ADAPTATION FUND

AFB/PPRC.29/41
21 March 2022

Adaptation Fund Board
Project and Programme Review Committee
Twenty-ninth Meeting
Bonn, Germany (hybrid meeting), 5-6 April 2022

Agenda item 16

FULL COST OF ADAPTATION REASONING AND CO-FINANCING

Introduction

1. This report has been prepared following the Adaptation Fund Board (the Board) decision B.36/29 and the discussion held during the twenty-eight meeting of the Project and Programme Review Committee (PPRC). Through that decision, the Board requested the secretariat to develop a report including elements for defining the scope of application of the full cost of adaptation reasoning criterion, taking into consideration the programmatic developments of the Fund, and the views of the Fund's relevant stakeholders and Board members, in a two-stage manner for consideration by the PPRC.

2. The report seeks to present findings related to an exploration of the issue of co-financing and blended finance approaches and how it can inform the Board to further define the scope of application of the full cost of adaptation reasoning, that can serve the Adaptation Fund in the coming years. While the report approaches the issue primarily starting from the Fund's mandate, it also considers the more practical implication of being robust enough to cover all the current funding windows and the continuation of these, as well as potential future ones. This offers an opportunity to set a new standard that will hopefully also support the new Medium-term Strategy. In addition, the document includes elements to help the PPRC define how the Fund's policies will cover cases when submitted projects and programmes have co-financing, to maximize the impact of the funded projects.

3. This report builds on previous work put forward, specifically: the note on the process for updating the full cost of adaptation reasoning, contained in document AFB/PPRC.27/3; the update on the scope of application of the full cost of adaptation reasoning criterion (AFB/PPRC.22/25); and the proposal clarifying the scope of application of the full cost of adaptation reasoning criterion (AFB/PPRC.20/4).

Background

Background of full cost of adaptation reasoning and co-financing in the Adaptation Fund

4. 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 of full adaptation cost basis of projects and programmes to address the adverse effects of climate change" (Decision 5/CMP.2, paragraph 1(d)). 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.

5. 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", and "the project/programme proponent is to provide justification of the extent to which the project contributes to adaptation and climate resilience", as specified in the OPG main text. Further, as stated in the document "Instructions for Preparing a Request for Project or Programme Funding from the Adaptation Fund" (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)".

6. These guidelines apply to all the proposals submitted for the Board's consideration, irrespective if the proponents seek financing under the action pillar of the Medium-term strategy (MTS) through regular proposals or enhanced direct access proposals, or whether the funding request is under the Fund's innovation facility, which include small and large grants for innovation.

7. The OPG does not provide specific guidance 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 does 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 states on paragraph 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".

Findings of stakeholder consultations

8. Pursuant to Decision B.36/29, the Adaptation Fund Board secretariat (hereafter "the secretariat") during the intersessional period between the thirty-seventh and thirty-eighth Board meetings conducted an open and inclusive stakeholder consultation process with the different stakeholders of the Fund, to collect views and lessons learned on benefits and drawbacks in using co-financing and blended finance in projects and programmes.

Summary of survey results

9. Invitations to participate in an online survey were sent to the Fund's stakeholders (Board members; Implementing Entities (IEs), Designated Authorities (DAs), AF CSO Network and other climate funds). Detailed responses to the survey are included in Annex I.

10. Overall, most of the respondents (66%) are supportive of the Fund's interpretation related to the **full cost of adaptation**, as it makes accessing resources less restrictive than other funds. The Fund's niche for funding the full cost of adaptation, through concrete adaptation projects was also mentioned as an advantage.

11. Regarding **co-financing**[1], 67% of the respondents indicates that it is used by agencies and expressed an openness to the AF pursuing co-finance as an option. Co-finance is viewed as integral to broaden the scope and maximize the impacts of projects, and the level of ownership by project proponents and co-financiers would depend on the source and type of co-financing utilized.

12. Views on **blended finance**[2] indicate that 60% of the agencies utilized or benefitted from

[1] Co-financing is defined by the GEF 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)", while the GCF defines it as "the financial resources required, whether public finance or private finance, in addition to the GCF proceeds to implement funded activity for which a funding proposal has been submitted"
[2] The OECD defines blended finance as "the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries", while the UNFCCC defines it as "use of development capital (public sector or philanthropic) to mobilize commercial capital (private

blended finance options (grants and loans mainly, followed by government funds, private sector financing and in-kind contributions). Among the benefits and drawbacks experienced by agencies, the former include: support project's sustainability; can reduce financial costs for the clients; can strengthen cooperation, synergies and complementarity among projects. The latter include: mismatch in timeframes of the various types of finance being blended; challenges in project monitoring; project's approval might be longer; risks associated with Environmental and Social Safeguards (ESS) and Fiduciary Standards (FS), among others (more details are presented in Annex I - table 3). Mitigating factors such as, a thorough risk screening as well as independent monitoring and evaluation throughout the project cycle, a continuous engagement with project stakeholders and stipulation of guidelines based on funding types were identified as paramount.

13. The importance of incorporating the possibility of co-finance and blended finance to the MTS funding windows, for countries that are willing and able to do so, was affirmed by the majority of the respondents.

14. Regarding the views on the **types of financials instruments** for co-finance and blended finance, while the AF's focus on grants was identified as crucial, stakeholders did assert that the Fund could also explore the utility of other financial instruments. Guarantees and concessional loans were the most favored among the other financial instruments proposed for co-financing or blended finance (table 4 in Annex I provides a justification for each type of financial instrument).

Summary of structured interviews

15. Structured interviews were conducted with climate funds, MDBs serving as Multilateral Implementing Entities (MIEs), UN agencies serving as MIEs, and Board members.

16. Regarding the interviewees views on possible **risks** with using blended financing approaches for the AF, all recognized that there would be increased risks for project with co-financing or blended finance. Some of the risks and considerations highlighted are: noncompliance of terms and conditions set forth in the AF OPGs; low interest from the private sector in blending finance if perception of onerous requirements to comply with; the Fund should define the scope of its co-finance as well as blended finance; requirements to safeguard against possible risks must be enhanced through the provision of technical assistance if co-financing is put forward by an Executing Entity.

17. In addition, the respondents highlighted that the niche of the AF is to offer only grant financing to fund the full cost of adaptation for projects in the most vulnerable countries. Although some risks can be managed through the accreditation process for IEs, there are risks unique to blended finance and co-financing arrangements for which the AFs arrangements and structure would have to be amended to make accommodation for these financing approaches, without making it mandatory or imposing challenges for the most vulnerable countries. Stakeholders interviewed have strong opinions against co-financing and blended financing approaches in the face of this risk.

18. Co-finance and blended finance in the context of the MTS, are seen as useful tools, but should be voluntary, for countries who wish to use these financial options. Notwithstanding, the introduction of these options under the MTS are deemed inappropriate by a few

sector) toward investments in sustainable development".

stakeholders.

19. Regarding the **approach going forward**, the interviewees asserted that the current broad scope of the OPGs does not prevent countries from submitting proposals with co-financing, in that regard maintain the current operational framework is strongly encourages. If co-financing and blended finance are allowed, a case-by-case, flexible and soft approach should be adopted and more guidance on the scope of these financial options should be developed. The decision must adequately factor in the input of the relevant Parties and decision-making bodies, as could be an independent oversight body.

20. Interviewees were also asked to provide thoughts and insights on **lessons learned** based on the experience of their agencies. The majority of the respondents stated that incorporating co-financing and blended finance approached within the AF, will require an additional layer of due diligence and procedures, particularly for incorporating the requirements of private financiers.

Proposed options to enable co-financing under the full cost of adaptation

➢ ***Option 1 – Status quo***

21. This option entails continuing to carry out the implementation of the current option, i.e. "for proposals with co-financed adaptation activities, the AF component should be able to deliver on its related outcomes and outputs regardless of the success of the co-financed component" with no additional guidance. This scenario would miss the opportunity to set a new standard that would potentially also support the new MTS, covering all the current funding windows, as well as potential future ones.

22. Proposals submitted for the Board's consideration, which wish to include co-financing or blended finance, would continue to do so without the guidance on how the co-financed portion of the project could comply with the operational policies and guidelines of the Fund. Similarly, the technical review function of the Fund currently does not have a coherent established practice to practically evaluate and/or provide guidance to the proponent on how a project that blends finance could demonstrate its compliance with the full cost of adaptation and with the Fund's Environmental and Social Policy.

➢ ***Option 2 – Maintaining the status quo with the provision of guidance on co-financing (recommended option)***

23. The outcomes of the stakeholder consultations offer elements to think about further guidance needed in relation to co-financing for Adaption Fund projects and programmes. In fact, the overall feedback received by the Fund's stakeholders, recognizes the Fund's niche in providing grant support for local adaptation needs, but also reflected on its position as a leader in providing new forms of access and on its role within the rapidly evolving adaptation finance landscape. The mid-term review (MTR) of the Fund's Mid-term Strategy (MTS) recommended that the Fund should support innovative solutions with higher risk and complement others through catalytic financing.

24. Furthermore, as mentioned above, the OPG currently does not provide specific guidance on how to manage potential risks of the project activities not being delivered in cases where the co-financing would not materialize, but at the same time it states 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.

25. Stakeholders recognize that the dynamics for managing blended finance mechanisms requires putting in place policies and procedures for a seamless blending and co-mingling of resources; managing of funds; and effective implementation of projects and programmes.

26. The Fund could, therefore, take the opportunity to consider how to enable the option for countries, in partnership with implementing entities, to mobilize co-financing if they should so prefer and if it is expected to positively impact the project, and further guidance would provide elements to support the PPRC and the Board define how the Fund's policies will cover cases when submitted projects and programmes present co-financing.

- ***Option 3 – Major changes to the current interpretation of full cost of adaptation in relation to co-financing***

27. This option would entail changing the current interpretation of the full cost of adaptation in relation to co-financing by making it mandatory for proposals submitted to the Board's consideration.

28. This approach could be considered if the stakeholders' consultations would have identified major shortcomings with the current definition of full cost of adaptation. As this is not the case, the risks associated with shifting away from the current interpretation of the full cost of adaptation are high and would undermine the niche of the Fund, recognized as providing quick and direct financing. To this end, the secretariat's assessment is that the majority of the stakeholders' views can be integrated into the existing full cost of adaptation interpretation, by strengthening existing policies and operational guidelines and creating new guidance for the Board, its technical committee, the secretariat's review function and the Fund's Implementing Entities.

Recommendation

29. Having considered the findings provided by the secretariat based on the overview on the cost of adaptation and co-financing stemming from the consultations undertaken with the Fund's relevant stakeholders, as presented in document AFB/PPRC.29/41, the Project and Programme Review Committee (PPRC) may want to recommend to the Board:

(a) To request the secretariat to develop, through a consultative process, a [policy/guidance] on co-financing, based on the current interpretation of the full cost of adaptation, which inter alia:

(i) Defines the scope and parameters for AF co-financing;
(ii) Identifies the suite of financial instruments that can be utilized;
(iii) Incorporates the principles of flexibility, optionality and simplicity in a pragmatic manner;
(iv) Outlines pathways to address potential risks.

(b) To present the draft [policy/guidance] for the PPRC consideration at its [thirtieth/thirty-first] meeting.

