be an indicator of a level commitment to such innovations as well as of a shared risk. Furthermore, it can bring more ownership from executing entities and beneficiaries, enhancing project sustainability, as well as ensuring a smooth project exit strategy. Finally, co-financing can enhance the chance for integrating projects where adaptation initiatives are associated to economy, ecology and sustainable development.

37. Additionally, one respondent also emphasized that co-financing should not be dependent on the fact whether the Adaptation Fund financed component should be able to deliver its outcomes and outputs regardless of the success of the co-financed component. Otherwise good projects which managed to obtain co-financing for a component might not be able to get a project approved (e.g. for the innovation pillar).

Learning grants

38. Finally, under the learning & sharing pillar, the majority of respondents reconfirmed that the AF should consider the status quo option for co-financing (58%) for the learning grants. In this case, the no co-financing requirement is the second preferred option (27%). Under this funding window, co-financing is seen as beneficial as it encourages the utilization of staff and resources in existing institutions and fosters greater ownership. It is also noted that co-financing is not a critical element of learning grants' success but can be optional.

Graph 5: Co-financing options for learning grants (Learning and Sharing pillar)



Conclusions

39. According to the analysis on different practices followed by other climate funds, it is noted that in the LDCF/SCCF, finance for the full cost of adaptation means finance above business-as-usual development, which requires a separation of adaptation costs from development costs requiring technical knowledge and expertise. The full adaptation cost, is to be fully paid by the LDCF/SCCF. Therefore, co-financing in the context of LDCF-funded adaptation projects is defined as the cost which would be incurred for BAU. This amount is considered the project's baseline and constitutes the co-financing; beyond that, the full cost of adaptation is the so-called additional cost and is paid out of the LDCF. The rationale behind this concept of co-financing is to use the LDCF funds to catalyze adaptation to climate change in the context of a larger development initiative.

40. For the Global Environmental Facility, full-sized projects must provide confirmed co-financing amounts prior to being considered for Chief Executive Officer endorsement, and medium-sized projects must provide indicative co-financing. During project implementation and at project closure, GEF partner agencies must report on materialized co-financing according to source and type. It is important to note that for GEF, co-financing is a longstanding practice that is an integral part of its operations to mobilize additional resources, increase country ownership, create stronger partnerships on the ground and ensure that GEF supports only the incremental costs of a project.

41. The Green Climate Fund requires accredited entities to secure up-front co-financing for their projects as well as is considered desirable in the Readiness and Preparatory Support Programme and the Project Preparation Facility. Co-financing is seen as a means to maximize the opportunity

for strategic partnerships to encourage crowding in, that is, stimulating long-term investments beyond the GCF resources and the up-front commitments. The GCF has no clear requirements in terms of co-financing ratio required in a project or programme which can be determined on a case-by-case basis. Finally, in the case where the GCF funding is covering the incremental costs of a project, the co-financing should complement GCF resources and be proportionate and adequate to at least cover the non-climate related components of the project;

42. For the Adaptation Fund, all activities must have a clear adaptation reasoning and if there is co-financing, this should be untied from the delivery of the project/program outcomes and outputs. Further, the current option on the full-cost of adaptation states “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”. This assures that the AF can deliver on its outcomes and outputs and at the same time co-financing that supports core project activities does not prevent work from moving forward on this account.

43. In the survey that was conducted for the purposes of this report, the majority of respondents did not have any actual non-materialized co-financing in their project/program, thus information was rather generic and did not include any specifics on how the non-delivery risk was managed, or how, in case the planned co-financing did not materialize, this was mitigated in order not to jeopardize the AF grant. Survey results generally indicate that if the co-financing envisaged during project/program design phase, does not materialize, it could cause delays during project implementation. Therefore, it seems prudent to consider co-financing from the perspective that if it cannot be secured, it would not jeopardize the project/program’s expected results.

44. The Board might want to consider that the survey results suggest that while the Adaptation Fund should maintain its principle of funding the full cost of adaptation, countries should have the option of providing co-financing in the form of financial resources or in-kind contributions whenever feasible and preferred. In the context of project proposals, proponents can use co-financing to demonstrate greater commitment to those who have invested and to enhance projects’ sustainability, but the provision of co-financing should not be an additional burden, particularly where capacity may be inadequate.

Recommendation

45. Having considered the outcomes of the analysis provided by the secretariat based on the views of the governments of developing countries and relevant stakeholders of the Adaption Fund, the Project and Programme Review Committee (PPRC) may want:

(a) To reconfirm that the most suitable option on the full-cost of adaptation criterion revised in accordance to the Medium-Term Strategy implementation plan, is the current one “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”, under the three pillars and related funding windows of the Medium-term Strategy of the Fund; and

(b) To request to the secretariat to prepare an analysis on the co-financing modalities in the micro and large grants under the innovation funding window and present it at the twenty-sixth or twenty-seventh meeting of the PPRC.

