



ADAPTATION FUND

AFB/B.39/5
27 September 2022

Adaptation Fund Board
Thirty-ninth meeting
Bonn, Germany, 13-14 October 2022

Agenda item 8

**DRAFT MEDIUM-TERM STRATEGY
2023 - 2027**

Introduction

1. The current, first Medium-term Strategy (2018–2022) of the Adaptation Fund (the Fund) was developed between 2016 and 2017 following Decisions B.27/39 and B.28/46 and was adopted by the Board at its thirtieth meeting in October 2017.

2. The Technical Evaluation Reference Group of the Adaptation Fund (AF-TERG) undertook a Mid-Term Review (MTR) of the MTS and presented it to the Board's Ethics and Finance Committee (EFC) at its twenty-eighth meeting in document AFB/EFC.28/7. The Board took note of the key findings and recommendations of the MTR of the MTS, including its annexes, in Decision B.37/36.

3. At the thirty-seventh meeting, in October 2021, the Board considered and adopted a process for developing the next medium-term strategy of the Fund for the period 2023 to 2027. The Board decided:

- a) *To develop a medium-term strategy for the Fund for the period 2023-2027 (MTS 2023–2027) and to request the secretariat to undertake preparatory work towards it,*
- b) *To establish a task force to guide the work of the secretariat on the MTS 2023–2027, composed of three members from Annex I countries and three members from non-Annex I countries, to be elected intersessionally;*
- c) *To request the secretariat to undertake the following preparatory work towards developing the MTS 2023–2027, under the guidance of the task force mentioned in subparagraph (b) above:*
 - (i) *Prepare, under the guidance of the task force, a document which contains elements and options for the MTS 2023–2027, to be considered by the Board at its thirty-eighth meeting, with a view to developing the final draft strategy for consideration by the Board at its thirty-ninth meeting;*
 - (ii) *Arrange, if feasible, an additional informal session in conjunction with the Board's thirty-eighth meeting to consider the outcomes of the consultations and to guide the preparation of the draft MTS 2023–2027; and*
 - (iii) *Solicit inputs, when developing the elements and options mentioned in subparagraph c)(i) above and when finalizing the draft MTS 2023–2027 mentioned in subparagraph c)(ii) above, through open and inclusive consultations of the various stakeholders of the Fund, including the Board, contributor and recipient governments, accredited implementing entities, AF NGO Network and other civil society representatives, and other relevant stakeholders.*

(Decision B.37/38)

4. Pursuant to Decision B.37/38, the Adaptation Fund Board secretariat (hereafter "the secretariat") during the intersessional period undertook preparatory work and conducted an open and inclusive stakeholder consultation process with the various stakeholders of the Fund to collect views and inputs on the Fund's Medium-term Strategy 2023 – 2027 (MTS 2023 – 2027). Taking into account the findings and recommendations of the MTR of the MTS, the secretariat prepared

a document that contained a summary and synthesis of the stakeholder consultation process and proposed options and elements for developing a draft MTS 2023 – 2027.

5. Having considered the information contained in document AFB/B.38/5 on options and elements for the medium-term strategy 2023–2027, the Adaptation Fund Board (the Board) decided:

- a) *To elect Mr. Ali Daud Mohamed (Somalia, Africa), Ms. Sohee Gwag (Republic of Korea, Asia-Pacific), Ms. Joanna Milwicz vel Delach (Poland, Eastern Europe), Ms. Maia Tskhvaradze (Georgia, Eastern Europe), Mr. Marc-Antoine Martin (France, Annex I Parties), and Ms. Angélique Pouponneau (Seychelles, Small Island Developing States) as members of the task force referred to in decision B.37/38, on the second medium-term strategy of the Adaptation Fund (the Fund), covering the period 2023–2027 (MTS 2023–2027);*
- b) *To request the secretariat, under the guidance of the task force referred to in subparagraph (a), above:*
 - (i) *To prepare a draft MTS 2023–2027 that builds on the strategic framework and achievements of the MTS 2018–2022 and further enhances it by proposing strategic updates and adjustments aimed at consolidating the Fund’s comparative advantage and optimizing its impact (in line with option 2, as set out in document AFB/B.38/5), and reflecting the views expressed by the Board at its thirty-eighth meeting;*
 - (ii) *To undertake further stakeholder consultations on the draft MTS 2023–2027;*
 - (iii) *To present the draft MTS 2023–2027 for consideration by the Board at its thirty-ninth meeting.*