ANNEX I

ANNEX I

REPORT DEFINING THE SCOPE OF APPLICATION OF THE FULL COST OF ADAPTATION REASONING CRITERION, TAKING INTO CONSIDERATION THE PROGRAMMATIC DEVELOPMENTS OF THE ADAPTATION FUND AND THE VIEWS OF THE FUND’S RELEVANT STAKEHOLDERS

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LIST OF ACRONYMS

AF	Adaptation Fund
AFB	Adaptation Fund Board
CIF	Climate Investment Funds
CMP	Conference of Parties serving as the Meeting of the Parties to the Kyoto Protocol
CTF	Clean Technology Fund
ESP	Environmental and Social Policy
ESS	Environmental and Social Safeguards
FS	Fiduciary Standards
GCF	Green Climate Fund
GEF	Global Environment Facility
HIC	High Income Country
IMF	International Monetary Fund
KP	Kyoto Protocol
LDC	Least Developing Country
LDCF	Least Developed Countries Fund
MDB	Multilateral Development Bank
MIE	Multilateral Implementing Entity
MSMEs	Micro Small and Medium Enterprises
MTS	Medium-Term Strategy
AF CSO Network	Adaptation Fund Civil Society Network
NIE	National Implementing Entity
OECD	Organization for Economic Co-operation and Development
PA	Paris Agreement
PPCR	Pilot Programme on Climate Resilience
PPRC	Project and Programme Review Committee
PSF	Private Sector Facility
PSSA	Private Sector Set Aside
SCF	Strategic Climate Fund
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
SWOT Analysis	Strengths, Weaknesses, Opportunities and Threats Analysis
UMICs	Upper Middle-Income Countries
UNFCCC	United Nations Framework Convention on Climate Change

INTRODUCTION

1. The current mandate of the Adaptation Fund (AF) given by the Conference of Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP), under the United Nations Framework Convention on Climate Change (UNFCCC) process, is to fund the full cost of adaptation for its approved projects. In 2018, the CMP decided that the AF would exclusively serve the Paris Agreement (PA) and no longer serve the KP— once the share of proceeds under Article 6, paragraph 4 of the PA becomes available.[3] The AF defines the full cost of adaptation as "*the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change*".[4] Proposals submitted to the AF are required to "*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)"*[5].

2. In 2017, The AF Board (hereafter the Board) approved its Medium-Term Strategy (MTS) for the period 2018-2022 and its associated implementation plan was approved in 2018. The MTS promotes innovation as one of three pillars and enhanced direct access (EDA) as a standalone funding window. In that regard, the AF Secretariat anticipates receiving more diverse proposals for consideration. It is also a consideration that the innovation facility may attract proposals with co-financing and or blended finance schemes.

3. In 2016, the AF's Project and Programme Review Committee (PPRC) discussed a report on clarifying the issue of the full cost of adaptation, which included four options for consideration by the Board.[6] The option selected by the Board upheld the current understanding of the full costs of adaptation but requested further work on the matter through decision B.28/33.

4. This report seeks to present findings related to an exploration of the issue of co-financing and blended finance approaches and how it can inform the Board's decision to further define the scope of the application of the full cost of adaptation reasoning. It builds on previous work put forward, specifically, the 2021 Note on the process for updating full cost of adaptation reasoning[7]; the 2018 Update on the scope of application of the full cost

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[3] UNFCCC 2019. "Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its fourteenth session, held in Katowice from 2 to 15 December 2018. Decision 1/CMP.14"

[4] Adaptation Fund 2021. "Operational Policies and guidelines for Parties to access resources from the Adaptation Fund" . https://www.adaptation-fund.org/wp-content/uploads/2017/08/OPG-amended-in-October-2021_adopted-clean.pdf

[5] Adaptation Fund 2017 "Annex 5 to OPG Amended in 2017- Request for project/programme funding from the Adaptation Fund" https://www.adaptation-fund.org/wp-content/uploads/2016/04/OPG-ANNEX-5-_project-template_amended-in-Oct-2017.pdf

[6] Adaptation Fund.2017. "Proposal clarifying the scope of application of the full cost of adaptation reasoning criterion" https://www.adaptation-fund.org/document/proposal-clarifying-scope-application-full-cost-adaptation-reasoning-criterion/.

[7] Adaptation Fund. 2021. "Note on the process for updating full cost of adaptation reasoning" https://www.adaptation-fund.org/document/note-on-the-process-for-updating-the-full-cost-of-adaptation-reasoning/

of adaptation reasoning criterion[8]; and the 2017 Proposal clarifying the scope of application of the full cost of adaptation reasoning criterion[9].

METHODOLOGY

5. A desk review of relevant UNFCCC and AF documents as well as documents from the other arms of the UNFCCC financial mechanism — the Green Climate Fund (GCF) and the Global Environment Facility (GEF) — was undertaken. Additionally, documents from OECD and CIF were reviewed**.** A survey instrument (Appendix I) was administered to key Fund's stakeholders, as the GEF, GCF, the Board, AF Multilateral Implementing Entities (MIEs), Regional Implementing Entities (RIEs) and National Implementing Entities (NIEs), Designated Authorities (DAs), and the AF SCO Network. The online survey instrument was available from 11 to 23 February 2022. The survey respondents list is presented in Appendix III. Structured interviews were conducted with 13 interviewees representing the Board, MIEs, RIEs, NIEs and DAs from 16th February to 3rd March 2022. The structured interview instrument is presented in Appendix II and the participating agencies is presented in Appendix IV. Qualitative and quantitative analysis was conducted based on the data gathered and information collected.

BACKGROUND ON THE ADAPTATION REASONING OF THE ADAPTATION FUND

Guidance related to the evolution of the concept of the cost of adaptation -UNFCCC

6. In 2001 the CMP, decided to establish the AF "*to finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Protocol*...", "*financed from the share of proceeds on the clean development mechanism project activities and other sources of funding*".[10] In 2006 the guiding principles of the AF were decided upon including "*funding on full adaptation cost basis of projects and programmes to address the adverse effects of climate change*", that projects should be "*country driven and should clearly be based on needs, views and priorities of eligible Parties*", and that the AF should operate through "*learning by doing*". [11] In 2008, the CMP adopted the strategic priorities, policies and guidelines of the AF and requested the "*development, adoption and implementation of the specific operational policies and guidelines*". The strategic policies and guidelines reiterated that "*funding for projects and programmes will be on a full adaptation cost basis to address the adverse effects of climate change*". Notably the

[8] Adaptation Fund. 2018. "Update on the scope of application of the full cost of adaptation reasoning criterion" https://www.adaptation-fund.org/document/update-scope-application-full-cost-adaptation-reasoning-criterion/
[9] Ibid.
[10] UNFCCC 2002. "Report of the Conference of the Parties on its seventh session, held at Marrakesh from 29 October to 10 November 2001. Decision 10/CP.7. Funding under the Kyoto Protocol." FCCC/CP/2001/13/Add.1
[11] UNFCCC 2007. "Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its second session, held at Nairobi from 6 to 17 November 2006. Decision 5/CMP.2". FCCC/KP/CMP/2006/10/Add.1

strategic policies and guidelines provides the AF with the flexibility to "*review elements of this strategic priority based on lessons learned*." [12]

7. Three reviews of the AF have been conducted with the first in 2012, the second in 2014 and the third in 2017. The fourth review is scheduled for November 2022. The scope of the reviews thus far and the TORs for the 2022 review do not include an examination of the issue of co-financing or any specific element of the current approach of full cost of adaptation reasoning by the Fund. The guidance from Parties on the fourth review was silent on the issue of co-financing.[13] The COP in 2017, at paragraph 7(c) of Decision 2/CMP.13 on the third review of the AF, indicated that the review should "*consider voluntary tracking of climate finance mobilized, where appropriate*".

Guidance related to the evolution of the concept of the cost of adaptation -Adaptation Fund Board

8. The operational policies and guidelines of the AF in its main text, defines the full cost of adaptation as "*the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change*" and further indicates that the Board "*may provide further guidance on financing priorities, including through the integration of information based on further research on the full costs of adaptation and on lessons learned*".[14] The operational policies and guidelines for parties to access resources from the AF as amended in 2021 indicates in paragraph 8 that "*The operational policies and guidelines are expected to evolve further based on experience acquired through the operationalization of the Fund, subsequent decisions of the Board and future guidance from the CMP*."

9. In 2017, the Board considered four options on the approach to understanding the full cost of adaptation in the context of co-financing, and decided on the fourth option —identified as option 'd' below. The options put forward were as follows:

   a) Option 1: Status Quo (For proposals with co-financed adaptation activities, the AF component should be able to deliver on its related outcomes and outputs regardless of the success of the co-financed component)
   b) Option 2: The Board could fund proposals with co-financed adaptation activities, for which the delivery of the AF component' outcomes and outputs could be tied with the delivery of the co-financed component
   c) Option 3: The Board could fund proposals with co-financed adaptation activities, for which the delivery of the AF component's outcomes and outputs could be tied with the delivery of the co-financed component, under certain conditions

[12] UNFCCC 2009. "Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its fourth session, held in Poznan from 1 to 12 December 2008. Decision 1/CMP.4 Annex IV" FCCC/KP/CMP/2008/11/Add.2
[13] UNFCCC 2021. "Fourth review of the Adaptation Fund Co-facilitators informal note related to the fourth review of the Adaptation Fund "https://unfccc.int/sites/default/files/resource/IN.SBI2021.i14b.3.pdf
[14] 2021. Adaptation Fund Board. "Operational policies and guidelines for parties to access resources from the Adaptation Fund". https://www.adaptation-fund.org/wp-content/uploads/2017/08/OPG-amended-in-October-2021_adopted-clean.pdf

d) Option 4: Status quo (For proposals with co-financed adaptation activities, the AF component should be able to deliver on its related outcomes and outputs regardless of the success of the co-financed component) and request the secretariat to perform an analysis of the full costs of adaptation.

10. In 2021, the AF reported to the COP on its progress with tracking voluntary co-financing.[15] The AF further reported that "*options would be considered at the AFB 37th and 38th Meetings*".

[15] UNFCCC 2021. "Report of the Adaptation Fund Board". FCCC/KP/CMP/2021/2−FCCC/PA/CMA/2021/4 https://unfccc.int/sites/default/files/resource/cmp2021_02_cma2021_04E.pdf

FINDINGS

Approaches of climate funds on co-financing and blended finance including structuring and application of adaptation investment models in relation to co-financing

11. In exploring the impact of co-financing across the main climate funds- CIF, GCF, GEF and AF, a 2020 report[16] found that co-financing can produce synergies among funds. This includes contributing to scaling up climate action; supporting better results when threshold effects cannot be overcome without multiple sources; and increasing the threshold volume when higher levels of funds and non-grant instruments are required.[17] The following sections presents a brief exploration on how these climate funds approach co-finance and blended finance. Table 1 captures additional information on their approach criteria and types of non- grant instruments utilized.

