



ADAPTATION FUND

AFB/B.34/8

23 September 2019

Adaptation Fund Board
Thirty-fourth meeting
Bonn, Germany, 10-11 October 2019

Agenda item 11 a)

**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).¹ 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 the issue of *Potential linkages between the Fund and the Green Climate Fund* based on document AFB/B.30/6 which includes the information on the GCF's adoption of an operational framework on complementarity and coherence with other funds.² The GCF framework consists of four operational pillars, one of which is board-level discussions on fund-to-fund arrangements. Document AFB/B.30/6 also indicated that ways of 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 readiness and capacity building.

3. At its thirty-first meeting, the Board has continued to discuss the issue of *Potential linkages between the Fund and the Green Climate Fund* based on document AFB/B.31/6 and decided:

(a) *To request the Chair and Vice-Chair, assisted by the secretariat to continue pursuing active engagement with the Green Climate Fund (GCF) Board through its co-chairs, with a view to exploring concrete steps to enhance complementarity and coherence, including at the forty-eighth sessions 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 November 2017 and the Technical Workshop in February 2018 in order to enhance complementarity between the two Funds; and*

(ii) *To continue the process toward accreditation with the GCF, including by seeking further information from the GCF on options for fund-to-fund arrangements, as described in pillar 1 in the GCF operational framework for*

¹ For further details, see Annex 2 to this document

² https://www.greenclimate.fund/documents/20182/751020/GCF_B.17_08_-_Operational_Framework_on_complementarity_and_coherence.pdf/55b8605f-518a-4b91-8362-02eae5a566a.

complementarity and coherence, as contained in document GCF/B.17/08; and

(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).

(Decision B.31/33)

4. The Adaptation Fund Board (the Board), at its thirty-second meeting, discussed the matter of the potential linkages between the Adaptation Fund (the Fund) and the Green Climate Fund (the GCF), as part of a series of discussions that have been taking place at two levels: (i) through dialogue between the AFB Chair and Vice-Chair with the Co-Chairs of the GCF Board, both exclusively and in the context of the annual dialogue among a larger group of climate funds; (ii) and through ongoing discussions between the secretariats of the Fund and the GCF on concrete activities in the areas of complementarity and coherence. Specifically, at the thirty-second meeting, the Board decided:

(a) To request the Chair and Vice-Chair, assisted by the secretariat, to continue ongoing efforts of enhancing complementarity with the Green Climate Fund (GCF), including attending ‘an annual dialogue’ to be organized by the Green Climate Fund (GCF) in the margins of the twenty-fourth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, 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 continue discussions with the GCF secretariat to advance the collaborative activities identified at the Annual Dialogue in November 2017, the Technical Workshop in February 2018 and the informal meetings between the Chair and Vice-Chair of the AFB and the Co-Chairs of the GCF in May and September 2018; and

(ii) To continue to explore the options for fund-to-fund arrangements, including the process toward accreditation with the GCF, as described in pillar 1 in the GCF operational framework for complementarity and coherence, as contained in document GCF/B.17/08; and

(c) To request the Chair and secretariat to report to the Board at its thirty-third meeting on the progress made in the activities described in subparagraphs (a) and (b).

(Decision B.32/41)

5. At its thirty-third meeting due to heavy agenda, the Board was not able to discuss progress made in the activities described in subparagraph a) and b) of decision B.32/41, this document is prepared in line with Decision B.32/41 to report on the actions taken and progress made on the issue of potential linkages between the Fund and GCF and to serve as background information for further discussion and decision by the Board.

Status update on the Adaptation Fund's engagement with the GCF

6. An informal meeting between the boards of the two funds was held on 12 December 2018 on the margins of the twenty-fourth session of the Conference of Parties to the United Nations Framework Convention on Climate Change (COP 24) held in Katowice, Poland. Among participating members, the Adaptation Fund Board was represented by the Vice-Chair Ms. Sylviane Bilgischer, and the GCF Board by the Co-Chairs, Mr. Paul Oquist and Mr. Lennart Bage. The manager and a few staff from the Adaptation Fund Board secretariat (the secretariat) as well as a few staff from the GCF secretariat were also present at the meeting.

7. In preparation of the meeting, the secretariats of both funds had collaborated to identify an initial scope of options for potential arrangements and collaboration between the Fund and the GCF. The outcome was contained in an informal background note which was prepared by the GCF secretariat in collaboration with the Adaptation Fund Board secretariat and was shared with the GCF Co-chairs and Adaptation Fund Board Chair and Vice-Chair for their discussion at the informal meeting. The note that presented the possible areas of cooperation, was initially prepared for the perusal of the co-/chairs, and it was then circulated by the GCF Secretariat to GCF Board members for discussion at the 22nd GCF Board Meeting.

