



ADAPTATION FUND

AFB/EFC.28/6
30 September 2021

Adaptation Fund Board
Ethics and Finance Committee
Twenty-eight Meeting
Bonn, Germany (held virtually), 14-15 October 2021

Agenda 6

INITIAL MANAGEMENT RESPONSE TO MID-TERM REVIEW OF THE MEDIUM-TERM STRATEGY OF THE ADAPTATION FUND

Background

1. At its thirtieth meeting, the Adaptation Fund Board (the Board) considered and approved through decision B.30/42 the medium-term strategy (MTS) for the Adaptation Fund (the Fund) prepared by the Adaptation Fund Board Secretariat (the secretariat) as contained in Annex 1 of document AFB/B.30/5/Rev.1.
2. At its thirty-first meeting, the Board considered and approved through Decision B.31/32 the MTS Implementation Plan (IP) as contained in Annex 1 of the document AFB/B.31/5/Rev.1.
3. As part of decision B.31/32, the Board also requested the Adaptation Fund Technical Evaluation Reference Group (AF-TERG) to undertake a midterm review (MTR) of the MTS and the IP and report to the Board at its 36th meeting.
4. The draft report of the mid-term review of the MTS (Document AFB/EFC.27/Inf.2) was taken note by the EFC at its twenty-seventh meeting (October 2021).
5. In response to the MTR, the secretariat prepared this document as an initial management response to the findings and recommendations of the AF-TERG, identifying areas
6. This report provides an initial management response, identifying to what extent the Secretariat agrees or disagrees with the report, provides an update on actions already being undertaken to address some of the recommendations, and includes an annex with specific responses to the findings.

Overall management response and reflections on recommendations

7. The secretariat welcomes the MTR report, its findings and recommendations which highlight the positive achievement of the Fund over the first half of the MTS period, as stated by the MTR that the Fund's MTS "is a good, fit-for-purpose strategy which was ambitious, forward-looking, and responsive to global negotiations and imperatives for climate change adaptation when it was adopted".
8. Overall, the secretariat agrees with the MTR recommendations which provide an opportunity for the Fund to expedite and improve the implementation of the MTS over the remaining period. In addition, these recommendations constitute a base for the preparation of the Fund's possible next medium-term strategy.
9. The MTR clearly recognized the strong achievement by the Fund stating that "the MTS has achieved significant strides during the first half of the MTS period" and "the Strategy has enabled the Fund to go beyond what it had done before in concrete adaptation projects by introducing innovation, and learning and sharing through established pillars (action, innovation, learning and sharing) and backed by new funding windows".
10. While the secretariat agrees with many of the findings in the MTR and proposed recommendations, it is important to provide some clarifications and relevant context for some of the findings for the Board's consideration including, among others, on issues related to reasons for slow implementation of new windows, change in MTS implementation targets to achieve long term impact, lack of interaction between MTS pillars and the Fund's ability to respond to external threats and triggers like the COVID-19 pandemic.

11. The secretariat has engaged with the AF-TERG team during the preparation of the MTR and remains committed to implement the MTR recommendations as approved by the Board. Some of the recommendations are part of an ongoing effort by the secretariat to accelerate and improve the MTS implementation plan including among others: (i) the recent launch of the new windows; (ii) the clarification and guidance to entities on issues related to innovation and, (iii) the improved quality of proposals submitted for Board approval and alignment with the Fund's Environmental and Social Policy and Gender Policy.

Overall response on proposed recommendations

12. This document presents only an initial management response prepared by the secretariat on the MTR of the MTS as well as on the proposed recommendations. Further details will be developed as part of the comprehensive response.

a. Recommendation 1 - Harness results to identify the wider impact of the Fund's adaptation projects