(Decision B.38/49)

6. Pursuant to Decision B.38/49, the secretariat, under the guidance of the MTS task force, during the intersessional period between the Board’s thirty-eighth and thirty-ninth meetings, undertook further targeted stakeholder consultations and prepared a draft Medium-Term Strategy 2023 – 2027 document, that is contained in Annex II of this document.

7. The MTS task force met twice virtually on 30 June 2022 and on 11 August 2022, respectively, to provide guidance and feedback to the secretariat on the draft MTS 2023-2027 document. During the virtual task force meetings, the secretariat presented proposed strategic adjustments to the current MTS 2018-2022 three strategic pillars (action, innovation and learning and sharing) and four cross-cutting areas. In line with Option 2 approved by the Board the aims of the adjustments are the strategic-level strengthening of the linkages among the three pillars and a strategic emphasis on locally-led adaptation action, as a cross-cutting theme. The task force members provided guidance on how to reflect the niche and unique impact of the Fund in the wider adaptation finance landscape and how to reflect the strategic emphasis on locally led adaptation as a new cross-cutting theme.

8. The secretariat undertook the following further stakeholder consultations:
- (i) An Adaptation Fund side event at the 56th sessions of the UNFCCC subsidiary bodies in June 2022 on “New strategic directions for enhancing adaptation finance ambition and impact”, including the perspectives of recipient countries, National Implementing Entities (NIEs) and the AF CSO Network;
 - (ii) Written inputs from authors of the IPCC Working Group II Report on Impacts, Adaptation and Vulnerabilities (contained in Annex 1 to this document);
 - (iii) Written inputs from the AF-TERG and the AF CSO Network, and
 - (iv) Feedback from the Fund’s NIEs during the Annual NIE Seminar under the readiness programme.

Recommendation

9. The Board may wish to consider the draft Medium Term Strategy 2023 - 2027 for the Fund, contained in Annex 2 of document AFB/B.39/5, and decide to:
- a) Adopt the Medium Term Strategy (MTS) 2023 – 2027, contained in Annex 1 of the document AFB/B.39/5; and
 - b) Request the secretariat to:
 - (i) Broadly disseminate the MTS 2023 – 2027 to the Fund’s stakeholders to raise awareness and support;
 - (ii) Prepare, under the guidance of the MTS 2023-2027 task force, a draft Implementation Plan for operationalizing the MTS 2023 – 2027 for consideration by the Board at its fortieth meeting; and
 - (iii) Prepare, as part of the Implementation Plan and as necessary, draft updates to the Fund’s operational policies and guidelines, in order to facilitate implementation of the MTS 2023-2027, for consideration by the Board at its fortieth meeting.

Annex 1: Written inputs from authors of the IPCC Working Group II Report on Impacts, Adaptation and Vulnerability

To solicit inputs from the scientific community on the best available science regarding updates and trends on climate change adaptation and vulnerability, the following questions have been shared with authors of the IPCC's Working Group 2 report on Impacts, Adaptation and Vulnerability. Responses were provided by Dr. Debbie Ley, Dr. Elisabeth Gilmore, Dr. Johanna Nalau, and Dr. Reinhard Mechler in July 2022. The provided answers have informed this MTS strategic focus and theory of change proposed for 2023 to 2027, including its goal, vision, and mission in an evolving adaptation context, as well the contribution of the strategic focus pillars action, innovation and learning towards this goal.