8. The background note summarized four potential options for collaboration between the two funds as follows:

- (a) Adaptation Fund providing GCF readiness-type assistance;*
- (b) Adaptation Fund management of a GCF funding envelope;*
- (c) Accreditation of the Adaptation Fund to the GCF; and*
- (d) Formalization and expansion of current cooperation between the secretariats.*

9. At its 22nd meeting, the GCF Co-Chairs reported to the GCF Board on the engagement with the Adaptation Fund as contained in GCF Board document B.22/09 and its Annex 1. The document indicates that the two boards' discussion at the informal meeting in Katowice, Poland, centered on two overarching considerations that could impact any potential arrangement options:

- (a) The degree to which the Adaptation Fund is prepared to accept liability for programming GCF funding; and*
- (b) If and how the Adaptation Fund Board will apply GCF policies for projects and*

programmes approved using GCF funds.

10. The GCF Board Document B.22/09 paragraph 22 and 23 also indicates that: *“The discussion was robust and included inputs from AF and GCF chairs as well as AF and GCF board members or alternate members in attendance. AF board members were generally supportive of an approach that pursued multiple options simultaneously. GCF members expressed more reserved support to pursue arrangements, noting that there were many ways the two funds can collaborate to meet countries’ needs. Furthermore, concerns were expressed that liability issues with regards to AF programming of GCF resources would have to be more fully assessed to better inform this important discussion” [Paragraph 22]. “The members of the respective boards agreed on the need for such a legal assessment to continue discussions in early 2019.” [Paragraph 23]*

11. Options (a), (b) and (c) mentioned in paragraph eight imply the Fund accessing GCF resources. However, this would require further detailed discussion with the Fund’s trustee to explore feasible options for the transfer of funds. In considering these options, the Board may also wish to consider elements included in the GCF Board document GCF/B.22/09, and in particular as highlighted in paragraph nine above: *a) “The degree to which the AF is prepared to accept liability for programming GCF funding” and b) If and how the AF Board will apply GCF policies for projects and programmes approved using GCF funds.”*

12. With regard to the issue of the degree to which the Fund is prepared to accept liability for programming GCF funding, as stated in paragraph 9 above, it is noteworthy to refer to table 2.1, paragraph 6 of Annex 1 to the GCF Board document GCF/B.22/09 which states as follows:

“Depending on the type of option(s) pursued, the acceptance of GCF funding by the AFB would carry with it a number of legal, fiduciary and administrative obligations, and related liabilities, considering the necessary requirements for each option and the unique structure of the AF. Further clarity may also be necessary as to whom liability attaches given that only the AFB has legal capacity (but not legal personality).”

13. In considering the potential options for collaboration between the two funds, the Board might therefore want to also consider how it would address issues related to liability in case it would receive funds from the GCF.

14. With regard to the issue of whether, and how the AF Board would apply GCF policies for projects and programmes approved using GCF funds, as stated in paragraph 9 above, it is worth referring to table 2.2, paragraph 7 Annex 1 to the GCF Board document GCF/B.22/09 which states the following:

“The GCF and AF boards have developed a number of policies related to the development and implementation of funded activities, including fiduciary standards and environment, social and gender safeguards. Both Funds also have processes for assessing organizations that receive funding from them, and requirements for Fund policies and standards to be applied through and passed down to executing entities by

such organizations in their management and administration of funds. Ultimately, both Funds are evolving and each Fund may be in the process of or has a plan to develop or update core policies. It will be important to consider how these policies are imperative for or at least relevant to enabling the existing and future cooperation between the two Funds. Reaching an agreement between the boards as to how instances of policy non-alignment (or lack of relevant policies) will be handled, and where responsibility lies for the application of each policy, will facilitate the envisaged cooperation.”

15. The Board may wish to consider whether it would be willing and/or feasible to apply GCF policies while undertaking cooperation with the GCF. Additional analysis may be necessary to identify possible gaps between the two funds in terms of project/programme-related policies and procedures and to identify ways to mitigate the possible gaps.

16. Document GCF/B.22/09 also mentions the legal capacity of the Fund to enter into any legal arrangement with the GCF and specifically in, paragraph 10 of Annex 1 which states: *“An independent legal opinion from a third-party organization could provide clarity to legal capacity, personality and structure of the AF (AFB, AFB Secretariat and AF trust fund).”* Related to this issue, it should be noted that an analysis regarding the Fund’s legal capacity as a stand-alone organization had previously been prepared by the secretariat at the request of the Board and is contained in document AFB/B.29/6³.