Adaptation Fund

12. The AF has welcomed projects with co-financing of all kinds, but the question remains how the proposed projects would be best accommodated process-wise. In-kind co-financing and AF projects serving as subsidiary to larger projects was observed as main trend in the regular proposals submitted for the Board's consideration since 2019. This is in-keeping with the AFs current mandate of supporting the full cost of adaptation in its portfolio. Through its project templates the AF requires proponents to establish conformity with its Environmental and Social Policy (ESP) and Gender Policy; provide an analysis of the cost-effectiveness of the proposed project or programme; describe the measures for financial and project or programme risk management; among others. The AFs proposal template and review criteria currently request a justification of the funding requested focusing on the full cost of adaptation reasoning demonstrating 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 (part II section I of the proposal template).

13. Between 2019 and 2021, the Board considered 70 regular concept notes and fully developed proposals. Eleven of those proposals mentioned co-financing, of which five were not approved, three are under implementation and three were approved and not yet started.[18] Table 1 below provides additional details on the types of co-financing put forward for various regular AF projects and programmes.

[16] CIF and GCF 2020. "Synergies Between Climate Finance Mechanisms". https://www.greenclimate.fund/sites/default/files/document/synergies-climate-finance.pdf
[17] Ibid
[18] Adaptation Fund Secretariat. 2021. "Full cost of adaptation and co-financing data collection analysis" 2021.

Table 1: Proposals considered by AF Board in 2019-2021. Adapted from Adaptation Fund Secretariat, "Full cost of adaptation and co-financing data collection analysis", 2021

Entity Type	Co-financing type	Project Sector	No of projects	Status
MIE	Subsidiary Project	Agriculture	3	1 Under implementation
	Parallel co-financing			1 Proposal not approved
	The agency states that additional funding will allow for a greater outreach, with the same set of activities covering additional beneficiaries and communities.			1 Proposal not approved
	Scaling up is mentioned but more as a sustainability element than blended finance at project level.	Disaster Risk Reduction and Early Warning Systems	1	Proposal not approved
	Subsidiary project	Water Management	1	Proposal not approved
	Subsidiary project	Multi-sector	1	Under implementation
	Blended to US$ 50 million from MIE as climate proofing an initial investment.	Food security	1	Under implementation
	Subsidiary project	Rural development	1	Proposal approved
	In-kind from communities	Transboundary Water management	1	Proposal approved
RIE	In-kind government financing	Agriculture	1	Proposal approved
NIE	Funding to deliver preparatory work. More detail on type not specified.	Coastal management	1	Proposal not approved

Global Environment Facility

14. In 2014 the GEF laid out its non-grant instrument policy, the objectives of which were to outline the principles for its work with partners to "*inter alia, (a) enhance effectiveness by leveraging substantial capital for targeted investments that support GEF's objectives; (b) strengthen partnerships with the private and public sectors in recipient country governments; (c) enable the GEF to demonstrate and validate the application of innovative and flexible financial instruments in projects for broader adoption; and (d) enhance the financial sustainability of the GEF through the generation of reflows*"[19].

15. In 2018, its co-financing policy which specifies a 7:1 ratio for Upper Middle-Income Countries (UMICs) and High-Income Countries (HICs) and 5:1 ratio for SIDS and LDCs was

[19] GEF 2014. "GEF Policy: Non-grant Instruments FI/PL/02" https://www.thegef.org/sites/default/files/documents/NonGrant_Instruments_Policy-2014_0.pdf

approved. Unlike the AF, co-financing is mandatory for GEFs medium- sized and full-sized projects and programmes and is encouraged for its enabling activities. The GEF defines co-financing 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)*".[20] Guidelines to "*support the effective implementation of the Co- Financing Policy by GEF Partner Agencies*"[21] were also introduced in 2018.

16. The GEF provides grant funding for adaptation action through the Least Development Country Fund (LDCF) and the Special Climate Change Fund (SCCF). Through these funds the GEF engages the private sector by "enabling the conditions for private sector to act; using grant finance to share risk and catalyze private sector investment; incubating and accelerating micro, small and medium enterprises through innovative financing and; catalyzing inclusive micro-finance".[22]

17. In 2020, the GEF published guidance on blended finance. The GEF defines blended finance as "*the targeted use of concessional financing together with private finance in projects where actual or perceived risks are too high for private finance alone... to achieve acceptable risk/return profiles for different types of financing partners, including private sector finance*."[23] The guidance document also sets out the structuring of blended finance at the GEF and its approach to blended finance through three steps namely identifying, incubating and investing.

Climate Investment Funds

18. The Climate Investment Fund (CIF) works exclusively through MDBs as implementing entities to leverage its resources to "*seed climate action*"[24] through various financial instruments. The CIF allocates its resources though its two funds Clean Technology Fund (CTF) and Strategic Climate Fund (SCF).

19. The Pilot Programme on Climate Resilience (PPCR) is subsumed under the SCF which "*aims to provide financing to pilot new development approaches or scale-up activities aimed at a specific climate change challenge or sectoral response*"[25]. The SCF identifies a) multiple donor interest in establishing a SCF Program; b) broad applicability of lessons to be learned and c) sufficient resources to finance activities at scale, as eligibility criteria.

20. The PPCR projects/programs contribute directly to the PPCR outcomes: (a) strengthened adaptive capacities; (b) improved institutional frameworks in place; (c) climate

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[20] GEF 2018. "GEF Policy on co-financing Policy: FI/PL/01". https://www.thegef.org/sites/default/files/documents/GEF_FI_PL_01_Cofinancing_Policy_2018.pdf
[21] GEF 2018. "GEF Guidelines on co-financing Policy: FI/GN/01". https://www.thegef.org/sites/default/files/documents/GEF_FI_GN_01_Cofinancing_Guidelines_2018.pdf
[22] GEF 2021. "Financing Adaptation to climate change at the GEF". https://www.thegef.org/sites/default/files/2021-10/gef_financing_adaptation_climate_change_2021_10.pdf
[23] GEF 2020. "Guide for Understanding and Accessing Blended Finance at the Global Environment Facility" https://www.thegef.org/publications/guide-understanding-and-accessing-blended-finance
[24] CIF 2011. "Governance framework for the Strategic Climate Fund". https://www.climateinvestmentfunds.org/sites/default/files/meeting-documents/scf_governance_framework-final.pdf
[25] Ibid

information in decision making routinely applied; (d) improved sector planning and regulation for climate resilience; and (e) innovative climate responsive investment approaches identified and implemented.[26] The PPCRs is structured to target climate resilience and supports firstly governments by "integrating climate resilience into strategic development planning" and secondly supports public and private sector with planning and implementing "pilot innovative" climate action.[27] The PPCR provides grants and concessional loans administered through MDBs with a leverage ratio of 1:2.3 reported in 2019.[28] The PPCR includes a Private Sector Set Aside (PSSA). Through its PPSA the CIF *"provides risk appropriate capital to drive private sector investments in some of the world's most challenging markets*".[29]

21. The CIF in 2015, through a 'lessons learned' document, outlined 10 key lessons from the PPCR implementation. Lesson number three was captured in this report as follows "*The expectation of linked and leveraged funds at scale through formal MDB collaboration and Phase 2 grants and concessional loans was pivotal for country buy-in. Planning grants alone would have been insufficient. Both linked investments and leveraged investments were instrumental in advancing and catalyzing countries resilience pathways*."[30] The report also highlighted close cooperation with MDBs and development partners; early identification of possible opportunities for linking and leveraging financing; looking for opportunities of comparative advantage, efficiencies; and streamlining efficiencies in MDB processing and decision-making to reduce transaction costs and help meet overall program objectives in a timely fashion.[31] Challenges with the PPCRs PSSA have been experienced due to structural mismatches with MDB private sector operations.[32] The policies and procedures of the various MDBs with which the CIF partners, are used to guide the selection of projects and programmes.

Green Climate Fund

22. The GCF has laid out a co-financing policy which defines co-financing as "*the financial resources required, whether public finance or private finance, in addition to the GCF proceeds to implement funded activity for which a funding proposal has been submitted*"[33]. The policy also defines leveraged private finance as "*all financial resources that are provided for the implementation of a Funded Activity from entities that are more than 50 percent owned and or controlled by private sector"*. This private finance can be mobilized or leveraged. GCF does not set out a minimum co-financing amount nor does it specify the sources of co-financing. It further defines "*public finance means all financial*

[26] CIF 2012. "PPCR Results Framework- section III paragraph 10".
[27] CIF 2022. " PPCR: Managing current and future impacts" https://www.climateinvestmentfunds.org/cif_enc/topics/climate-resilience
[28] CIF 2019. "CIF- 10 years of climate action". https://www.climateinvestmentfunds.org/cif_enc/sites/cif_enc/files/knowledge-documents/cif_annual_report_2018.pdf
[29] CIF 2022. https://www.climateinvestmentfunds.org/private-sector
[30] CIF 2015. Key Lessons from the Pilot Program for Climate Resilience- A practical resource for all involved with strategic planning processes and mainstreaming of climate resilience. https://www.climateinvestmentfunds.org/cif_enc/sites/cif_enc/files/knowledge-documents/wb_climate_guidance_note_1.pdf
[31] Ibid
[32] CIF 2016. "Strategic Directions for the Climate Investment Funds". https://www.climateinvestmentfunds.org/cif_enc/sites/cif_enc/files/meeting-documents/joint_ctf-scf_16_3_cif_strategic_paper_1.pdf
[33] GCF 2019. "GCF Policy on co-financing". https://www.greenclimate.fund/document/policy-co-financing

resources, other than the GCF proceeds, that are provided for the implementation of Funded Activity from the public sector or entities that are more than 50 percent owned and /or controlled by the public sector"[34]. The GCF considers the additionality of GCF funding, the strength of the climate rationale of projects and its six investment criteria. These are impact potential; paradigm shift potential; sustainable development potential; needs of the recipients; country ownership and efficiency and effectiveness. Adaptation indicators are elaborated for investment criteria.

23. GCFs Private Sector Facility (PSF) is dedicated to scaling up GCFs activities with the private sector and de-risk its investments. Some of the guiding principles which govern GCFs operations include: "*Seeking the right level of concessionality, so as not to displace investments that would otherwise have occurred, including for private sector investment; Structure terms on a case-by-case basis to address specific barriers; Leveraging of other financing, including public and private financing, seeking to maximize leverage in the case of private financing; Leveraging of other financing, including public and private financing, seeking to maximize leverage in the case of private financing; ensuring that the Leveraging of other financing, including public and private financing, seeking to maximize leverage in the case of private financing.*" [35]

24. GCF provides funding to support adaptation action for private and public sector through various financial mechanisms including grants, loans, guarantees and equity. At its thirtieth Board meeting, approved private sector and public sector adaptation projects which utilized instruments including: equity; loan; in-kind contribution.[36]

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[34] Ibid.

[35] GCF 2013. "Guiding principles and factors for determining terms of financial instruments".