1) Adaptation needs and required solutions: *Based on the key messages and concepts from the AR6 WGII report, how are adaptation needs projected to develop over the next 5 to 10 years? How should adaptation solutions evolve to meet these needs? What are the implications of different scenarios for temperature increase?*

Adaptation efforts are already insufficient to adequately reduce risks associated with current impacts. This deficit is compounded by development challenges that are deepening vulnerability and increasing exposure. Based on projected risks in the near-term (2021 – 2040), adaptation needs will continue to increase. **Comparing the projected risks with current trends in adaptation, the gap between adaptation action and needs will continue to grow.**

The report shows us evidence that adaptation options not only need to be incremental, but also transformational, that is, as climate-related risks continue to rise and some adaptation limits are being approached, there is **increased need to also consider transformational actions that fundamentally shift underlying drivers of climate risk and vulnerability.** Projects and opportunities that look to meet future risks as well as those that address underlying vulnerabilities will be more effective than those that look to return risks to their existing baselines. As temperatures continue to increase, incremental adaptation will not cover all the needs, leaving high level of risks.

There is an increasing need to **integrate adaptation actions with those that reduce emissions and help achieve the sustainable development goals as well as to work across sectors in system transitions**, which enable a better integration of mitigation and adaptation which might otherwise not be possible on a sectoral basis, as is currently done. For example, within the energy sector, widely considered as being solely about emissions reductions, there are important adaptation options that complement the energy transition towards lower emissions and net zero.

2) Concept and scope of adaptation: *How is the scope of adaptation evolving, e.g. through new sectors or interlinkages with related issues such as biodiversity, sustainable development, conflict and fragility etc., and an increasing understanding of new concepts such as transformative adaptation and limits to adaptation? What are the implications for adaptation finance?*

Related to question 1, the overall effectiveness of adaptation actions decreases with every degree of warming, such as there is **limited evidence that regarding the effectiveness and feasibility at global warming level that exceed 1.5C.** The current feasibility assessment in the Report is at 1.5C, so at higher warming levels, the feasibility of options will change.

Adaptation options that are integrated with other related issues are more likely to be effective and feasible in part due to the opportunities for substantial co-benefits. Further, there is evidence that adaptation actions are not implemented in isolation of each other. Thus, adaptation options need to consider the linkages during their implementation, to avoid potential maladaptation and trade-offs, as well as to maximize synergies. Also, adaptation options will need to increasingly be integrated with mitigation options and actions that support sustainable development.

The report also provides more information on **limits to adaptation** and stresses the need to consider limits of adaptation when implementing particular options. For example, some natural systems are already facing hard limits (no adaptation possible) due to changing climatic factors e.g. some warm water coral reefs, some coastal systems. Adaptation options such as Ecosystem-based adaptation options will reduce in effectiveness as the ecosystems face limits above 1.5 C degrees of warming. Coastal settlements face soft limits (where additional adaptation may be possible if constraints are overcome) due to technical, financial, institutional and socio-economic constraints. Smallholder farmers have reached soft limits due to socio-economic and political constraints that pose challenges to rainfed agriculture, water availability, and the uptake and effectiveness of adaptation options. This needs to be factored into long-term planning and programming for adaptation including considering incremental to transformational adaptation options.

Emphasizing the **need for adaptation finance to target underlying vulnerabilities** will be increasingly critical. For example, in conflict affected and fragile setting, adaptation finance that is responsive to the development needs that can underpin vulnerability as well as looking for synergies with other pacifying actions like women's empowerment can be key to the effectiveness of the project. For example, the report gives examples (Chapter 15) how adaptation finance initiatives that targeted increasing women's capabilities in the Pacific to write funding proposals and manage projects contribute positively. Additionally, it is important that the projects and funds are responsive to the power structures in these regions. Similarly, aligning financial flows and incentives across sectors to be responsive to climate risks can generate substantial risk reduction.

