



ADAPTATION FUND

Helping developing countries build resilience and adapt to climate change

Medium-Term Strategy (2023-2027)

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List of Acronyms

AF	Adaptation Fund
AFB	Adaptation Fund Board
AFCIA	Adaptation Fund Climate Innovation Accelerator
AF-TERG	Adaptation Fund Technical Evaluation Reference Group
AM	Adaptive Management
AP	Accreditation Panel
CER	Certified Emission Reductions
CIFs	Climate Investment Funds
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
COVID-19	Coronavirus Disease 2019
COP	Conference of the Parties
CSO	Civil Society Organization
EDA	Enhanced Direct Access
EFC	Ethics and Finance Committee (Adaptation Fund)
ER	Expected Result
ESP	Environmental and Social Policy
HRM	Human Resource Management
IPCC	Intergovernmental Panel on Climate Change
IE	Implementing Entity
IT	Information Technology
KM	Knowledge Management
LLA	Locally Led Adaptation
GP	Gender Policy
GEF	Global Environment Facility
GCF	Green Climate Fund
LDCs	Least Developed Countries
LDCF	Least Developed Countries Fund
MIE	Multilateral Implementing Entity
MTR	Mid-term Review
MTS	Medium Term Strategy
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
NIE	National Implementing Entity
OECD	Organization of Economic Cooperation and Development
OPG	Operational Policies and Guidelines (Adaptation Fund)
PA	Paris Agreement
RIE	Regional Implementing Entity
SDG	Sustainable Development Goal
OECD	Organisation for Economic Co-operation and Development
OPG	Operating Policies and Guidelines for Parties to Access Resources
PPR	Project Performance Report
PPRC	Project and Programme Review Committee (Adaptation Fund)
RBM	Results Based Management
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
SPPG	Strategic Priorities, Policies and Guidelines (Adaptation Fund)
ToC	Theory of Change
UN	United Nations
UNEP	United Nations Environmental Programme
UNFCCC	United Nations Framework Convention on Climate Change

EXECUTIVE SUMMARY

1. **Context:** It is widely recognized that the next five to 10 years are decisive for achieving the Paris Agreement's global climate goals and the 2030 Agenda's Sustainable Development Goals (SDGs). Together they set out an ambitious and transformative vision for the future, while risks from climate change are more severe and are occurring faster and earlier than anticipated. Across sectors and regions, the most vulnerable people and systems are observed to be disproportionately affected. There are feasible and effective adaptation options which can reduce risks to people and nature. However at current rates of adaptation planning and implementation, the adaptation gap will continue to grow. Closing adaptation gaps requires long-term planning and accelerated implementation of adaptation options, particularly in the next decade.

2. **Mandate:** In this context, the Adaptation Fund's mandate is more relevant than ever: to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change in meeting the costs of adaptation, by financing concrete adaptation projects and programmes that are country driven and based on the needs, views and priorities of eligible Parties.

3. **Relevance of the Fund and its Medium-Term Strategy (MTS):** Since the first MTS, the Fund has been officially serving the Paris Climate Change Agreement. Parties to the Agreement and other Fund stakeholders have underscored the Fund's growing role as a key channel for adaptation finance to developing countries. The Fund has grown further as an institution, and its resources have grown to over USD 1 billion with a steady upward trend in funding requests and approvals. In light of the urgent crisis of climate change and the ongoing recovery from the COVID-19 pandemic, stakeholders have highlighted an even greater relevance of the Fund and its Medium-Term Strategy.

4. **Niche and comparative advantage:** The Fund's unique mandate of supporting concrete adaptation with tangible results and benefits on the ground for the most vulnerable countries and communities, has allowed it to build a niche as an innovative, pioneering and agile institution that promotes direct access to finance for effective adaptation that is guided by the principles of quality, ownership and local participation and empowerment. Its comparative advantage lies in its robust Fund policies and efficient operational and access processes, including swift proposal approval processes, for timely and high-quality support to developing countries.