ANNEX 1: Questionnaire

OVERVIEW

Co-financing means '*resources that are additional to the AF grant and that are provided by the AF Implementing Entity itself and/or by other non-AF sources that support the implementation of the AF-financed project and the achievement of its objectives*'

GENERAL INFO

1. Category of respondent:
   - Designated Authority: write name of country
   - NIE/MIE/RIE: write name of entity
   - CSO: write name of organization
   - Other: please specify
2. Is/Are the Adaptation Fund project/s benefiting from some sort of co-financing?
   - Yes
   - No
3. If Yes, can you please select the category:
   a) Government funding
   b) Bilateral funding
   c) Multilateral funding
   d) Private sector funding
   e) Other: please specify
4. If Yes (to 2 above) specify the following:
   a) The co-financing was planned at project design phase
   b) The co-financing was already secured during project design
   c) The co-financing was secured during project implementation phase
5. If you answered options (b) or (c) in the previous question, have there been any issues in the implementation of the cofinanced activities, that had some effect(s) on the implementation of the Adaptation Fund project?

ACTION PILLAR

Description *Action – Support eligible countries to undertake high quality adaptation projects and programmes consistent with their priority needs, goals and strategies.*
Under this pillar accredited entities can access funds to implement single country (up to $ 10M) or regional projects/programs (up to $14 M). Additionally, the Fund finances project scale-up grants (up to $ 100 K per grant), which are aimed at increasing readiness of NIEs to expand or replicate quality adaptation projects based on country needs, views and priorities. They provide readiness funding to support plans and designs for scaling up Fund projects currently under implementation, while the implementation phase of the designs would be expected to be funded by other sources.

6. For concrete projects/programs, which of the following options should the Adaptation Fund consider for co-financing?
   a) There should be no co-financing.

   b) Co-financing is not required but may be possible (status quo)
   c) Co-financing should be required, with exceptions (for example, except in SIDS and LDCs)
   d) Co-financing should be required without exceptions
7. If answered (a or b) above, what do you think are the main advantages of no co-financing requirement?
8. For the project scale-up microgrants (up to 100,000 each), which of the following options do you think the Adaptation Fund should consider for co-financing?
   a) There should be no co-financing.
   b) Co-financing is not required but may be possible (status quo)
   c) Co-financing should be required, with exceptions (for example, except in SIDS and LDCs)
   d) Co-financing should be required without exceptions
9. If answered (a or b) in the previous question, what do you think are the main advantages of no co-financing requirement?

INNOVATION PILLAR

Description *Innovation – Support the development and diffusion of innovative adaptation practices, tools, and technologies. As part of this funding widow the Adaptation Fund will finance large grants (up to $ 5M/ grant) to roll out proven solutions in new countries/regions. In addition, the AF is financing innovation micro-grants (up to $ 250k/ grant) to develop and/or test innovative adaptation products and technologies.*

10. Under the innovation funding window, which of the following options do you think that the Adaptation Fund should consider for co-financing?
    a) There should be no co-financing.
    b) Co-financing is not required but may be possible (status quo)
    c) Co-financing should be required, with exceptions (for example, except in SIDS and LDCs)
    d) Co-financing should be required without exceptions
11. If answered (c or d) in the previous question, what do you think are the main benefits of co-financing?

LEARNING & SHARING PILLAR

Description *Learning and Sharing – Support learning and sharing about adaptation finance and action. Practical lessons from Fund processes and projects/programs are captured and effectively communicated to adaptation actors. Knowledge sharing platforms exchanges. AF is piloting learning grants (up to $ 150k / grant) which present an opportunity to capture, study and disseminate practical lessons from adaptation interventions that are additional to Knowledge Management activities already financed under Adaptation Fund approved projects/ programmes. They may be utilized to complement collaborative knowledge and sharing efforts with respect to partnerships with diverse stakeholders on the ground.*

12. Under the learning grants, which of the following options do you think that the Adaptation Fund should consider for co-financing?
    a) There should be no co-financing.
    b) Co-financing is not required but may be possible (status quo)
    c) Co-financing should be required, with exceptions (for example, except in SIDS and LDCs)
    d) Co-financing should be required without exceptions
13. If answered (c or d) in the previous question, what do you think are the main benefits of co-financing?
14. Other comments (optional)

ANNEX 2: Survey participants (country and type of entity/organization)

1. Jamaica - DA
2. Jamaica - NIE
3. Jordan - CSO
4. Mexico – Private Sector
5. Benin - CSO
6. International - CSO
7. South Africa - NIE
8. Zimbabwe - DA
9. Lebanon - DA
10. Rwanda – NIE
11. Ethiopia - DA
12. Kenya - NIE
13. India - NIE
14. Belize – NIE
15. Jamaica - CSO
16. Cook Islands - NIE
17. Yemen - DA
18. Madagascar – MIE (Un Environment)
19. Cambodia – MIE (Un Environment)
20. Federated States of Micronesia - NIE

21. Barbados - DA
22. Tanzania - CSO
23. South Africa - CSO
24. Senegal - CSO
25. Chad - DA
26. Democratic Republic of Congo - DA
27. Mauritania – MIE (WFP)
28. Uzbekistan - DA
29. South Africa – CSO
30. Madagascar – DA
31. Switzerland – MIE (WMO)
32. South Africa - CSO
33. South Africa – CSO
34. Caribbean - CSO
35. Germany - CSO
36. Guatemala - DA
37. N/A – MIE (UNDP)
38. Montenegro - DA