[36] GCF 2022. The proposals are: FP181: CRAFT - Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries. The GCF put forward equity investment to support this project. The co-financing was in the form of equity; FP179: Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP). The GCF put forward a combination of loan, guarantee and grant with co-financing being a loan; FP175: Enhancing community resilience and water security in the Upper Athi River Catchment Area, Kenya. The GCF put forward grant with co-financing was in-kind contribution; FP174: Ecosystem-based Adaptation to increase climate resilience in the Central American Dry Corridor and the Arid Zones of the Dominican Republic. The GCF put forward a combination of loan, guarantee and grant with co-financing being loan and in-kind contribution

Table 2: Comparison of climate funds use of non-grant instruments

Summary of approach, criteria and types of non-gran instruments utilized in climate funds

GEF[37]	CIF	GCF
Approach: The GEF provides a blended finance structure that allows various private sector investors to participate through various instruments by blending their resources with the GEFs concessional resources to reduce actual or perceived risks. This is done through a three-step approach namely: 1. Identify; 2. Incubate; 3. Invest. The use of blended finance as defined by the GCF is not utilized for the SCCF and LDCF programmes.	**Approach:** CIF tests new business models, builds track records in unproven markets, and boosts investor confidence to unlock additional sources of finance. CIF provides highly competitive financing that reduces risk for investors, lowering barriers to piloting new technologies, scaling up proven solutions, opening up sustainable markets, and mobilizing private sector capital for climate action.	**Approach:** GCF funds and mobilizes private sector in developing countries with an emphasis on LDCs, SIDS and Africa by: (a) Catalyzing private sector climate action in developing countries; (b) Tailoring lifecycle, concessional financing to de-risk high impact projects; (c) Supporting first movers by taking an anchoring role for co-investors; (d) Providing expertise to help assess the potential benefits of project ideas; and (e) Leveraging GCF's own resources with those of the private sector.
Project selection criteria: The GEF identifies the following as its selection criteria: scalability; appropriate and enhanced co-financing ratios; attractive financial terms; high financial additionality; capacity to generate reflows; and innovative financial solutions.	**Eligible countries:** Activities eligible for CIF funding will be carried out in countries that: a) meet Official Development Assistance (ODA) eligibility (according to the Organization for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) guidelines); and b) have an active MDB country program. For this purpose, an "active" program means where an MDB has a lending program and/or on-going policy dialogue with the country.[38]	**Investment criteria:** impact potential; paradigm shift potential; sustainable development potential; needs of the recipients; country ownership and efficiency and effectiveness
Project eligibility criteria: Eligibility criteria presented by the GEF are as follow: Geography- GEF recipient countries; GEF Partner Agency eligibility requirements; Modalities- medium and full-sized projects; and alignment with GEF-7 programming directions *which includes climate change.*	**SCF project eligibility criteria**:[39] a) multiple donor interest in establishing a SCF Program; b) broad applicability of lessons to be learned; c) (c) sufficient resources to finance activities at scale;	**Additional considerations:** (a) Additionality of GCF funding (b) Strong climate rationale (c) Compliance with GCF policies

[37] GEF 2020. "Guide for Understanding and Accessing Blended Finance at the Global Environment Facility" https://www.thegef.org/publications/guide-understanding-and-accessing-blended-finance

[38] CIF 2014. "Governance Framework For The Clean Technology Fund" https://www.climateinvestmentfunds.org/sites/default/files/meeting-documents/ctf_governance_framework_revised_2014_0.pdf

[39] CIF 2011. "Governance Framework For The Strategic Climate Fund" https://www.climateinvestmentfunds.org/sites/default/files/meeting-documents/scf_governance_framework-final.pdf

Table 2: Comparison of climate funds use of non-grant instruments

Summary of approach, criteria and types of non-gran instruments utilized in climate funds

GEF[37]	CIF	GCF
Types of instruments used: The SCCF and LDCF programmes for adaptation only utilize grants. Full suite of no-grant instruments utilized by the GEF are as follows[40]; a) Credit guarantee (partial/full) b) Performance risk guarantee c) Structured financing d) Equity/investment fund e) Revolving equity fund f) Contingent loan g) Concessional loans h) Revolving loan fund.	**Types of instruments used:** The following non-grant instruments are utilized under the CIF. The PPCR only utilizes concessional loans as a non-grant instrument. a) Equity b) Concessional loans, c) Guarantees d) Local currency hedging	**Types of instruments used:** The following non-grant instruments are utilized by the GCF. Adaptation projects in the public sector utilize non-grant instruments. (a) Long term affordable loans (b) Subordinated loans (c) Guarantees (d) Equity

[40] GEF 2014. "Non Grant Instruments Policy: FI/PL/02" https://www.thegef.org/sites/default/files/documents/NonGrant_Instruments_Policy-2014_0.pdf

Analysis of stakeholder views on co-financing and blended finance consideration by the adaptation fund

Analysis of survey results

Stakeholder participation

25. Invitations to participate in an online survey were distributed to 218 stakeholders of the AF including UNFCCC and Financial Mechanism representatives, AF Board Members, IEs, DAs and the AF CSO Network. Responses were received from 73 agencies resulting in a response rate of 33%. Figure 1 in Appendix V provides further information on the survey instrument, while a list of survey respondents is included at Appendix III.

Views on AFs definition of and requirements for full cost of adaptation

26. Respondents were asked to indicate if they experienced any drawback from the AF definition and requirements related to the full the cost of adaptation (e.g., missed opportunities for project scale-up with other adaptation projects.) Sixty-six (66%) respondents indicated that the current definition and requirements of the full cost of adaptation in the AF context was not a mitigating factor for their engagement with the AF (Figures 7 and 8 in Appendix V provide further information). Broadening the scope of the definition to account for positive economic impacts of climate change adaptation was proposed in addition to account for scaling up of projects to maximize impact of interventions.

27. Reasons cited for the lack of drawbacks include:
    1. The AF ability to estimate and cover the full cost of adaptation projects.
    2. The AF reputation as a good partner partly due to its non-requirement of co-financing.
    3. The AF comparative advantage in funding the full cost of adaptation which is beneficial for countries and the AF's niche for funding adaptation projects as a result.
    4. That the current definition and requirement of full cost of adaptation makes accessing resources less restrictive than other funds.
    5. Full cost of adaptation makes it is easier for some MIEs and RIEs to identify cost-benefit and connect MIE projects to AF project, despite their use of co-financing and blended approach to improve impact and scale.

Views on co-finance

28. Most stakeholders (67%) indicated that co-financing was utilized by agencies with DAs representing 36%. Figures 2 and 3 in Appendix V provide further information. Stakeholders expressed an openness to the AF pursuing co-finance as an option and sought for additional guidance for proponents and countries who wish to put forward proposals with co-financing. Co-finance was viewed as integral to broadening the scope

of projects and could be an incentive for domestic capital markets to support adaptation action.

29. One consideration put forward is that the level of ownership by project proponents and co-financers for a project would depend on the source and type of co-financing utilized. Co-financing and blended finance that introduces borrowing was also viewed as impacting the discussions related to who pays for adaptation. Additional views on co-financing are presented as part of the SWOT analysis in table 5.

Views on blended finance

30. Sixty percent of the respondents indicated that their agencies utilized or benefitted from blended finance. Of these 29 percent were from DAs. The blended finance options utilized by agencies were grants followed by loans. Government funds, private sector financing and in-kind contributions were also put forward as blending options utilized. Figures 4, 5 and 6 in Appendix V provide further information.

31. Benefits and drawbacks from utilizing blended finance approaches were also put forward and are summarized in table 3. Additional views on blended finance are presented as part of the SWOT analysis in table 5. Additionally, the inability of some countries to access various blended finance instruments including loans was highlighted. Two scenarios presented to support this viewpoint were countries with IMF programmes, and countries with limited fiscal space.

Table 2: Benefits and drawbacks experienced from utilizing blended finance

Benefits experienced from using blended finance	**Drawbacks experienced from using blended finance**
☑ Being able to provide financing at more concessional rates than would be obtained by loan financing alone.	☒ Delayed releases of funds.
☑ Leveraging concessional loans.	☒ Resources may not flow at the same pace.
☑ Where multiple financing is available, project implementation is assured even if one stream of financing falls off. This can support continuity of implementation.	☒ Projects take longer to approve, disburse funds, and commence implementation.
☑ Allows for more resources and greater (maximized) project impact.	☒ Monitoring of various blended elements can be a drawback.
☑ Allows for raising additional finance for adaptation projects.	☒ Coordination of timelines with various partners as each counterpart has its own regulations.
☑ Facilitates de-risking and or lowers the risk of other finance with respect to risk-return expectation.	
☑ Can reduce financial costs for the clients.	☒ Mismatch in objectives of various types of finance being blended can occur.
☑ Can strengthen cooperation, complementarity, and synergies among projects for greater impact.	☒ A major drawback are the Fund´s norms and procedures.

Benefits experienced from using blended finance	Drawbacks experienced from using blended finance
☑ Can facilitate engagement with private sector entities in projects for some MIEs (including beneficiaries).	☒ Mismatch in timeframes of the various types of finance being blended.
☑ Can facilitate access to knowledge and expertise from partners.	
☑ Facilitates risk pooling.	
☑ Executing entities are more engaged with the project implementation.	

Views on Risks

32. Respondents were asked to indicate if, based on their experience, their blended finance portfolio faced risks related to Environmental and Social Safeguards (ESS); Fiduciary Standards (FS); risk of not achieving AF/project impact; and risk of project duration being extended/non-performing. There was a low response rate for this question with only and 16% responding that they had experienced adverse impacts. The survey findings showed that, delays in disbursements and achieving targets, and expectations of various investors on the returns expected could present challenges to projects. Instituting measures to adequately manage partnerships to attain mutually agreed objectives can limit such challenges and reduce or remove barriers to overall successful implementation of projects.

33. Ensuring strict compliance with ESS standards and procedures for their portfolio, was seen as a mitigating factor for agencies. Risk screening, assessments, as well as independent monitoring and evaluation throughout the project cycle was also deemed useful. Adopting an inclusive and participatory approach which allows for continuous engagement with stakeholders was identified as essential to limiting risks. The clear and early stipulation of timelines with guidelines based on funding types was identified as critical to reduce risks that could impact project implementation. A strong project management unit was also identified as paramount.

Views on co-finance and blended finance in the context of the AF MTS

34. A limited number of responses were received on co-finance and blended finance in the context of the AFs MTS. Only 10 responses were recorded with all ten responses affirming the importance of applicability of co-finance and blended finance to the MTS pillars.

Views on whether co-financing and blended finance should be applied with or without conditions

35. Stakeholders were also asked to consider whether a decision by the Board to fund proposals with co-financing and blended finance should be without conditions or with conditions to be specified. There was a low response rate by respondents on this question with only 10 responses, 5 of which supported with conditions and 5 supporting without conditions. Conditions were viewed as important to ensuring transparency and ownership by some stakeholders and could include pre-determining the scope of the project with or without co-financing and specifying the additional benefits of the co-

financed component of the project. A respondent in favor of a without conditions approach, reiterated that co-financing should not be mandatory, nor considered as part of the approval process.

Views of types of financial instruments for co-financing and blended finance

36. While the AF's continued focus on grants was identified as crucial, stakeholders did assert that the AF could explore the utility of other financial instruments as co-financing and blended finance options. The type of co-finance or blended finance deemed most suited for the AFs mandate, based on the 9 responses received were grants (5 responses), guarantees (4 responses), concessional loans (4 responses), equity (1 response), market-based loans (1 response) and technical assistance (1 response). Respondents were able to select multiple options in responding to this question. Table 4 outlines some justifications for use of these instruments as proposed by stakeholders.