5. **Enabling conditions for accelerating effective adaptation:** Based on its niche and comparative advantage, the Fund has high potential to support several enabling conditions for implementing, accelerating and sustaining effective adaptation, including enhanced access to finance, building capacity, technological innovation, enhancing climate knowledge and learning, adaptation monitoring and evaluation, and inclusive governance.

6. **Mission:** Based on its mandate, the Adaptation Fund's mission is to serve the Paris Agreement by accelerating effective adaptation action and efficient access to finance, including through direct access, to respond to the urgent needs and priorities of developing countries. The Fund does so by supporting country-driven adaptation projects and programmes, innovation, and learning with concrete results at the local level that can be scaled up. All of the Fund's activities are designed to promote locally based or locally led action, enhance access to climate finance and long-term institutional capacities, empower and benefit the most vulnerable people and communities as agents of change, advance gender equality, encourage and enable the scaling and replication of results, and strengthen complementarity, coherence and synergies with other adaptation funders and actors.

7. **First MTS 2018 – 2022:** The first MTS increased the Fund’s ambition and impact in several ways. The Fund’s evaluation function concluded that the first MTS is a good, fit-for-purpose strategy that was ambitious, forward-looking, and responsive to global processes and imperatives for climate change adaptation. The first MTS launched seven new funding windows to accelerate and enhance the quality of adaptation action, innovation and learning and sharing.

8. **Second MTS 2023- 2027:** The MTS 2023 – 2027 builds on the Fund’s achievements and experience with implementing the first MTS with the aim to further consolidate the Fund’s comparative advantage and optimize its impact. It does so by continuing the strategic focus on financing adaptation action, innovation and learning and sharing, while increasing the ambition under each of these strategic pillars, strengthening the linkage and synergies between them, and further introducing a crosscutting strategic emphasis on promoting locally based and locally led adaptation as well as on scaling up funded activities and results.

9. **Action:** The Fund aims to ramp up its ambition by successfully supporting and programming the increasing funding requests for concrete projects/programmes in various sectors to support developing countries in accelerating the implementation of their adaptation needs and priorities under the Paris Agreement, as articulated in relevant instruments and processes, including NAPs, NDCs, and Adaptation Communications. To maximize impact, the Fund will also expand its existing Readiness Programme for Climate Finance towards a more comprehensive and iterative approach assessing needs and addressing gaps, including by expanding the scope of support and recipients to Designated Authorities, Executing Entities, local communities, women’s organizations, youth, indigenous people etc. The Fund will also expand existing modalities for engaging local and vulnerable groups, including the local private sector where feasible, in the project cycle.

10. **Innovation:** The Fund will continue and expand its Innovation Facility, including by expanding and encouraging access to innovation grants, including by non-accredited actors, that target youth, women, disabled people, researchers, civil society, indigenous people and the private sector. The facility will also provide readiness and capacity-building support for innovation and will work with the learning and sharing pillar for capturing knowledge and learning on innovation in adaptation. The Fund will explore further opportunities and modalities that can create space for innovation and risk-taking.

11. **Learning and Sharing:** The Fund will harness the potential of the learning and sharing pillar by consolidating and systematizing learning across the Fund’s processes and operations, including by enhancing linkages and capturing synergies with the action and innovation pillars, developing new knowledge partnerships and continue to innovate around outreach and visibility of learning on adaptation, including local and indigenous knowledge.

12. **Locally based and locally led adaptation:** As a new crosscutting theme, the Fund will further enhance its support for locally based and locally led adaptation across pillars, based on its experience with the direct access and enhanced direct access modalities. The Fund has helped to develop and since then endorsed the principles for locally led adaptation, which call for devolving access and decision-making on adaptation finance to national, subnational, and local levels. In addition, all of the Fund’s activities regardless of access modality are “locally based”, as they reach and deliver direct benefits for the local level.

13. **MTS 2023 – 2027 Implementation Plan:** The MTS 2023 – 2027 includes expected results and delivery models for the action, innovation, and learning and sharing pillars, that integrate the six crosscutting themes. Details on grant opportunities and timelines of implementation will be developed as part of the Implementation Plan of the MTS 2023 – 2027.