17. On 19 May 2019, the secretariat was informed by the GCF Secretariat that the GCF decided to seek the provision of legal services in relation to potential legal agreements between the GCF and the Adaptation Fund for the transfer of financial resources from GCF to the Adaptation Fund and would start to launch the request for quotations (RfQ). In accordance to the the terms of reference of the RfQ, the objective to seek the independent legal opinion was allegedly for the GCF to determine whether any such arrangements between the GCF and the Adaptation Fund are implementable, considering that: (i) various potential options for linkages have been identified by the Co-Chairs of the GCF and the Chair and Vice-chair of the Adaptation Fund Board⁴; (ii) regardless of the form of linkage between the two funds, one of the key policy matters that needs to be resolved is the degree to which the Adaptation Fund is prepared to accept liability for programming GCF funding; (iii) while this question has political and policy dimensions, there are a number of related legal questions that would first need to be answered in order for the policy matter to be resolved; and (iv) the independent legal opinion would help seek clarify on these matter. During the GCF Global Programming Conference 2019 that was held on 19-23 August 2019 in Songdo, Republic of Korea, the AFB Secretariat has received relevant update on this matter from the GCF Secretariat: the GCF has selected Herbert Smith FreeHill⁵ for a provision of the legal opinion on the aforementioned matter, which has provided the first draft of the opinion. The GCF Secretariat shared the first draft of the opinion with the secretariat.

³ <https://www.adaptation-fund.org/document/strategic-discussion-objectives-steps-fund-potential-linkages-fund-green-climate-fund-2/>.

⁴ Identified options are found in the Annex I to GCF Board document GCF/B.22/09 “Report of Activities of the GCF Co-Chairs”: Available at https://www.greenclimate.fund/documents/20182/1424894/GCF_B.22_09_Report_on_the_activities_of_the_Co-Chairs.pdf/f37b3154-00af-4b99-3c79-6c023421c4db.

⁵ <https://www.herbertsmithfreehills.com/>

Recommendation

18. Having considered the ongoing efforts to enhance complementarity between the Green Climate Fund and the Adaptation Fund, the Board may want:

- a) To consider the four options for fund-to-fund arrangements, as described in document GCF/B.22/09 and its Annex 1, from the perspective of whether they are comprehensive of all potentially feasible options of operational linkages between the Green Climate Fund and the Adaptation Fund;
- b) To decide on which option(s), among the four options mentioned in subparagraph a), to be pursued;
- c) To consider how it would address issues related to liability in case the Fund would receive funds from the GCF and whether it is feasible for the Fund to apply GCF policies while undertaking cooperation with the GCF, as described in document GCF/B.22/09, Annex 1 Table 2.1 and Table 2.2.
- d) To decide to request the Chair and Vice-Chair:
 - (i) To actively engage, assisted by the secretariat, in a structured conversation with the GCF Board, with a view to exploring and taking concrete steps to advance the options for fund-to-fund arrangements described in document GCF/B.22/09 and its Annex I and
- e) To request the secretariat:
 - (i) Continue discussions with the GCF to advance the collaborative activities identified at the Annual Dialogue in November 2017, the Technical Workshop in February 2018 and the informal meetings between the Chair and Vice-Chair of the AFB and the Co-Chairs of the GCF in May and September 2018 and at the margins of the of the twenty-fourth session of the Conference of Parties to the United Nations Framework Convention on Climate Change (COP 24) held in Katowice, Poland.
- f) To request the Chair and the secretariat to report to the Board at its thirty-fifth meeting on the progress made in the activities described in subparagraphs d) i) and e) i.

Annex I: Updated Options for arrangements and collaboration between Green Climate Fund and Adaptation Fund – Input paper by GCF Secretariat, in consultation with Adaptation Fund Board Secretariat

I. Background

1. The Adaptation Fund Board (AFB) has engaged for some time in discussions on the topic of the potential linkages between the Adaptation Fund (AF) and the Green Climate Fund (GCF). These discussions have been taking place at two levels: through dialogue between the AFB Chair and Vice-Chair with the Co-Chairs of the GCF Board both exclusively and in the context of the annual dialogue among a larger group of climate funds, and through ongoing discussions between the secretariats of the AF and the GCF on concrete activities in the area of complementarity and coherence.
2. Considering the existing duplication of work as well as the possible advantages and challenges of having such linkages with AF, the GCF Board may wish to have a more targeted discussion with AFB to explore options for cooperation in the interest of creating a more coherent climate finance landscape to serve vulnerable countries. Additional work by the Secretariat could assist the Board in understanding options for linkages with AFB in a manner that increases efficiency, reduces costs, and maximizes impact, while also considering the benefits that having multiple options in the climate finance landscape may afford countries.
3. Through an Act of Parliament, the German Government conferred legal capacity to the Adaptation Fund Board. This followed a memorandum of understanding between the Adaptation Fund Board and the German Government signed during the Cancun Climate Change Conference in December 2010. The act enables the AFB to enter into contracts with recipients, particularly in the case of direct access to the Fund by developing countries.
4. Inputs and initial assessment, along with potential options for arrangements identified as a priority should be further developed and assessed, ahead of the meeting between the co-chairs of the GCF Board and the Chair and Vice-chair of the AFB at COP24.