Table 3:Justification for types of financial instruments proposed for co-financing and blended finance

Type of financial instrument	Justification for use by AF for co-financing or blended finance
Grant	☑ Broadens scope of activities and scale up results ☑ Useful to support projects targeting the rural poor and which address livelihoods ☑ Crucial for enabling a sustainable paradigm shift towards climate change resilience ☑ Easier to administer and sustain with less conditions ☑ Supports the current capacity and structure of the AF
Concessional loans [with long payback periods]	☑ Can support Micro, Small and Medium Enterprises (MSMEs) under innovation window ☑ Useful to support projects targeting the rural poor and which address livelihoods ☑ Useful to support sectors where the development trajectory is shaped by the private sector such as agriculture and infrastructure
Guarantees	☑ Can leverage private sector funding in SIDS ☑ Can support Micro, Small and Medium Enterprises (MSMEs) under innovation window ☑ Useful to de-risk investments
Equity	☑ Can support Micro, Small and Medium Enterprises (MSMEs) under innovation window ☑ Easier to administer and sustain with less conditions
Technical assistance	☑ Useful for supporting preparatory activities on projects ☑ Useful for capacity building components on projects

37. Finally, survey respondents were asked to identify other considerations for informing the AF determination of the issue of co-financing and blended finance as part of its portfolio. Thirty-nine (39) responses were received on this issue. Five (5) of those responses were not recommendations but were either a lack of understanding of what was being asked.

The remaining responses can be categorized under the broad themes of: mandate; level of compliance of private sector with requirements/commitment; structuring; applicability; characteristic of private sector (small size, limited scope and inability to scale); scope of accreditation; crowding out key stakeholders; operational considerations; openness to the co-financing and capacity building. These are captured in a SWOT analysis along with views from interviewees in table 5.

Analysis of structured Interviews

Stakeholder participation

38. Invitations were sent to the Fund's stakeholders representing Climate Funds, MDBs which serve as MIEs, United Nations Agencies which serve as MIEs, RIEs, NIEs, and DAs. Twenty-one (21) agencies were contacted to participate in the interview, of those 13 agencies were interviewed during the period 16th February – 3rd March 2022. Appendix IV captures the list of agencies.

Views on Risks

39. One of the main issues which were addressed in the interviews was possible risks to the AF in considering financing (which is not in-kind) and blended finance. These were classified as ESS, FS, implementation impact risks. This was captured in question 1- "***Some of the risks which the AF has identified with using blended financing approaches are the possibility of non-compliance with the Fund's Environmental and Social Safeguards (ESS); possible issues with Fiduciary Standards (FS); risk of not achieving AF/project impact and risk of project duration be extended/non-performing. Any thoughts on how these could impact co-financing for the AF?***" All interviewees identified that there would be increased risk for co-financing and blended projects. In elaborating their views some agencies indicated that risks would be limited by several well vetted agencies which satisfy AF accreditation requirements. Also, for consideration, is that the AF should ensure that if co-financing is put forward by an executing entity (which is not an AF IE), then requirements to safeguard against possible risks must be instituted and can be enhanced with technical assistance provided by the AF. It was also deemed necessary to consider the capacity of the agency which brings further the co-financing or blended finance, whether an IE or not. Review on a case-by-case basis was identified as critical to reducing risks.

40. Additional risks identified by interviewees include:
    a. Non-compliance of terms and conditions set forth in the AF Operation Policies and Guidelines (OPGs);
    b. Issues with synergies on timelines of the AF components versus co-financed and blended components;
    c. Blended finance from the private sector may be an issue if it is perceived that it must comply with a long list of requirements;

d. IEs may not be able or willing to accept responsibility for ensuring that the private sector partner(s)/financier(s) will in fact adhere to such standards during project implementation.

41. Other considerations for the AF included the following:
   a. Applying the ESP is different from when managing grants versus loans and equity;
   b. Must ensure coherence between the co-financed projects;
   c. Blended finance will require stricter compliance and consider issues such as rates of return on loans which are not a consideration for the current grant modality of the AF;
   d. Co-financing will make access more difficult for some countries particularly LDCs and SIDS;
   e. AF should define the scope of its co-finance as well as blended finance, specifically what the AF means by blended finance and co-finance.
   f. If the AF aims to mobilize private sector financing as co-financing through blended finance approaches, the AF should bear in mind that this may prove difficult in practice.

42. Notwithstanding the above, some respondents felt that co-financing and blended financing should be avoided if there are risks. Others opined that co-financing beyond the forms which are already accepted by the Fund, and blended financing should not be considered by the AF based on its mandate, its objective, its niche in the climate finance landscape and it will disadvantage countries who already have difficulties in attracting co-finance. Several interviewees indicated that the AF was uniquely positioned as being grant based and one indicated that this was the AFs comparative advantage. It was also highlighted that the OPGs are broad enough to allow countries to bring other types of financing if they so desired, but it was not the AFs role to make any recommendations which amend the OPG to reflect this. It was also stated that broadening the scope of finance to include other forms of co-financing and blended finance could result in projects not presenting these seeming less attractive.

Summary Message-Risk: AF is uniquely positioned in offering only grant financing to fund the full cost of adaptation for projects in the most vulnerable countries. Although some risks can be managed through the accreditation process for IEs, there are risks unique to blended finance and co-financing arrangements for which the AFs arrangements and structure would have to be amended to make accommodation for these financing approaches. AF must also consider that broadening to include co-financing and blended finance instruments can essentially lock out the most vulnerable and that stakeholders interviewed have strong opinions against co-financing and blended financing approaches in the

Views on co-finance and blended finance in the context of the AF MTS

43. On the issue of the AF Medium-term Strategy (MTS) and the possibility that countries may put forward co-finance and or blended finance project proposals under its various pillars, interviewees were asked to consider the following question: "The **AF is currently elaborating a new 5-year MTS to build on the existing 2018-2022 strategy where innovation, action, learning and sharing are the three pillars. In your estimation how and why it is important to incorporating blended finance as part of co-financing going forward where countries are willing/can do so?**" Interviewees had mixed reactions to this proposition. While some saw that it was possible to utilize co-finance and blended finance under the MTS such as allowing Development Finance Institutions (DFIs) to play a bigger role in adaptation financing, some expressed that blended finance should not be considered, and that the AF should focus on improving the process to access the current financing available to countries. Some expressed caution along the lines of ensuring that, if adopted, co-financing and blended finance must be suited to specific country contexts and requests, specific to the objective of the AF whether blended finance would be pursued for example as a means of mobilizing additional resources. The MTS pillars were also seen as an opportunity "*to place a greater emphasis on providing grant financing to address key non-financial barriers that are inhibiting broader private sector investment in climate action, including barriers related to information/awareness, technical capacity, etc*."

Summary Message-MTS: Co-finance and blended finance may be useful tools under the MTS pillars depending on the objective that the AF has set out and, if adopted, should not crowd out countries who wish to access funds but are unable to utilize those financial options. Notwithstanding, introduction of these financial options under the MTS pillars is deemed inappropriate by some stakeholders.

Views on approach going forward with co-finance and blended finance

44. Interviews were asked to weigh in on the approach going forward as it relates to the co-finance and blended finance. Some interviewees maintained that the current approach to work should be upheld. One view put forward was that the AF should not recommend co-financing and blended finance neither should the Board reject projects that suggest co-financing or blended finance. The reasoning presented was that the OPGs are broad enough, and therefore countries can and should not be prevented from putting forward co-financed and blended project options. Another interviewee noted that making co-financing and blended finance an implied option would disenfranchise countries which cannot attract co-financing as there is a risk of projects which can present co-financing and blended finance having an increased likelihood of approval.

45. On the other hand, some interviewees identified co-financing as important but indicated that any consideration of co-financing and blended finance should be on a case-by-case basis, to ensure that project design factors the full consideration of financial risks and manages them in a way that catalyzes investments. These stakeholders consider the inclusion of co-financing and blending in the AFs portfolio as "*progressive*" and forms part of the evolution of the fund as it pivots to respond to the changing needs and times. For this group of stakeholders, as with the previous group, the decision must adequately factor in the input of the relevant Parties and decision-making bodies including an independent oversight body.

Summary Message-Approach going forward:
Introduction of new financial modalities is not within the purview of the AF but the UNFCCC COP. The current broad scope of the OPGs does not prevent countries from proposing it, neither does it allow the AF Board to prevent it. In that regard, maintaining the current approach to work is strongly encouraged. If allowed, a case-by-case, flexible and soft approach should be adopted.

46. Another view expressed was that if AF accepts that projects are linked into a broader approach, IEs must report on the linkages, and examine synergies with other initiatives. Some elements to consider are: the need for ensuring consistency between all fully funded and parallel-funded components; the consideration of ESS, FS and reputational risks. It was also suggested that loans and grants could be bundled to trigger growth. Interviewees underscored the need for a soft and flexible approach if co-financing and blended finance would be pursued by the AF while noting that it would be essential to secure a COP mandate to that effect.

Lessons learned

47. Interviewees were asked to provide nuggets on lessons learned based on the experience of their agencies that the AF should consider specifically "From **your organization's experience, are there any key lessons learned or pitfalls to be avoided which can be beneficial to the AF in its consideration of the issue of blended finance as a co-finance option?**" In that regard the AF was asked to consider the notion of Adaptation as a public good in the context of return on investment which private financiers usually require. Additionally, the AF should consider the rationale behind the blended finance component for example if it is for adaptation. The AF is also asked to note that negotiations associated with blended finance negotiations are complex, that co-financing requires harmonization of procedures between the various sources of funds which can be time consuming and that the results of other projects, timelines and timing of actions are important considerations. Additionally, having a proper concessionality policy and clustering very

Summary Message-Lessons learned:
Incorporating co-financing and blended finance approaches withing the AFs portfolio will require an additional layer of due diligence and procedures particularly with incorporating the requirements of private financiers. SIDS and LDCs have experienced drawbacks with accessing funds which require co-financing which is not in-kind

small projects to improve depth of impact were put forward. Finally, the AF is asked to consider that based on experience of SIDS and LDCs with other climate funds, a requirement for co-financing and or blending will place them at a disadvantage and that in-kind co-financing which is already accepted by the AF should not be discounted since it demonstrates commitment by the governments and communities proposing the projects.

Views on whether co-financing and blended finance should be applied with or without conditions

48. Finally, interviewees were asked to consider whether co-financing activities should be with or without conditions. They were specifically asked to consider the following and to provide reasons for their responses. "**Can you indicate which of the options you would support?**

    a. **That AF Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component' outcomes and outputs could be tied with the delivery of the co-financed component without conditions.**
    b. **That AF Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component's outcomes and outputs could be tied with the delivery of the co-financed component, under certain conditions to be specified**."

49. Responses to this question can be classified in three different categories: (i) Those who opined those conditions would be necessary to ensure compliance to specified requirements; (ii) those who opined those conditions were not needed; and (iii) those who opined that a consideration of the questions was not necessary. Those who considered that conditions would be necessary, mentioned: accountability, meeting AFs safeguards compliance, independence on co-financed or blended finance components, and meeting minimum standards, protecting climate rationale, and ensuring that risks could be mitigated, as essential. The importance of any requirements being clear, simplified and specified upfront was also proposed.

> **Summary Message- with or without conditions:** No conditions are necessary if co-financing and blended finance are not on the table. In the case where they are considered then conditions should not be onerous if the existing AF conditions are deemed insufficient.