13. Overall, the secretariat welcomes this recommendation which calls for greater role of the Fund on tracking and assessing the Fund's impact beyond the current results tracker as part of the strategic results framework, while recognizing that some such areas of wider impacts as outlined by the MTR extend outside the Fund's core mandate and should be considered clearly separate of the impacts that are used to justify funding decisions. It is important to highlight the ongoing efforts by the Fund to aggregate quantitative indicators for a portfolio that is, by nature, diverse, through the five core indicators, as well as to assess relevant reports submitted by the Implementing Entities as part of their project monitoring requirements (inception, mid-term, and terminal evaluation reports). In addition, the Fund has been engaged with multiple partners to generate and disseminate lessons learnt and knowledge products based on its current portfolio under implementation. As referred by the MTR, the Fund has produced several knowledge products including the [Local Leadership in Adaptation Finance](#); [Assessing Progress: Integrating Gender in Adaptation Fund Projects and Programmes](#); [Bridging the Gaps in Accreditation or Lessons Learned and Successful Approaches captured from Portfolio Monitoring Missions](#).

b. Recommendation 2 - Demonstrate and incentivize work and interaction across MTS pillars

14. While the secretariat recognizes there is room to improve the integration among MTS pillars and explore ways to enhance Fund's overall support to countries, the report does not fully acknowledge the ongoing efforts by the Fund to serve countries in an integrated manner. All three new windows have been implemented in parallel and with the objective to offer countries access all funding opportunities in an integrated manner. Building linkages between pillars at the practical level also entails the risk of increasing complexity, and it may be preferable to introduce such requirements in a gradual manner, to avoid overwhelming countries and implementing entities. As highlighted during the launch of each of the MTS windows, the secretariat provides dedicated support to countries and entities on how to better access and use each of the funding windows to address identified adaptation issues and any possible integration of the existing windows in a single proposal is welcomed and encouraged. In relation to MTS implementation plan outcomes tracking across pillars, it is perhaps premature to expect such reporting when most of new windows have just started implementation.

c. Recommendation 3 - Board to discuss the feasibility of achieving implementation plan targets by the end of the MTS period

15. Overall, the secretariat agrees with the proposed recommendation and remains available to implement any guidance from the Board on addressing it. The fact that it has taken longer than initially expected for the Fund to launch the new funding windows and for countries and implementing entities to submit proposals, is an important lesson learned. However, the Fund has undertaken various measures to increase implementing entities' capacity to prepare proposals, including through seminars and e-learning courses. It might be complicated to try and accelerate the process through "determining and flexing to emerging priorities, threats, and opportunities", as such priority changes at this point, despite good intentions, might create more confusion among implementing entities. In terms of resource mobilization, it is important to note that the Fund's Resource Mobilization Task Force has always discussed this issue as part of the review of the Fund's resource mobilization target. In addition, and as mandated by the Board (Decision B.36/36), the secretariat in consultation with Resource Mobilization Task Force is currently preparing a draft resource mobilization strategy for the period 2021– 2024 and a draft resource mobilization action plan for consideration by the Board at its thirty-seventh meeting. Such strategy and action plan will certainly address many of the issues highlighted in the proposed recommendation.

d. Recommendation 4 - Conduct further work on how to measure key concepts in the Fund, such as innovation, adaptation, and knowledge. Continue to work on explaining key concepts to newcomers to the Fund

16. The secretariat welcomes the proposed recommendation and partly agrees that there is value in further clarifying and defining relevant concepts under the MTS, especially those that are new such as innovation in adaptation, and in continuing to provide related guidance to the Fund's existing and new stakeholders. However, it is unclear what is meant with "measuring key concepts" and what is the need for clarifying the concepts such as "knowledge" and "adaptation". Although the AF-TERG team has further clarified that their focus is on further understanding what works and what doesn't work regarding those concepts, the secretariat is yet to better understand the rationale for this recommendation and the issue being raised.. Since its establishment and until recently with the launch of new windows, there is a global recognition of the quality and efficiency of the Fund in addressing adaptation issues. Neither the implementing entities nor countries or the AF NGO network have highlighted any issue related to adaptation reasoning in projects approved by the Board. The Fund's experience with and use of concepts related to adaptation in project development, including climate adaptation reasoning and full cost of adaptation, is one of the Fund's core areas of expertise and strengths.