II. Inputs and initial assessment

5. At this moment, the initial assessment points to the need to provide political clarity around the following key issues, which will then inform the development of the options suitable to the boards of the respective funds.

2.1 The degree to which the AF is prepared to accept liability for programming GCF funding as per the options outlined below

6. Depending on the type of option(s) pursued, the acceptance of GCF funding by the AFB would carry with it a number of legal, fiduciary and administrative obligations, and related liabilities, considering the necessary requirements for each option and the unique structure of the AF. Further clarity may also be necessary as to whom liability attaches given that only the AFB has legal capacity (but not legal personality).

2.2 If and how the AF Board will apply GCF policies for projects and programmes approved using GCF funds

7. The GCF and AF boards have developed a number of policies related to the development and implementation of funded activities, including fiduciary standards and environment, social and gender safeguards. Both Funds also have processes for assessing organizations that receive funding from them, and requirements for Fund policies and standards to be applied through and passed down to executing entities by such organizations in their management and administration of funds. Ultimately, both Funds are evolving and each Fund may be in the process of or has a plan to develop or update core policies. It will be important to consider how these policies are imperative for or at least relevant to enabling the existing and future cooperation between the two Funds. Reaching an agreement between the boards as to how instances of policy non-alignment (or lack of relevant policies) will be handled, and where responsibility lies for the application of each policy, will facilitate the envisaged cooperation.

8. In addition to the above considerations, the preferred operational structure of a fund-to-fund arrangement would have to take into account contribution arrangements of each fund. In particular, with regards to potential management of a funding envelope by the AFB, both funds' prohibition against earmarking would need to be considered. Moreover, the fiduciary oversight by the AFB of GCF funding could require the establishment of a separate trust fund of the AF to receive GCF resource to avoid co-mingling of GCF and non-GCF contributions. This issue could be clarified by (i) a review of the contribution agreements to the GCF to determine any applicable restrictions or requirements, including with respect to commingling of funds, fiduciary obligations and/or restrictions on the use of non-grant contributions to the GCF, and (ii) a similar review on the AF side.

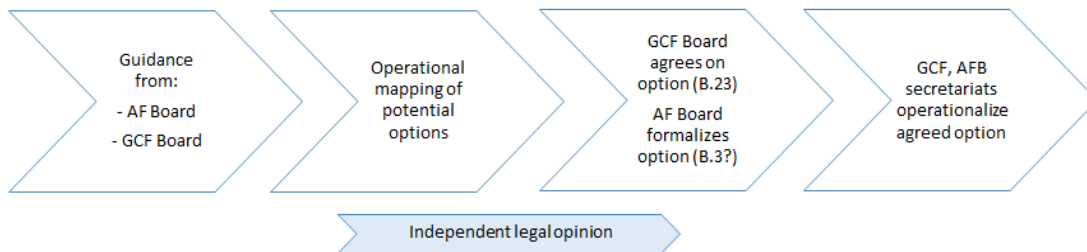
9. Once provided with the opinion of the AFB to the above issues, the GCF Board would then need to make a determination of how the AFB prefers to handle these issues may affect the AFB view of the following potential options, and vice versa. Informal consultations of the boards will be an important input to better understanding the implications of these issues and potential pathways for reaching a mutually agreeable solution.

2.3 Clarification of legal capacity, personality and structure of the AF (AFB, AFB Secretariat and AF trust fund)

10. An independent legal opinion from a third-party organization could provide clarity to legal capacity, personality and structure of the AF (AFB, AFB Secretariat and AF trust fund). Due to the differences between legal capacity and legal personality, and the complex structure of the AF, such an opinion would provide guidance as to how to develop agreements between the two funds. This opinion could be complemented by a mapping of decision-making and project cycle processes of the entity (AFB, AFB Secretariat, or other) that would be seeking to receive resources from GCF, noting that it requires legal personality. This mapping should include information on the processes as well as who within the entity is responsible for undertaking various actions within the process. An organizational chart to describe the hierarchical structure of the organization, its administrative structure, e.g. finance, administration, support services, procurement and other services within the organization; employee code of conduct and conflict of interest policy; record addressing fiduciary standard and actions undertaken thereafter.

11. Presently, the GCF enters into two types of financial transfer agreements with external organizations (Accreditation Master Agreement (AMA) with Accredited Entities and Readiness agreements with Readiness Delivery Partners). These agreements codify roles, responsibilities, and liabilities of managing GCF resources. While these may serve as useful references to understand what any agreement between the GCF and AF boards may eventually look like, they do not foreclose the possibility or preference that a different kind of document can be developed and agreed by the boards of the two Funds, in accordance with the provisions envisioned in paragraphs 34-35 of the Governing Instrument for the GCF and the AF operational policies and guidance and relevant policies.