50. Those who proposed without conditions suggested that AF already had in place conditions for accessing resources and adding any additional conditions would be onerous. Those who opined that co-finance and blended finance were not considerations, indicated that there was no place for co-financing beyond in-kind contributions in the AF and reiterated the message that to do so, even if it was not deemed mandatory, would place countries who are unable to attract co-financing and blended finance options at a disadvantage.

SWOT ANALYSIS

Table 4: SWOT Analysis of stakeholders' views on co-financing and blended finance in the AF context

STRENGTHS	Co-financed and blended projects can mean greater impact of project results.
	They can be used to mobilize domestic capital markets.
	Can support additional components in projects which were not initially envisaged during project planning/development.
	Strong interest by some AF stakeholders in exploring and supporting the implementation of co-financing and blended finance options.
	Blended finance can support tangible adaptation work in SIDS in sectors such as infrastructure and coastal rehabilitation where costs are high.
	Blended finance can facilitate wider options for procurement (e.g., design, build, transfer etc.) which could lessen the implementation period, open competition while addressing some of the technical deficiencies in the public sector.
WEAKNESSES	Possible difficulty with ensuring compliance of private sector with AF standards during implementation for co-financed activities.
	Co-financing and blending requires that the AF aligns the projects and programmes approval processes and requirements across funders with whom partnerships will be pursued. Additionally, AF would need to factor in the norms and procedures of each agency.
	May hinder proposal submissions and may create imbalance amongst agencies as only some will be able to manage co-financing, and blended finance mechanisms will likely increase the time required between project development, approval and implementation.
	Introducing co-financing and blended finance as a requirement may result in some developing countries being disadvantaged for example some government entities may have high levels of public debt that may prevent borrowing.
	Some countries would be disadvantaged by the introduction of blended finance approaches as there are no national or regional implementing entities with the structure and or capacity to undertake blended finance such as loans or other similar financial mechanisms (some can only manage grants). In many cases, only the MIEs have this capacity and within SIDS, the projects can be deemed as too small for their consideration.
	Depending on lending modality (e.g., AF grants with a potential partner bank loan) there must be clearly stipulated end percent of lending for the final beneficiaries, and intermediary local banks used to deploy funds.
OPPORTUNITIES	Accept and recognize co-finance and blended finance without making it mandatory.
	AF can structure blended finance to attract funding for adaptation including through linking with other funders.
	AF can provide capacity building support to understand, make use of and implement co-financing and blended finance options.
	Encourage co-financing and/or blended financing when entities formulate proposals by putting suggestive clauses in the fund application template.
	Would require securing a modified mandate from the COP.
	Carving out part of the resources of the AF to participate in another fund. Fund of fund structure.
THREATS	Incorporating blended finance may change the original objective and intention of the AF to finance concrete adaptation projects and programmes on a grant basis.
	Blending may not be viable for all projects when resource outputs versus returns are considered. In that regard, consideration must be given to the competitive advantage in using a specific instrument at design stage e.g., those which enhance the results and benefits and promote coherence with other projects.
	There are many risks posed by incorporating co-financing and blended finance, including locking out SIDS and LDCs due to the financial capacity and restricting access to vulnerable communities.
	In-kind co-financing may be given less weight than other types of co-financing.
	It is difficult to bridge the gap between private sector and public sector financing in many developing countries due to high risks and unrealistic expected returns.
	If blended finance is defined as support from private partners, it must be indicated that UN agencies have difficulties in ensuring other sources are mobilized in parallel with the AF or other resource partner contribution.

	Incorporating loans as part of blended finance will be challenging for the private sector in the Pacific and the Caribbean, since they are mostly MSMEs and non-existent in some countries. If the emphasis for blending is to attract private sector to the AF and its projects, it would mean potentially international or regional investors. The result would be repatriation of investment returns outside of these regions and or countries.

CONCLUSIONS

51. The AF is uniquely positioned in the climate finance landscape to fund the full costs for concrete adaptation actions through grant funding only to eligible countries. The AF niche as providing grants only for adaptation is widely viewed by stakeholders as pivotal in supporting developing countries with addressing urgent resilience building activities through prioritized projects and programmes.

52. Some stakeholders see merit in the AF pursuing co-financing and blended finance approaches while others view this consideration by the AF as straying away from its mandate. Many stakeholders opined that the pursuit of such an approach, even on an optional basis, threatens to distort the understanding of what is "*desired*" from the AF and will inadvertently disadvantage countries who may not be able to access, or have interest in pursuing blended finance. Reasons put forward include the understanding of who pays for adaptation, fiscal constraints, and limited options of co-financing to support projects.

53. Another group of stakeholders held that for considering the inclusion of co-financing and blending in the AFs portfolio is "*progressive*" and forms part of the evolution of the fund as it pivots to respond to the changing needs and times. For this group of stakeholders, as with the previous group, the decision must adequately factor in the input of the relevant Parties and decision-making bodies including an independent oversight body. Additionally, to support the view of introducing co-financing and blending many considerations, lessons learned and experienced were put forward.

54. Considerations for the possibility of the AF incorporating co-financing and blended finance options are captured in a SWOT analysis. These can be categorized under the headings: AFs mandate; level of compliance of private sector; structuring; applicability; characteristics of the private sector; accreditation scope; crowding-out of stakeholders; operational considerations; openness to co-financing and capacity building.

55. Stakeholders recognize, that although some of the risks related to co-financing and blended finance would be like those of managing grant resources, there are additional risks which must be factored in. Additionally, the dynamics for managing co-financing and blended finance mechanisms requires that the AF puts in place a policy/guidance and procedures for a seamless blending and co-mingling of resources; managing of funds; and effective implementation of projects and programmes.

APPENDICES

Appendix I- Survey Instrument

Survey on the consideration of blended finance as part of the suite of co-financing instruments to support Adaptation Fund projects and programmes in the context of the full cost of adaptation financing.

This survey is being conducted to support the Adaptation Fund (AF) in its efforts to capture views from key stakeholders, on the scope of application of the full cost of adaptation reasoning criterion, and to consider which finance approaches can be considered as co-finance to support the implementation of its projects and programmes. It will also capture information on how these can be best leveraged under the mission and current policy framework of the Adaptation Fund. The Adaptation Fund defines full cost of adaptation as "*the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change*". Co-finance is not a requirement for AF projects, but some proponents have put forward in-kind government contributions, blended finance and have also identified proposed AF projects as subsidiary to larger projects. The OECD defines blended finance as "the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries".[41]

The results of this survey will inform a report to be submitted to the Adaptation Fund Board for consideration of the findings as well as the elaboration of its new five-year Medium-Term Strategy (MTS). The survey will require at most **15 minutes** of your time. Thank you in advance for your time, careful consideration of the questions and your responses.

1. Please indicate the agency which you represent by name.

   ____

2. Please select from the menu below the relationship of your agency with the Adaptation Fund.
   a. UNFCCC and Financial Mechanism ☐
   b. AF Board Member ☐
   c. Donor Agency ☐
   d. AF National Implementing Entity (NIE) ☐
   e. AF Regional Implementing Entity (RIE) ☐
   f. AF Multilateral Implementing Entity (MIE) ☐
   g. AF Designated Authority (DA) ☐
   h. AF NGO Network ☐
   i. Other ☐
   If other, please describe: ____________________

[41] OECD 2022. "Blended finance". https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/

3. Does your agency utilize or benefit from co-financing to support/implement adaptation projects?
   Yes☐ No☐

4. Does your agency utilize or benefit from blended financing approaches to support/implement adaptation projects? Please select yes or no. Yes ☐
   No ☐
   If "Yes", go to question 5. If "No", go to question 10.

5. If yes, to 4 above, please identify the types of financing that are used [***select all which apply***].
   a. Grant ☐
   b. Concessional loans ☐
   c. Market based loans ☐
   d. Equity investment ☐
   e. Guarantees ☐
   f. Other ☐
   If other, please describe: ___________________________

6. Please indicate some of the benefits that your agency has experienced in using/benefitting from blended financing approaches on projects.

   ____

7. Please indicate any drawbacks that your agency has experienced in using/benefitting from blended finance approaches on projects.

   ____

8. Some of the risks which the AF has identified with using blended financing approaches are the possibility of non-compliance with the Fund's Environmental and Social Safeguards (ESS); possible issues with Fiduciary Standards (FS); risk of not achieving AF/project impact and risk of project duration being extended/non-performing. In your experience, have these, or any other issues posed a threat to successful implementation of projects with blended finance in your portfolio? Yes ☐ No ☐
   If yes, please elaborate. ____

9. If no, to question 8 above, please identify some of the mitigating factors employed by your agency/or your partner agency to prevent issues in implementation.

   ____

10. Has your agency experienced drawbacks from the AF's definition and requirements related to the full the cost of adaptation (e.g., missed opportunities for scaling up with other adaptation projects?)
    Yes ☐ No☐

Please give reasoning for your answer to question 10 whether "yes" or "no". **If your answer to question 10 was "no", you have come to the end of the survey after completing question 11. Thank you for your time.**

____

11. With more diverse projects being received by the AF, and even more anticipated through the innovation facility and Enhanced Direct Access (EDA) Facility for consideration, based on your agency's experience with blended financing, would you advise the AF to consider enabling a blended finance approach?
    Yes ☐ No☐

12. If your response to question 11 was "yes", can you indicate which of the options you would support?
    a. That AF Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component' outcomes and outputs could be tied with the delivery of the co-financed component, <u>without conditions</u>. ☐
    b. That AF Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component's outcomes and outputs could be tied with the delivery of the co-financed component, <u>under certain conditions to be specified</u>. ☐

13. If response to question 12 above is "b" , please give an indication of which conditions may be necessary for successful implementation.

    ____

14. In your estimation which of the following co-financing options would be most suited to the AFs mandate? [***select all which apply***]
    a. Grant ☐
    b. Concessional loans ☐
    c. Market based loans ☐
    d. Equity investment ☐
    e. Guarantees ☐
    f. Other ☐

    If other, please describe: ___________________________

15. Based on the answer to question 14, please elaborate **why** the previously selected co-financing options would be the most suited.

    ____

16. Can you briefly indicate any other considerations which must be factored in exploring the issue of the AF incorporating blended finance to support its portfolio?

    ____

Appendix II- Structured Interview Questions

Structured interview questions to support the consideration of blended finance as part of the suite of co-financing instruments to support Adaptation Fund projects and programmes in the context of the full cost of adaptation financing.

1. Some of the risks which the AF has identified with using blended financing approaches are the possibility of non-compliance with the Fund's Environmental and Social Safeguards (ESS); possible issues with Fiduciary Standards (FS); risk of not achieving AF/project impact and risk of project duration be extended/non-performing. Any thoughts on how these could impact co-financing for the AF?

2. The AF is currently elaborating a new 5-year medium-term strategy to build on the existing 2018-2022 strategy where innovation, action, learning and sharing are the three pillars. In your estimation how and why it is important to incorporating blended finance as part of co-financing going forward where countries are willing/can do so? Please give reasons for your answer.

3. Noting that co-financing is not a requirement of the AF, and that proposals which include blended finance have not been approved by the board:

    a. What approach if any do you propose that the AF Board adopts in its consideration of this issue?
    b. Any thoughts on specific requirements to consider is reviewing such proposals?