Illustration 1:

Strategic Focus for 2023 to 2027: Strategic Pillars & Cross-Cutting Themes

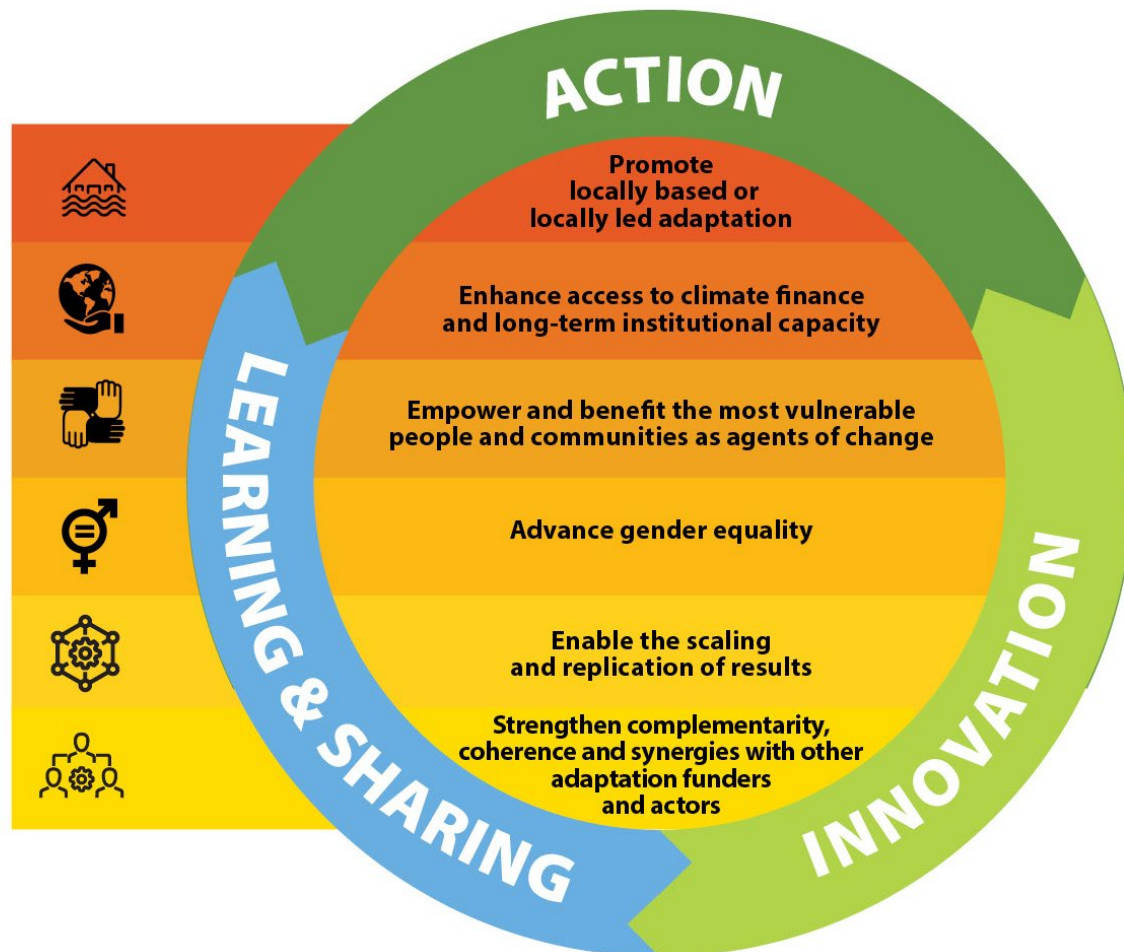


Illustration 2:

Theory of Change Statement

IF the Adaptation Fund successfully serves the Paris Agreement by accelerating effective adaptation action and efficient access to finance, including through direct access, by supporting concrete adaptation projects/programmes, innovation, and learning with tangible results at the local level that can be scaled up (*in line with mission*)

THEN developing countries will be successfully enabled to enhance their adaptive capacity, strengthen resilience and reduce vulnerability to climate change through inclusive processes consistent with their adaptation needs and priorities under the Paris Agreement (*in line with vision*)

BECAUSE targeted support for enhanced adaptation action, innovation, and learning delivered through inclusive, transparent and efficient processes are key enabling conditions for implementing, accelerating and sustaining effective adaptation at the local level for the most vulnerable communities in developing countries.