12. Based on this information, we will be able to better identify which of the options for linkages is most suitable and feasible. In addition, pursuing any of the options elaborated below would not preclude the Board(s) from pursuing multiple options in a simultaneous or sequenced manner, particularly with regards to option 4.



III. Option 1: Provision of technical assistance, readiness-type assistance

13. *Initial assessment on the legal aspects of such arrangement will be conducted, and a dialogue will be opened between the AFB and GCF secretariats to provide clear information on the feasibility and steps to be taken for the AFB to become a delivery partner of the GCF.*

3.1 Concept

14. The AFB may become a delivery partner of the GCF under the Readiness and Preparatory Support Programme, including for the option for a new modality focused on direct access entities (DAEs) to receive pre- and post-accreditation support. This would require the Fund, through the AFB Secretariat, having clarified issues above, to be prepared to provide:

- (a) Readiness support to shared DAEs (i.e., already accredited to both funds), which includes ensuring that GCF Readiness covers the needs of the DAE in terms of institutional capacity and meeting GCF standards, which may also cover AFB institutional requirements;
- (b) Readiness support for DAEs in the accreditation pipeline of one or both funds, with

targeted assistance to support accreditation upgrades with the GCF, and apply for re-accreditation and comply with policies and procedures of the funds at both funds, etc.; and

- (c) Support for the development of strategic frameworks and entity work programmes to bolster the pipeline of micro- and small-sized projects/programmes in the GCF portfolio.

3.2 Process and requirements

15. Once the legal capacity and personality of the AFB is determined, the GCF will need to understand the capacity of AFB and/or AFB Secretariat for financial management, procurement, and project management in order to manage readiness-type support and develop arrangement accordingly. Assessing financial management capacity will require AFB to indicate, inter alia:

- (a) Accounting standards and procedures (e.g. Generally Accepted Accounting Principles (GAAP)) followed by the organization including the key staff to perform such functions, including auditing of financial statements, accounting software to support the financial management system, internal and external auditor/audits, and anti-fraud, corruption, money-laundering and the financing of terrorism policies;
- (b) Procurement procedures including selection criteria, level of endorsing/approving authority, and prohibited practices measures; and
- (c) Project management and grant award/funding allocation mechanisms, both in terms of capacity to manage GCF grants as well as past evidence of effective project/grant management, project-at-risk systems and monitoring and evaluation practices; and the establishment and operationalization of grant award criteria, selection committees, publication and disclosure of grant award information, etc.

3.3 Timeline

16. Based on the above assessment, the AFB becoming a delivery partner of the GCF could be discussed in 2019, working on the basis of the readiness delivery partner template agreement. Based on this, input for the Boards outlining specific details of this option for the consideration, including the assessment of legal aspects above, and the nature and target of the activities to be implemented by the AFB as a delivery partner could be defined.

IV. Option 2: Management of a funding envelope

17. *Initial assessment on the legal and technical aspects of such arrangement will be conducted, and a dialogue will be opened between the AF and GCF secretariats to provide clear information on the feasibility and steps to be taken for the AFB to manage a funding envelope for the GCF.*

4.1 Concept

18. The AFB would be responsible for managing an agreed, defined sub-programme, and

reporting to GCF Board, in accordance with GCF policies. The GCF Board would direct GCF entities to the AFB for activities under a defined scope to avoid duplication. AFB would take responsibility for managing GCF funds transferred to AFB and may need to enter into arrangements with the GCF, as provided by the Governing Instrument paragraph 33, to codify expectations and obligations, like AMAs have done for entities accredited by the GCF.1 It should be noted that the term “arrangements” is used here without prejudice to the formal legal agreements that may need to be put in place, which depending on the type of arrangement chosen and its technical implications, may or may not require formal legal agreements.

4.2 Process and requirements

19. Once the legal capacity and personality is determined, the GCF will need to understand the capacity of AFB to carry out project management, project preparation and appraisal and monitoring and evaluation in order to manage a funding envelope. This will include provision of information related to:

- (a) Key administrative and financial capacities which include the underlying principles of the Fund’s initial basic fiduciary standards for administrative and financial capacities, the general management and administrative capacities and the financial management and accounting.
- (b) Transparency and accountability taking into consideration the capacity to prevent or deal with financial mismanagement and other forms of malpractice, anti-money laundering and anti-terrorist

20. The terms and conditions applicable to donations to the AF Trustee have been agreed by the AF Board and consistent for all donors contributing to the AF trust fund. Given the scope of Option 2 as laid out here, wherein the AFB manages an envelope of GCF funding for a specific scope of projects, it follows that the AF-GCF agreement might be different given the targeted purpose for which GCF would transfer funds to AFB.