3) **Role of the Adaptation Fund and other funders:** *What are the most important challenges for adaptation and adaptation finance that funders such as the Adaptation Fund should be trying to address to remove barriers and accelerate adaptation action in the next decade?*

The multidimensional feasibility assessment shows us the barriers and challenges per adaptation option. While in the **majority of the challenges to adaptation options are institutional aspects** (lack of robust institutions or regulatory framework to support current implementation), some socio-cultural, technological and economic indicators also have low feasibility. The specific indicators with low and medium feasibility, which are the ones facing medium to high challenges, can be found in the Supplementary Material of Chapter 18, under CCB FEASIB. In general, challenges also arise from weak enabling conditions, amongst them governance, robust institutions, improved knowledge and information systems and improved monitoring and evaluation, especially in the long term.

Capacity as it relates to tracking climate finance and monitoring and evaluation (M&E) are also barriers to assessing the existing status of efforts or the effectiveness of these projects in reducing risks. This hinders learning from existing efforts. Improving the capacity for countries to evaluate the state of their existing expenditures on adaptation, including the reactive spending

that they may incur from immediate disasters and other indirect losses, can also improve the ability to identify adaptation opportunities that will meet cost-benefit style tests.

However, the report also finds multiple benefits that adaptation is capable of delivering and tracking such benefits across projects implemented eg through the Adaptation Fund could help to build the **evidence base on assessing adaptation benefits and also contribute to global assessments of adaptation progress.**

4) Role of innovation and knowledge and learning: *How can funding for innovation in adaptation and for knowledge and learning unlock greater impact and effectiveness of adaptation?*

Evidence from AR6 shows that even though we know about effectiveness and feasibility of individual options, there is **little evidence on effectiveness of a combination of adaptation options.** While it is known that, for example, one adaptation option can cause maladaptation through other options, these interactions are not well researched. Also, **compounding benefits of adaptation** is another under-researched area (how benefits of one adaptation option can generate benefits to other options and sectors). To reach the Long-Term Global Goal for Global Warming (and therefore, leave open a much higher likelihood of attaining lower levels of risk with adaptation that a key part of the Global Goal on Adaptation), we need to implement a range of both adaptation options, across sectors, through system transitions. **These interactions across sectors can also benefit from more innovation** as well as the interactions (through synergies and trade-offs) with mitigation and sustainable development.

Decision-making processes for adaptation planning and implementation that emphasize **opportunities for learning** about the effectiveness and performance of options over several attributes are more likely to generate positive risk reduction over the longer-term. Supporting climate literacy as well as engaging in inclusive processes that include all relevant voices are also key to unlocking adaptation benefits.

5) Global Goal on Adaptation: *Based on the best available science, how could the global goal on adaptation be designed to help accelerate and assess adaptation action, and to mobilize funding to the local level?*

During the GGA session of SB56, IPCC pointed towards the common goal of adaptation as there can't be a 'global goal' that is an equivalent to the 1.5C goal of mitigation as adaptation goals need to be very context based. The GGA, as indicated in the questions above, needs to integrate mitigation and sustainable development.

Common goals, however, can be established that support M&E of projects, engage in active sharing and knowledge building on effective actions, and require the tracking of finance that is both directed at adaptation as well as separately those that indirectly affect or may even reduce the effectiveness of adaptation finance, especially those that may occur across actors (e.g. public/private sector) and scales (local/national/transboundary).

Global level efforts could also include efforts to address systemic risks and risks those that are highly influenced by actions across scales, such that trade-offs across efforts, especially those at local level, can be identified and minimized. Concurrent tracking of indicators of climate risks (hazards, exposure and vulnerability), adaptation efforts and effectiveness, including indicators of equity and inclusiveness, would also support meeting common goals for adaptation. Establishing mechanisms for rigorous M&E and innovative ways to share lessons could generate key

information on how projects on the ground are providing adaptation benefits, how vulnerabilities have been reduced and identify also practical examples of transformational at scale and effective adaptation. **These kinds of insights offer an opportunity to support the GGA and also bring local level examples to the global discussions and subsequent decisions.**