4. From your organization's experience, are there any key lessons learned or pitfalls to be avoided which can be beneficial to the AF in its consideration of the issue of blended finance as a co-finance option?

5. Can you indicate which of the options you would support?

    a. That AF Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component' outcomes and outputs could be tied with the delivery of the co-financed component <u>without conditions</u>.
    b. That AF Board could fund proposals with co-financed adaptation activities, for which the delivery of the Adaptation Fund component's outcomes and outputs could be tied with the delivery of the co-financed component, <u>under certain conditions to be specified</u>.

6. If your response 5 is option b, what conditions would you specify?

Appendix III – Respondents to Survey

Respondents to AF survey on co-financing and blended finance administered from 16th - 23rd February 2022		
Caribbean Development Bank (CBD)	Agency for Agricultural Development (ADA)	South African National Biodiversity Institute (SANBI)
Agency not specified	Agency not specified	Ministry of Environment, Sri Lanka
Small Fishers Federation of Sri Lanka (2)	Ministry of Environmental and Sustainable Development - Colombia	Agency not specified
Ministry of Economy and Finance, France	Development Bank of Latin America (CAF)	United Nations Industrial Development Organization (UNIDO)
DA country not specified	Agency not specified	Agency not specified
Secretariat of the Pacific Regional Environment Programme (SPREP)	Government - country not specified	National Institute of Climate Change and Ecology (INECC) (4)
DA country not specified	Ministry of Environment - country Not specified	Ministry of Environment - Jordan
National Environment Managemet Council (NEMC) (2)	Food and Agriculture Organization of the United Nations (FAO) (2)	Department of Sustainable Development, Government of Saint Lucia (2)
Environment Protection Authority(EPA), Ethiopia	Ministère de l'Environnement et du Développement Durable	DA country not specified
Department of Environment and Natural Resources- country not specified	Office Burundais pour la Protection de l'environnement (OBPE)	Instituto (incomplete name)
AF- TERG	Ministry for the Ecological Transition and Demographic Challenge - country not specified	International Fund for Agricultural Development (IFAD)
Climate Change Management Department - Zimbabwe	AF Board member	Centre de Suivi Ecologique (CSE)
United Nations World Food Programme (WFP)	Ministry of environment Tunisia	Environmental Management Agency (EMA)
United Nations Environment Programme (UNEP)	Environmental Projects Implementation Unit (EPIU)	Environment Protection Authority (EPA), Yemen
Lesotho Meteorological Services	International Centre for Integrated Mountain Development (ICIMOD) (3)	Bhutan Trust Fund for Environmental Conservation (BTFEC)
Secretariat of the Pacific Community (SPC) (3)	United Nations Human Settlements Programme (UN-Habitat)	Agency not specified
AF Board Member	Central American Bank for Economic Integration (CABEI)	Ministry of Environment - country Not specified
Ministry of environment and sustainable development- country not specified	DCC- Country not specified	Planning Institute of Jamaica (PIOJ)
Ministry of Water and Environment (MOWE)	Agency not specified	Fonds Interprofessionnel pour la Recherche et le Conseil Agricoles (FIRCA)
Swiss Agency for Development and Cooperation	World Meteorological Agency (WMO)	AF Board Member
National Bank for Agriculture and Rural Development (NABARD)	Agency not specified	
Multiple agency responses	Agency not specified	Country Not specified

Appendix IV – Institutions and Agencies Represented in Structured Interviews

Stakeholder group	Institution/ Country	Title
Climate Fund	GCF	Director Private Sector Facility
Climate Fund	GEF	Senior Climate Change Specialist
Climate Fund	CIF	Lead Finance Officer
MDB/MIE	WB	Operations Officer
MDB/MIE	IDB	Climate Change Lead Specialist
MDB/MIE	AFDB	Climate Change and Green Growth Officer
MDB/MIE	EBRD	Associate Director
UN/MIE	IFAD	Senior Climate and Environment Specialist
UN/MIE	UNEP	Climate Change Adaptation Lead
UN/MIE	UN-HABITAT	Director, Global Solutions Division
RIE	CDB	Climate Finance Specialist
RIE	CABEI	Head of Partnerships and International Cooperation
RIE	BOAD	Director of Environment and Climate Finance
NIE	PACT/BELIZE	Executive Director
NIE	NABARD/INDIA	General Manager
DA	MICRONESIA	Secretary (Minister) of Foreign Affairs
DA	BENIN	Directeur Général de l'Environnement et du Climat
ALTERNATE BOARD MEMBER		
BOARD MEMBER		
BOARD MEMBER		
BOARD MEMBER		

Note: green color represents institutions that attended the interview.

Appendix V –Additional information on survey results

1. Invitations to participate in an online survey were distributed to 218 stakeholders of the AF including UNFCCC and Financial Mechanism representatives, AF Board Members, IEs, DAs and NGO Network Members. Responses were received from 73 agencies resulting in a response rate of 33%. Most responses were submitted by DAs (24) followed by NIEs (14) and RIEs (10). AF Board Members and MIEs submitted an equal number of responses (8). There were 5 respondents who did not specify the agency which they represented and 1 which did not fit into any of the pre-set categories. A list of survey respondents is included in Appendix III.

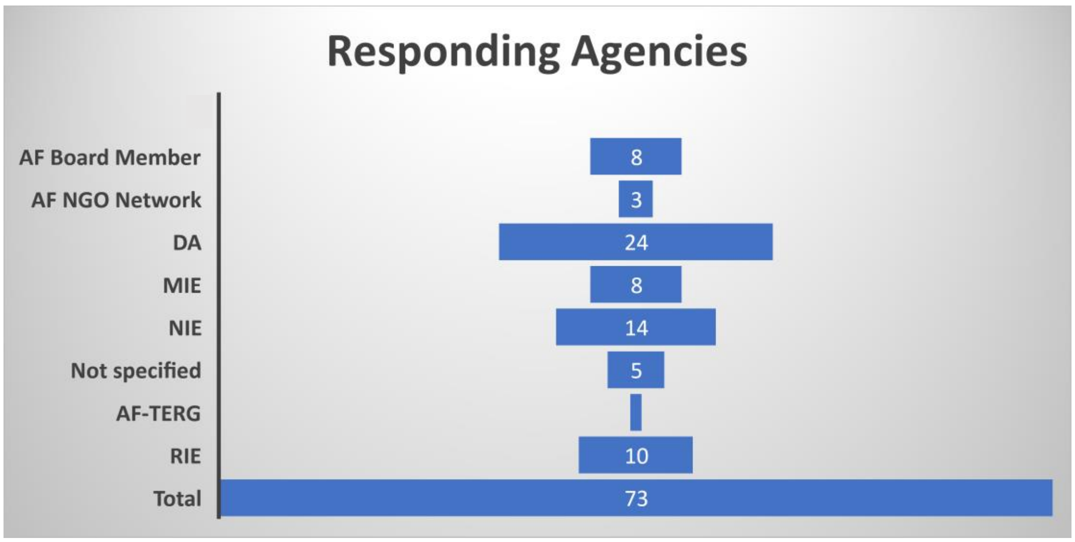

Figure 1: Respondents to survey on co-finance and blended finance consideration for AF

2. In considering the issue of the of co-financing by agencies, 67% of respondents (49) indicated that they did in fact benefit from or utilized co-financing. Twenty-six percent (19) indicated that they did not while 6% (4) did not respond to the question, the question was deemed not applicable by 1% (1) agency. Of those who access co-finance instruments 18 were DAs.

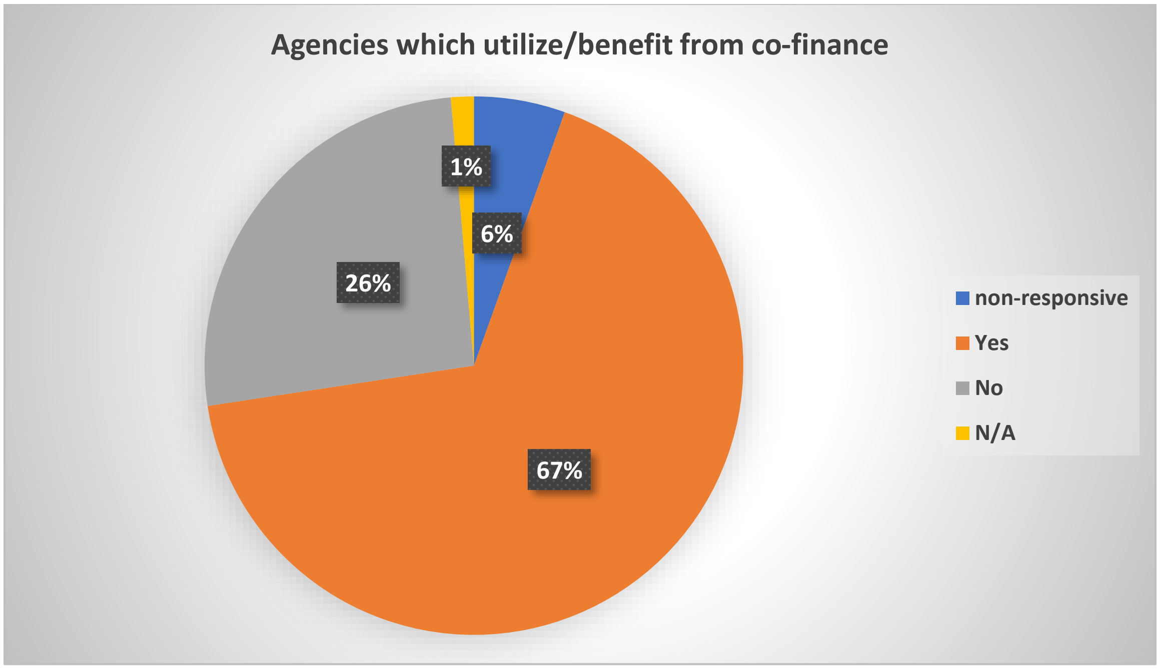

Figure 2: Agencies which utilize co-finance

3. Similarly, agencies were asked to indicate if they utilized or benefitted from blended finance options overall. Sixty percent (44) of the respondents indicated that they did not utilize blended finance while 40% (29) indicated that they did make use of blended finance options.