4.3 Timeline

21. For the GCF Board, it will consider the full set of options as part of options on arrangements at B.23 and provide guidance on next steps towards formalizing options. If the Board agrees to this Option 2, the target and criteria for funding under the envelope will need to be defined among the secretariats and subsequently approved by their respective Boards. For example, the target support could be limited to NIEs through micro and small-scale direct access and enhanced direct access projects and programmes.

V. Option 3: AF Accreditation to the GCF

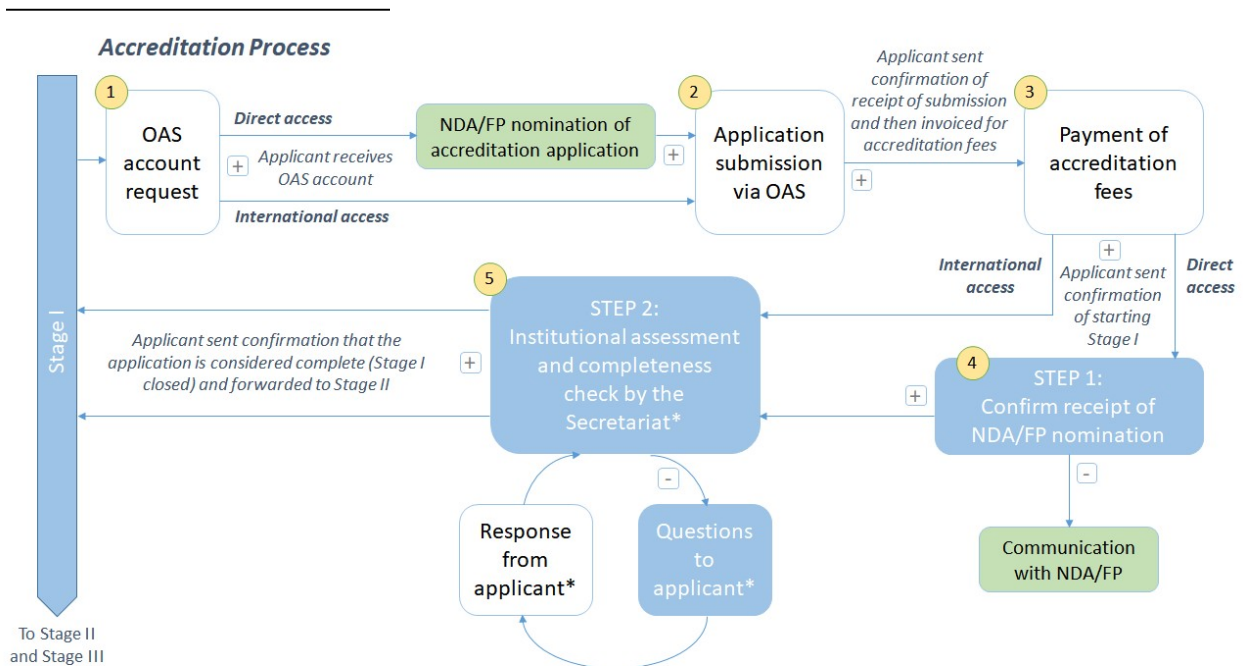
5.1 Concept

22. The AFB would initiate the accreditation process with the GCF following core responsibilities of the GCF Accredited Entities (AEs) on an operational and administrative level,

including fiduciary and legal matters. In this line, it is imperative to analyze the Basic Fiduciary Standards, the Specialized Fiduciary Standards for Project Management and the Specialized Fiduciary Standards for Grant Award and/or Funding Allocation Mechanisms.

5.2 Process and Requirements

23. Once the legal capacity and personality is determined, the GCF will need to understand the capacity of AFB to comply with the fiduciary standards (decision B.07/02, annex II), the environment and social safeguards (decision B.07/02, annex III) and gender (decision B.09/11). In the event that the AFB wishes to pursue accreditation it would be needed to consider any challenges or potential conflicts that might arise as a result of pursuing accreditation and maintaining our activities under the complementarity and coherence framework in parallel. Thereby, it is of interest to understand to what extent those agreed areas of collaboration under the complementarity and coherence framework intersect or are inconsistent with the responsibilities of the AEs in order to determine if those activities remain appropriate in light of the relationship the GCF expects to maintain with its AEs and accreditation applicants. By undertaking some of these options in parallel, as with provision of direct access accreditation support and accreditation of the AF, AF/AFB may be involved in different sides of the same activity where a potential or perceived conflict of interest (COI) may arise. Further assessment of the options presented in this paper in parallel would need to be conducted in order to determine if there is a potential or perceived COI.