PART I: CONTEXT

1. INTRODUCTION

The Adaptation Fund was established in 2001 under the United Nations Framework Convention on Climate Change (UNFCCC) to finance concrete climate change adaptation projects and programmes in developing countries. In 2007, the Fund was operationalized and its mandate further defined: to assist developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse impacts of climate change in meeting the costs of adaptation, by financing concrete adaptation projects and programmes that are country driven and based on the needs, views and priorities of eligible Parties.

Since its inception in 2007 as the first multilateral fund dedicated to funding concrete climate change adaptation activities, it has evolved into a mature institution. Its effectiveness and efficiency in channeling high-quality and country-owned adaptation finance to developing countries has been confirmed by several independent evaluations (see TANGO International and ODI 2105 & 2018). As of 2022, the Fund has one of the largest portfolios of adaptation projects and programmes and is an experienced pioneer and innovator in the area of adaptation finance that has achieved impact beyond its funded activities. The Fund's resources have grown to over USD 1 billion with a steady upward trend in funding requests and approvals, resulting in cumulative project and programme approvals also approaching the USD 1 billion mark.

Since January 2019, the Fund has been officially serving the Paris Agreement, and Parties to the Agreement and other Fund stakeholders have underscored the Fund's growing role as a key channel for adaptation finance to developing countries. In light of the urgent crisis of climate change and the ongoing recovery from the COVID-19 pandemic, stakeholders have highlighted an even greater relevance of the Fund and its Medium-Term Strategy.

The Glasgow Climate Pact (UNFCCC 2021) in particular “[r]ecognizes the importance of the adequacy and predictability of adaptation finance, including the value of the Adaptation Fund in delivering dedicated support for adaptation” (Decision 1/CMA.3, para. 16). Parties have taken further steps in the Fund's transition to the Paris Agreement by confirming that “developing country Parties to the Paris Agreement that are particularly vulnerable to the adverse effects of climate change are eligible for funding from the Adaptation Fund” (UNFCCC 2021, Decision 13/CMA.3, para. 7) and “that Parties to the Paris Agreement are eligible for membership on the Adaptation Fund Board” (ibid, para. 8).

The development of the Fund's first ever Medium-Term Strategy (MTS) for the 2018 to 2022 period was launched by the AF Board in March 2016 in response to the adoption of the Paris Agreement in December 2015. The first MTS increased the Fund's ambition and impact in several ways. According to the Mid-term Review (Review) of the MTS, the “MTS is a good, fit-for-purpose strategy that was ambitious, forward-looking, and responsive to global processes and imperatives for climate change adaptation” (AF-TERG 2021, 3). It provided the Fund with strategic directions beyond its existing extensive experience by identifying concrete actions to scale up its work and move into new areas of innovation and knowledge generation. The first MTS was successful in launching several new funding windows and in further defining the Fund's niche, role and positioning the evolving climate finance architecture.

During the period of the first MTS, the AF Board further responded to increasing needs and funding requests with enhancing the Fund's ambition by doubling the amount of funding available under the funding cap per country and by expanding accreditation from one to two National Implementing Entities (NIEs) per developing country, and encouraging countries to consider making use of the direct access modality.

In October 2021, the AF Board took note of the key findings and recommendations of the Review (AFB Decision B.37/36) and in March decided to develop a second Medium Term Strategy for the subsequent period from 2023 to 2027 (MTS 2023 – 2027) (AFB Decision B.37/38).

2. STRATEGY DEVELOPMENT PROCESS

The MTS 2023 – 2027 was developed through an open and inclusive stakeholder consultation process, guided by the AF Board and taking into account the findings and recommendations from the Mid-term Review of the MTS. Both the Review and stakeholder inputs largely confirmed the high relevance, ambition, and impact of the first MTS.