17. In relation to the concept of innovation and as mandated by the Board (Decision B.35.b/9), the secretariat recognizes the need for further clarifying the innovation concept and is committed to provide more guidance to implementing entities on accessing the MTS innovation windows. Under the guidance of the Board, an Innovation Task Force was established and after consultation with the Fund's partners, the secretariat has presented at the thirty-sixth meeting of the Board, an initial assessment contained in document AFB/B.36/8 "Further clarification of vision and definition of innovation under the adaptation fund: analysis of relevant elements and guidance on review criteria". The secretariat has received guidance and feedback from the Board and a further assessment is currently being conducted. For both concepts, of innovation and knowledge, to the extent that there is value in further defining them, it may be beneficial to do so, not through a quick "academic" exercise but rather through an iterative process that takes into account the Fund's clients' real-life needs and priorities.

- e. Recommendation 5 - Consolidate and optimize the aspects that define the Fund's niche (even with resource uncertainty) as a Fund that (i) provides quick and direct financing; (ii) creates new solutions built on what works; (iii) supports innovative solutions with higher risk; (iv) works in complementarity with others by providing catalytic financing and (v) brings new players necessary to come into climate change adaptation.**

18. The recommendation 5 highlights the need to explore further the Fund's niches and ability to serve better its eligible countries and its current engagement with other partners including climate funds. The secretariat endorses this recommendation and would implement any guidance from the Board in the preparation of the next MTR. In addition, as it has been widely recognized by the adaptation community, the Fund continues to play a catalytic role in supporting countries access climate finance beyond its own resources, as evidenced by the number of entities which have been fast-tracked accredited to the GCF through AF or the large number of AF funded projects scaled up by other partners.

19. However, while recognizing the important role of innovative solutions in addressing resilience and given the nature of sectors and only-grant instrument deployed by the Fund, the Board might need to consider defining the level of risk the Fund might take in addressing adaptation issues.

- f. Recommendation 6 - To improve the next MTS, build it more consultatively by bringing all Fund stakeholders on board, retaining the flexibility and determining the capacity and resources required to implement the next strategy**

20. The Fund promotes wider stakeholder engagement and consultations in all its operations including during development of policies, projects design, portfolio monitoring and all other related activities. The current MTS has been developed following a comprehensive consultation of all stakeholders and such process will be applied for the next strategy. As evidenced by its flexibility during COVID19, the Fund will adapt its working modality to conduct stakeholder consultation in an equitable and comprehensive ways should the current pandemic continues to impact the normal operating modalities.

21. On the resources required for the implementation of the next strategy, the secretariat will follow the guidance by the Board and any lessons learned from the ongoing MTS implementation plan.

Conclusion and next steps

22. The proposed management response is provided as initial feedback from the secretariat on the MTR of the MTS and is not intended to be considered as a full management response.

23. The proposed recommendations if approved by the Board will be implemented by the secretariat in accordance with the proposed timeline to be included in the full management response and action plan.

24. The secretariat will continue its collaboration with the AF-TERG to integrate lessons learnt described in the MTR of the MTS and any further guidance from the Board as part of the approved recommendations.

Annex I: Initial response to key findings of the Mid-term review of the Fund's Medium-Term Strategy

	Overall finding	Secretariat position	Management response
1	How has the MTS been designed and implemented?		
1.1	The MTS is fully responsive to the Kyoto protocol, the Paris Agreement, and CMP/CMA decisions.	Agreed	NA
1.2	Anticipating the ambition set by the Paris Agreement, the MTS both clarified and expanded the niche of the Adaptation Fund into areas where the Fund had demonstrated potential, and placed a strategic emphasis on quality, urgency, and vulnerability.	Agreed	NA
1.3	The output-oriented-Implementation-Plan for the MTS, does not fully harness the ambition and potential envisaged by the MTS.	Agreed	The secretariat under the guidance of the Board will take into consideration this finding when developing the next Fund's strategy.
1.4	Resource mobilization continues to be a constraint to the predictability for programming and ambition of the Fund, the MTS and its Implementation Plan.	Agreed	Although the finding is addressed to the Board, the secretariat is committed to explore further avenues for stable and predictable resource mobilization for the Fund. The development of the next resource mobilization strategy will integrate this finding and assess a potential solution within the mandate given by the Board.
2	What have been the achievements and challenges of the MTS implementation?		