*The number of rounds of questions may vary depending on the completeness of the application.

¹ Although most resources provided to countries by the GCF have been provided through national, regional and international implementing entities accredited by the Board, in accordance with paragraph 45 of the Governing Instrument, this is not the only modality that has been used to provide resources to countries. In particular, pursuant to paragraph 40 of the Governing Instrument, resources have been provided to countries, either directly or through delivery partners in the context of the readiness and preparatory support programme. In this context, while the specifics of paragraph 33 and 34 have not been previously discussed by the GCF Board, there is nothing express in these paragraphs which precludes the provision of resources thereunder. The GCF Board will therefore need to further consider how best to elaborate on and implement these paragraphs in the context of the option for the AFB to manage a funding envelope.

5.3 Timeline:

24. For the GCF Board, agreement on this option could occur at B.23, with the Board considering the accreditation application as early as it can following the conclusion of Stages I and II (Step 1) of the accreditation process (possible as early as end of 2019 or 2020).

VI. Option 4: Formalizing Cooperation between Secretariats

6.1 Concept

25. The AFB and GCF secretariats report on their work done so far in terms of collaboration and provide a proposal on areas of collaboration that would be enhanced if the Boards were to provide specific mandates. This would be a formalization and/or strengthening of the existing work already underway for over a year under the Operational Framework. The AFB and GCF secretariats would jointly design a framework of collaboration, using existing mechanisms and funding windows of both funds, and the respective Boards would approve a workplan based on that framework, on an annual basis. Activities under that framework could include but are not limited to:

- (a) Engaging jointly on country readiness, particularly shared entities;
- (b) Building entities' capacities to access climate finance, design and implement projects, following joint assessment of their gaps and needs;
- (c) Undertaking joint country programming (through parallel funding, co-financing or sequencing with scalability as a strategic consideration, and country-drivenness as a key operating principle);
- (d) Holding joint (side) events at COPs and other fora;
- (e) Engaging in more substantial dialogue on accreditation, readiness, knowledge management, results and indicators, on a fund-to-fund basis and trilaterally with countries; and
- (f) Informing each other on upcoming workshops and other meetings to improve the opportunities of participating in those between the funds.

26. A more targeted and programmed collaboration with a workplan and clear expected outcomes, including programs designed jointly under the operational framework, though an MOU-type approach targeting DAE readiness and other activities, but does not foresee transfer of financial resources from one fund to the other. This would generally include a process for setting coordinated programming decisions, for example where one fund is to prioritize some issues over the other and vice versa, or on topics like knowledge management and other targeted areas for expanding cooperation. The table below contains a reflection of areas of collaboration at the moment that could be further developed into the options to be formally presented to the Board at B.23.

Brief overview of collaboration with the Adaptation Fund	
Coordination of support	Collaboration on synergies for capacity-building support for DAEs
Programming and accreditation	Enhance understanding of interactions in funding proposals to apply lessons to programming
	Ongoing collaboration on accreditation, including fast tracking
M & E	Information sharing on M&E approaches and methodologies
Policies and procedures	Provision of information requested in the development of GCF policies and procedures, including for benchmarking
Learning and outreach	Joint outreach event at COP 24 on experience and challenges in advancing synergies in the climate finance landscape
	Engagement in Adaptation Futures 2018 conference

6.2 Process and requirements

27. As there is no transfer of funds associated with this area, the process and requirements are more flexible. The Boards would need to agree areas where it seeks the secretariats to pursue collaboration and provide them with the mandate to enter into an MOU accordingly. This option could be pursued in parallel

6.3 Timeline

28. Both Boards at upcoming meetings could mandate the secretariats to develop specific areas and enter an MOU, which can be agreed shortly thereafter.

Appendix: Summary table of key considerations and options for AF-GCF fund-to-fund arrangements

Key Considerations	
1. The degree to which the AF is prepared to accept liability for programming GCF funding as per the options outlined below	2. If and how the AF Board will apply GCF policies for projects and programmes approved using GCF funds
Options for Fund-to-Fund Arrangements	
<u>Option 1:</u> Provision of technical assistance, readiness-type assistance	The AFB may become a delivery partner of the GCF under the Readiness Programme, including for the option for a new modality focused on direct access pre and post accreditation support.
<u>Option 2:</u> Management of a funding envelope	The AFB would be responsible for managing an agreed, defined sub-programme, and reporting to GCF Board, in accordance with GCF policies. The GCF Board would direct GCF entities to the AFB for activities under a defined scope to avoid duplication. AFB would take responsibility for managing GCF funds transferred to AFB and may need to enter into arrangements, as provided by the GCF GI.
<u>Option 3:</u> AF Accreditation to the GCF	The AFB would initiate the accreditation process with the GCF following core responsibilities of GCF Accredited Entities (AEs) on an operational and administrative level, including fiduciary and legal matters in line with the established GCF accreditation standards and mechanisms.
<u>Option 4:</u> Formalizing Cooperation between Secretariats	The AFB and GCF secretariats report on their work done so far in terms of collaboration and provide a proposal on areas of collaboration would be enhanced if the Boards were to provide specific mandates. The AFB and GCF secretariats will jointly design a framework of collaboration, using existing mechanisms and funding windows of both funds, with an annual work plan approved by the respective Boards.