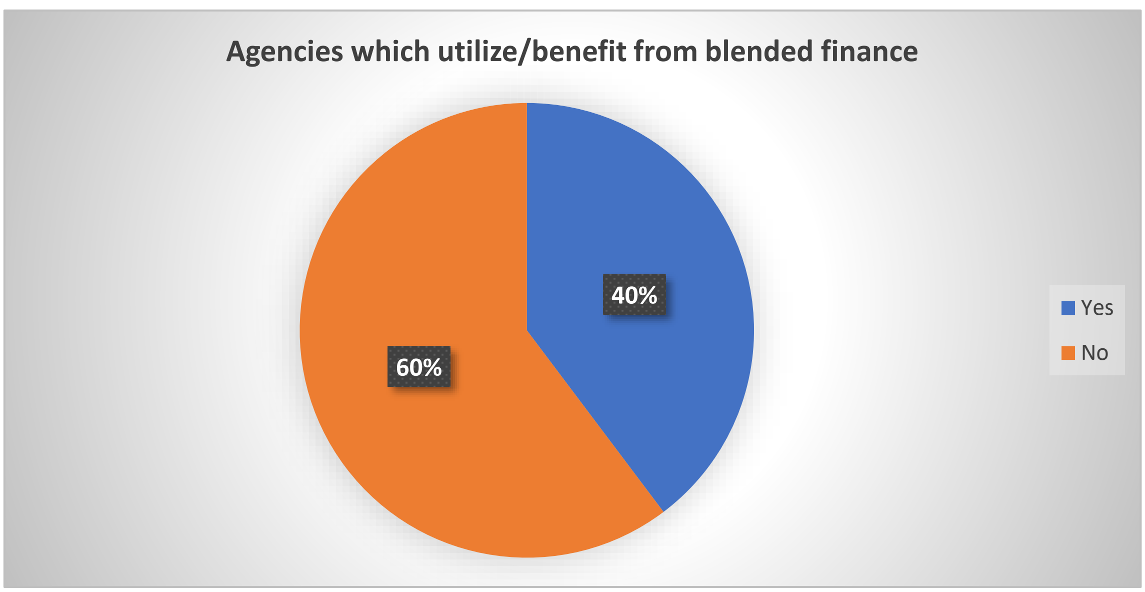

Figure 3: Agencies which utilize blended finance

4. Agencies which responded affirmatively to utilizing blended finance, were asked to specify the types of financing which they utilized. Grants were the most popular with 19

responses followed by concessional loans with 7 responses. The 'other' category received the third highest number of responses at 3. One agency indicated government funds (1), the second indicated government funds and private sector funds and the third indicated in-kind contribution as the other source of funds.

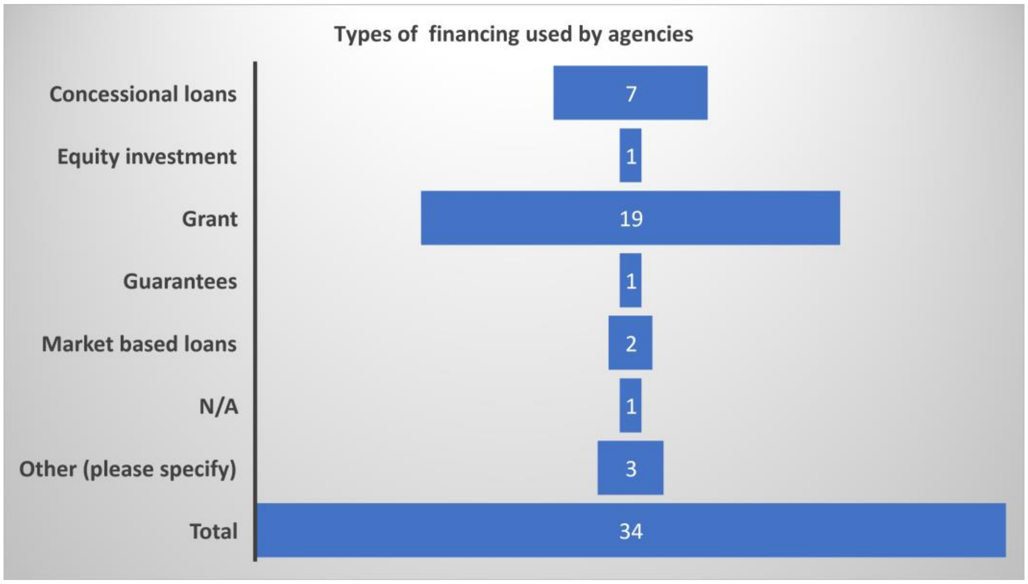

Figure 4: Types of blended financing used by agencies

5. Thirteen (13) DAs indicated that they access blended finance which was predominantly grant, followed by concessional loans and government funds, others did not indicate the type of instrument accessed.

6. Respondents were asked to indicate if based on their experience risks related to ESS, FS, risk of not achieving AF/project impact and risk of project duration being extended/non-performing, adversely impacted their blended finance portfolio. There was a low response rate for this question with 51(70%) respondents, abstaining from responding and 12(16%) responding that they had experienced adverse impacts. This included 3 RIEs, 1 AF Board Member, 2 NIEs, and 5 DAEs, one respondent was not listed in the set categories. Ten (10) respondents (14%) indicated that they had no bad experiences. This included 2 RIEs, 1 AF SCO Network member, 2 MIEs, 4 DAEs. 1 respondent was not listed in the pre-set categories.

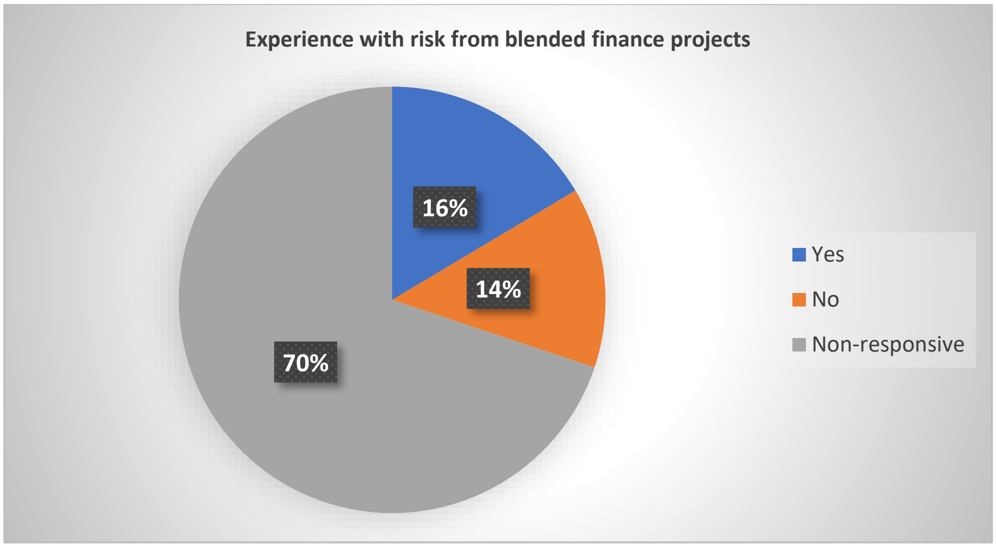

Figure 5: Experience of agencies with risk in blended finance Projects

7. Respondents were asked to indicate if they had experienced any drawback from the AFs definition and requirements related to the full the cost of adaptation (e.g., missed opportunities for project scale-up with other adaptation projects.) Sixty-six (66%) respondents indicated that the current definition and requirements of the full cost of adaptation in the AF context was not a mitigating factor for their engagement with the AF, 8 (11%) indicated that it was. Seventeen respondents (23%) abstained from responding the question.

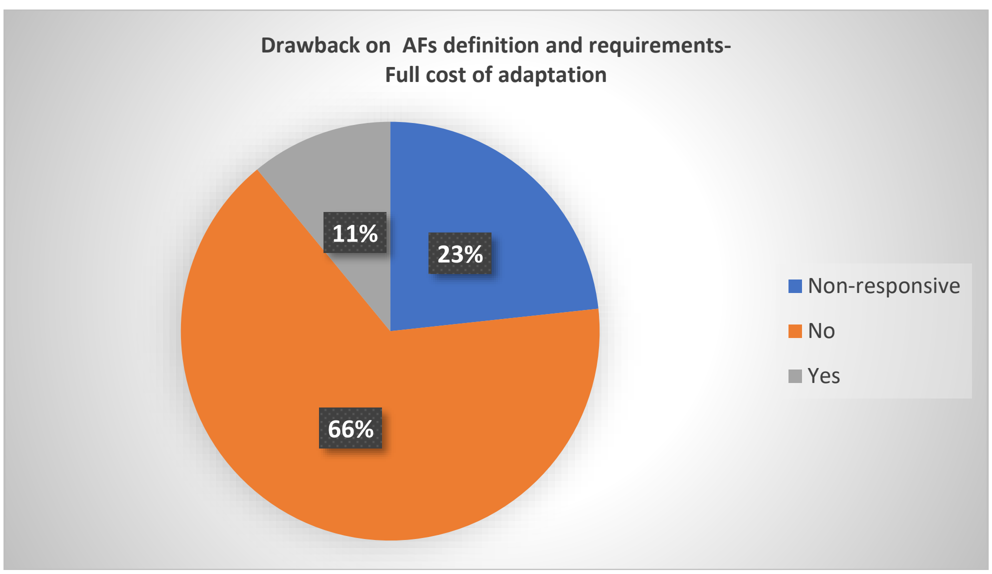

Figure 6:Drawbacks from AF definition and requirements of full cost of adaptation

8. Most of the responses which indicated no drawbacks with AFs current definition and requirements of the full cost of adaptation were received from DAs (15) followed by NIEs (11). RIEs followed with 8 responses while MIEs and AF Board Members recorded 6 responses each. Two (2) NGO network members indicated that there were no drawbacks

with the current definition and requirements of the full cost of adaptation as presented by the AF.

9.

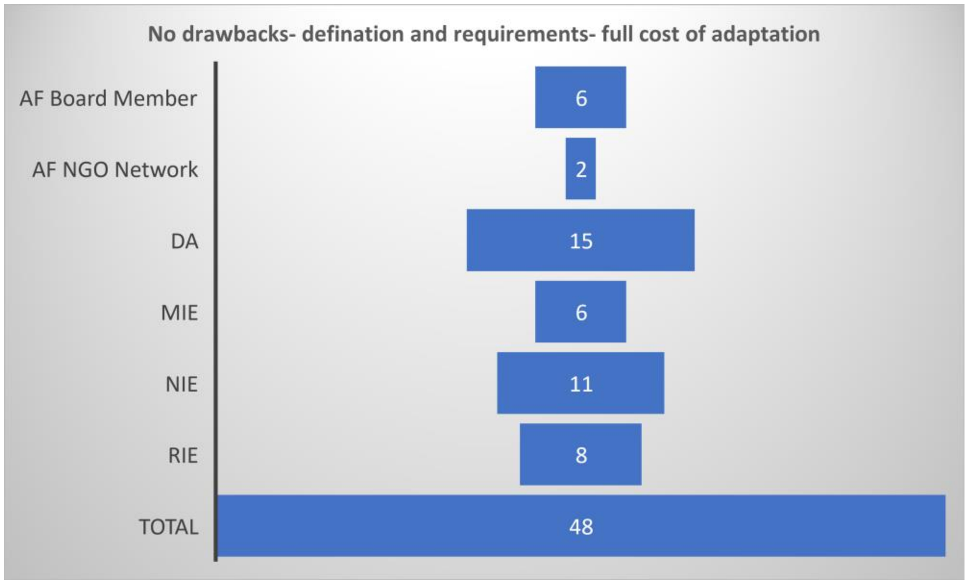

Figure 7:Responses by agency on no drawbacks with definition and requirements- full cost of adaptation

10. Survey respondents were also asked to consider co-finance and blended finance in the context of the AF MTS and its different funding windows. Only 10 responses were recorded for this question with all ten responses affirming the importance of applicability of co-finance and blended finance to the MTS pillars. Those positive responses were recorded from Board Members (1), NIEs (1), RIEs (2), MIEs (2), DAs (2), unclassified (1) and unspecified (1).