2.1	During the first half of the strategic period, all seven of the new funding windows were launched presenting a significant expansion in the Fund's potential portfolio but implementation of the implementation plan has been uneven.	Partially agreed	While the secretariat recognizes the slow implementation of some of the new windows, it is important to acknowledge, as recognized by the MTR, the effort deployed during early-stage work and launch of the new windows for which guidance, preparatory work and awareness raising was needed.
2.2	The portfolio of concrete adaptation projects grew by 80% since the approval of the MTS, primarily driven by the increase in regional projects. Their quality has also improved through the compliance with Environmental and Social Policy (ESP) and the Gender Policy (GP).	Partially agreed	The secretariat agrees with the portfolio quality improvement and the important role played by the Fund policies on gender and ESP. The increase referred to in the MTR corresponds to the MTS period. However, when the entire portfolio of the Fund is considered, the regional projects (total of 17 projects excluding the 2 AFCIA grants totalling 10 million) amount to USD 181 Million while the total project/programme funding amounts to 847 million with USD 656 million for single country projects/programmes.
2.3	The project pipeline and approval under the new funding windows have been slower than foreseen in the IP due to lack of clarity on the concepts and intended purpose underpinning the innovation, and learning grants. The review criteria for innovation grants do not demonstrate the expected risk that the innovation	Partially agreed	While the secretariat agrees with the slow implementation of new funding windows as explained above, further clarification on the reason expressed in the findings is welcomed. As highlighted in the previous comments, slow implementation is also and mainly

	window should have allowed and incentivized.		due to preparation and setup of the windows including guidelines.
2.4	There is no progress reporting to the Board in terms of the Implementation Plan's output indicator targets.	Disagree	The secretariat welcomes the finding and suggests having it as a recommendation in lieu of an evaluation result, since there is no such requirement in the current MTS.
3	How has the MTS been used?		
3.1	The MTS has helped to clarify the Fund's niche, role, and positioning in the climate landscape.	Agreed	NA
3.2	The MTS has not been used to direct, guide, or prioritize proposals or sectors. Country drivenness and priorities continue to drive project selection and prioritization of funding which is part of the DNA of the Fund. On the other hand, the MTS prioritizes innovation and knowledge management grants as new areas for projects.	Partially agreed	The secretariat agrees with the factual statement but not with the implied premise on which it is made. As highlighted by the report, unlike other climate funds, the Adaptation Fund does not prescribe any prioritization or sector allocation of funding and works on a basis of country drivenness. The MTS pillars have been proposed and approved by the Board after consultation with countries and do not constitute a prioritization by the Fund or its Board.
3.3	Use of the strategy is not optimized to support continuous learning from concrete projects or across pillars.	Partially agreed	The Fund's knowledge management strategy and its MTS emphasise a strong focus on learning and sharing. As evidenced by the Fund's generation and dissemination of many KM products, the Fund is continuously supporting learning from its active portfolio. As noted above, work on learning between

			pillars is ongoing and is expected to be enhanced.
4	Did the MTS support pivoting with the changing context?		
4.1	There have been no changes to the implementation plan targets to achieve the longer-term goals, even when the external context (e.g. in light of COVID) has changed significantly since the Strategy was approved.	Disagree	<p>The Adaptation Fund was one of the first climate funds to provide guidance and adjust its operating modality to support countries and implementing entities addressing the immediate challenges created by the COVID-19 pandemic. Therefore, the secretariat believes this finding, while perhaps technically not incorrect, is effectively misleading, since the Fund's response to the COVID-19 pandemic included adaptive measures to mitigate its impact on the Fund's portfolio, which speaks for the MTS flexibility and rapid response ability.</p> <p>As mentioned by the MTR, a survey conducted by the secretariat among implementing entities in the early phase of the pandemic also confirmed the continued and even increased relevance of the Strategy and its short-term milestones, including the launch of and guidance on the innovation grants, learning grants, scale up grants, as well as e-learning and knowledge exchange activities. There was no evidence of a need for adjustments.</p>

4.2	The MTS is broad enough which allows it to have some latitude, but the funding available has been a factor that has inhibited flexibility.	Agreed	NA
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