ANNEX 2: **Background information on the Strategic Discussion on the Potential Linkage between the Fund and the Green Climate Fund**

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 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 analyzed 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.21⁶ encouraged the GCF Board to improve its complementarity and coherence with other institutions, per paragraphs 33 and 34 of the governing

⁶ <http://unfccc.int/resource/docs/2015/cop21/eng/10a02.pdf#page=10>.

instrument for the GCF⁷ 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 [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

⁷ See at

https://www.greenclimate.fund/documents/20182/226888/GCF_B.13_08__Complementarity_and_coherence_with_others_funds.pdf.

(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;

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)

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 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.

9. Governing Instrument,⁸ 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

⁸ 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 other climate finance delivery channels, to the GCF Board at 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.

10. At its thirtieth meeting, 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). Having considered documents AFB/B.30/6 and AFB/B.30/6/Add.1 and the update provided by the secretariat, the Adaptation Fund Board (the Board) decided (decision B.30/43):

(...)

b) To request the secretariat:

(i) To initiate the process toward accreditation; and

(...)

(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

11. At its thirty-first meeting, the Board has continued to discuss the issue of *Potential linkages between the Fund and the Green Climate Fund* based on document AFB/B.31/6 and decided:

a) To request the Chair and Vice-Chair, assisted by the secretariat to continue pursuing active engagement with the Green Climate Fund (GCF) Board through its co-chairs, with a view to exploring concrete steps to enhance complementarity and coherence, including at the forty-eighth sessions 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 November 2017 and the Technical Workshop in February 2018 in order to enhance complementarity between the two Funds; and

(ii) To continue the process toward accreditation with the GCF, including by seeking 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; and

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).

(Decision B.31/33)

12. The Adaptation Fund Board (the Board), at its thirty-second meeting, discussed the matter of the potential linkages between the Adaptation Fund (the Fund) and the Green Climate Fund (the GCF), as part of a series of discussions that have been taking place at two levels: (i) through dialogue between the AFB Chair and Vice-Chair with the Co-Chairs of the GCF Board, both exclusively and in the context of the annual dialogue among a larger group of climate funds; (ii) and through ongoing discussions between the secretariats of the Fund and the GCF on concrete activities in the areas of complementarity and coherence. Specifically, at the thirty-second meeting, the Board decided:

a) To request the Chair and Vice-Chair, assisted by the secretariat, to continue ongoing efforts of enhancing complementarity with the Green Climate Fund (GCF), including attending ‘an annual dialogue’ to be organized by the Green Climate Fund (GCF) in the margins of the twenty-fourth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, 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:

(j) To continue discussions with the GCF secretariat to advance the collaborative activities identified at the Annual Dialogue in November 2017, the Technical Workshop in February 2018 and the informal meetings between the Chair and Vice-Chair of the AFB and the Co-Chairs of the GCF in May and September 2018; and

(ii) To continue to explore the options for fund-to-fund arrangements, including the process toward accreditation with the GCF, as described in pillar 1 in the GCF operational framework for complementarity and coherence, as contained in document GCF/B.17/08; and

c) To request the Chair and secretariat to report to the Board at its thirty-third meeting on the progress made in the activities described in subparagraphs (a) and (b).

(Decision B.32/41)

13. Following the GCF's adoption of the operational framework on complementarity and

coherence with other funds.⁹ by GCF Board decision B.20/05, paragraph (f), the GCF Board requested the Co-Chairs, with the support of the GCF secretariat, to engage with the Chair and Vice-Chair of the Adaptation Fund Board to better understand options for collaboration with the Adaptation Fund. At its 21st meeting, the Co-Chairs of the GCF Board reported their discussions with the Chair and Vice-Chair of the Adaptation Fund Board related to a range of possible options for collaboration, including scenarios involving a financial transfer from GCF resources to the Adaptation Fund, as well as options for collaboration not involving a financial transfer, and the intention to continue conversation, as agreed with the Adaptation Fund.

⁹ https://www.greenclimate.fund/documents/20182/751020/GCF_B.17_08_-_Operational_Framework_on_complementarity_and_coherence.pdf/55b8605f-518a-4b91-8362-02eaae5a566a.