2.1 Findings and recommendations of the Mid-term Review of the MTS

Following the first half of MTS implementation, the AF Technical Evaluation Reference Group (AF-TERG) conducted a Review of the MTS with the aim of assessing progress and informing the development of a future strategy for 2023-2027. The Review concluded in October 2021, when the AF Board took note of its findings and recommendations.

In addition to the overall conclusion that the MTS is a good, fit-for-purpose strategy that was ambitious, forward-looking, and responsive to global processes for climate change adaptation, the Review identified the following achievements of MTS implementation:

- The MTS both clarified and expanded the niche of the Fund into areas where it had demonstrated potential, and placed a strategic emphasis on quality, urgency, and vulnerability.
- The MTS implementation saw significant progress with the Fund launching seven new funding windows, presenting a significant expansion in the Fund's potential portfolio.
- The portfolio of concrete adaptation projects grew by 80 per cent since approval of the MTS, primarily driven by the increase in regional projects. Their quality has also improved through compliance with the Fund's Environmental and Social Policy (ESP) and the Gender Policy (GP).
- The MTS has not been used to direct, guide, or prioritize proposals or sectors. Country priorities continue to drive project selection and prioritization of funding, which is part of the DNA of the Fund. On the other hand, the MTS encourages innovation and knowledge management as new areas for projects through dedicated grants.

The Review also found that while “the Strategy has been used effectively to guide governance, management, and other funding decisions that lever impact for the Fund, it could be used more effectively to optimize the Fund's impact” (AF-TERG 2021, 4). Recommendations include the following areas with potential for enhancing the Strategy's impact:

- Demonstrate and incentivize work and interaction across MTS pillars;
- Harness results to identify the wider impact of the Fund's adaptation projects additional to the direct impacts on resilience and contribute to global dialogue on tracking adaptation effectiveness;
- Consolidate and optimize aspects that define the Fund's niche (even with resource uncertainty) as a Fund that provides quick and direct financing, creates new solutions built on what works, supports innovative solutions with higher risk, complements others through catalytic financing, and brings needed new players into the climate change adaptation space.

(AF-TERG 2021, 7)

For the process of the developing the next Strategy, the Review recommended to initiate a streamlined consultation process to develop the next MTS in consultation with multiple levels of stakeholders.

2.2 Open and inclusive stakeholder consultation process

Taking into account the Review's recommendation for an even more inclusive strategy development for the next MTS, the Fund solicited inputs during two rounds of consultations from the various stakeholders of the Fund, including:

- Recipient and contributor governments, including the Fund's Designated Authorities and other recipient country representatives for the Least Developed Countries (LDCs), Small Island Developing States (SIDS), and other climate-vulnerable developing countries;
- Implementing Entities (IEs), including National Implementing Entities (NIEs), Regional Implementing Entities (RIEs), and Multilateral Implementing Entities (MIEs)
- AF CSO Network and other civil society actors;
- Other multilateral climate funds, including the Global Environment Facility (GEF) and comprising the GEF's Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), the Green Climate Fund (GCF), and the Climate Investment Funds (CIFs);
- Adaptation experts from the UNFCCC, other intergovernmental organizations, and research organizations;
- Youth leaders from all UN regions; and

- The scientific community, including the Intergovernmental Panel on Climate Change (IPCC)'s Working Group II on Impacts, Adaptation and Vulnerability.

In the first round of consultations in early 2022, stakeholders were overall supportive of the strategy and direction of the Fund, confirming the continued relevance and niche of the current strategic focus and the Fund's potential as a leader in financing innovation and knowledge sharing in adaptation, in addition to concrete adaptation action, to enhance effectiveness and deliver impact at scale. Stakeholders also reaffirmed the Fund's mission and vision, suggesting to further link them to the global goals of the Paris Agreement as well as developing country priorities at national, sub-national and local levels. In line with the recommendations of the Mid-term Review, stakeholders noted the increased significance of the Fund and its strategy and suggested that the next strategy should be used to further enhance the Fund's niche and impact within a more complex adaptation finance landscape.

Informed by the outcomes of the stakeholder consultations, the AF Board decided to build on the first MTS and further enhance it through strategic adjustments, including *inter alia* strengthening linkages and synergies between the three strategic pillars of action, innovation, and learning and sharing and by introducing a new strategic emphasis on locally led adaptation as a cross-cutting theme (AFB Decision B.38/48). Building on the broad feedback received during the first round, the second round of consultations in mid-2022 invited targeted feedback from the AF Board, AFB secretariat, AF-TERG, the AF CSO Network, and the Fund's IEs on the expected outcomes, outputs and delivery models of the next strategy.

The Fund also considered the Fund's evolving external context of the UNFCCC, adaptation finance landscape, and the best available science of adaptation needs and solutions, as contained in the IPCC Sixth Assessment Report.

3. EXTERNAL CONTEXT: INCREASED URGENCY

The second MTS, for 2023 – 2027, faces a context of even higher urgency for developing countries to adapt to the climate crisis in a way that simultaneously supports overall climate-resilient development and resilient recovery from the COVID-19 pandemic. Parties to the Paris Agreement in the Glasgow Climate Pact “expressed alarm and utmost concern that human activities have caused around 1.1 °C of warming to date, that impacts are already being felt in every region and that carbon budgets consistent with achieving the Paris Agreement temperature goal are now small and being rapidly depleted” (UNFCCC 2021, para. 3).

At the same time, the Fund's operating environment since its inception, and even in the last five years since the first MTS, has changed significantly. Climate change adaptation, access to finance and broader resilience to more complex risks have gained more political priority within the UNFCCC process and beyond. The landscape of international climate finance is more complex and expectations for effective action are higher.

3.1 Global adaptation goals and gap

It is widely recognized that the next five to 10 years are decisive for achieving the Paris Agreement's global climate goals and the 2030 Agenda's Sustainable Development Goals (SDGs). The Fund's goal, vision and mission are aligned with these goals, which together set out an ambitious and transformative vision for the future.

The 2030 Agenda (UN 2015a) recognizes climate change as a unique, crosscutting threat to that vision since it undermines the ability of all countries to achieve sustainable development. By financing concrete adaptation in developing countries, the Adaptation Fund contributes to

the SDGs, in particular but not limited to SDG13 “Take urgent action to combat climate change and its impacts”.

By serving the Paris Agreement, the Adaptation Fund is contributing to the Paris Agreement’s central aim, as stipulated in its Article 2, to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty. Article 2 sets out three interlinked long-term goals:

- a) Limiting global temperature increase to well below 2°C and pursuing efforts to limit to 1.5°C above pre-industrial levels;
- b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development; and
- c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

To ensure an adequate adaptation response in the context of the temperature goal referred to in Article 2, Parties in Article 7 establish the global goal on adaptation of enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change (Article 7.1). Parties recognize that adaptation is a global challenge faced by all with local, subnational, national, regional and international dimensions and have committed to engage in adaptation planning processes and the implementation of actions (Article 7.2). At COP26 Parties recognized the importance of the global goal on adaptation for the effective implementation of the Paris Agreement and launched a dedicated work programme to be concluded by COP28 in 2023 (UNFCCC 2021, Decision 1/CMA.3, para. 11).

In addition to Article 7, the Adaptation Fund is aligned with the Agreement’s Article 9, in which Parties recognize the need for public and grant-based resources for adaptation in the context of scaled-up financial resources both climate mitigation and adaptation actions. Article 9 also mandates the institutions serving the Agreement, which includes the Adaptation Fund, “to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States, in the context of their national climate strategies and plans” (Article 9.9 Paris Agreement). In addition to channeling adaptation finance, the Fund also contributes to other Means of Implementation provisions of the Agreement, including technology development (Article 10) and transfer and capacity-building (and Article 11).

Since the adoption of the Paris Agreement in 2015, the following trends can be observed in the context of global efforts to meet the goals of the Paris Agreement:

- The Adaptation Finance Gap Report (UNEP 2016) had estimated that adaptation efforts in developing countries could cost from US\$140 billion to US\$300 billion per year by 2030, and between US\$280 billion and US\$500 billion by 2050. According to the latest Adaptation Gap Report (UNEP 2021), new estimates of the costs and estimated financial needs of adaptation in developing countries indicate higher values than previously reported. The adaptation finance gap is widening, indicating an urgent need to scale up public adaptation finance both for direct investment and for overcoming barriers to private-sector adaptation. Dedicated climate funds play an important role to help break down barriers to investment in adaptation projects in developing countries and in catalyzing a wide range of adaptation-related investments.
- In terms of projected adaptation needs, the IPCC’s Special Report on Global Warming of 1.5°C finds that climate-related risks to health, livelihoods, food security, water supply, human security, and economic growth are projected to increase with global warming of 1.5°C and increase further with 2°C. Adaptation options specific to national contexts, if carefully selected together with enabling conditions, will have benefits for sustainable

development and poverty reduction with global warming of 1.5°C. Strengthening the capacities for climate action of national and sub-national authorities, civil society, the private sector, indigenous peoples and local communities can support the implementation of ambitious actions (IPCC 2018, 23).

- The Global Commission of Adaptation (2019) underscored the urgency of accelerating climate change adaptation as a “human, environmental, and economic imperative”, and called for higher levels of international financial support for adaptation in developing countries. The Commission highlights the multiple benefits of adaptation action, including not only social and environmental but also economic benefits through reducing risk, increasing productivity, and driving innovation. It finds a high overall rate of return on investments in improved resilience, estimating that \$1.8 trillion in global adaptation investment from 2020 to 2030 could generate \$7.1 trillion in total net benefits.
- While the latest trends on adaptation finance in the UNFCCC’s Biennial Assessment and Overview of Climate Finance (UNFCCC 2020) suggest an overall increase in global climate finance flows by 2018, adaptation finance has remained at between 20 and 25 per cent of committed concessional finance across all sources, showing little growth since earlier assessments. The report also observes that drivers of climate finance flows differ between mitigation and adaptation. For adaptation finance, the role of national plans, standards and institutions take on more importance in driving finance flows due to the importance of local, context-specific conditions.
- The last OECD assessment of progress towards the collective goal of mobilizing USD 100 billion per year by 2020 for climate action in developing countries (OECD 2022) showed that global climate finance flows provided and mobilized by developed countries totalled USD 83.3 billion in 2020. While increasing by 4 per cent from 2019, this was USD 16.7 billion short of the USD 100 billion per year by 2020 goal. Mitigation finance remained the majority, but adaptation finance continued to grow, in both relative and absolute terms, to US\$ 28.6 billion (41 per cent).

In response to these trends and the observed widening adaptation finance gap, Parties to the Paris Agreement in the Glasgow Climate Pact (UNFCCC 2021) *inter alia*:

- *Noted with concern* that the current provision of climate finance for adaptation remains insufficient to respond to worsening climate change impacts in developing country Parties (para. 14);
- *Urged* developed country Parties to urgently and significantly scale up their provision of climate finance, technology transfer and capacity-building for adaptation, including for the formulation and implementation of national adaptation plans and adaptation communications (para. 15);
- *Urged* developed country Parties to at least double their collective provision of adaptation finance to developing country Parties from 2019 levels by 2025, in the context of achieving a balance between mitigation and adaptation in the provision of scaled-up financial resources in line with Article 9.4 Paris Agreement (para. 18)
- *Urged* developed country Parties to fully deliver on the USD 100 billion goal urgently and through to 2025 and emphasizes the importance of transparency in the implementation of their pledges (para. 40).

In 2021, Parties have also initiated deliberations on setting a new collective quantified goal from a floor of US\$ 100 billion per year, taking into account the needs and priorities of developing countries (in line with UNFCCC 2015, Decision 1/CP.21, para. 53)."

3.2 Enabling conditions for accelerating adaptation action

The Fund's mission is informed by the latest evidence on existing and projected adaptation needs and solutions for accelerating effective adaptation, in particular the IPCC's Working Group II Report on Impact, Adaptation and Vulnerability.

According to the report's Summary for Policymakers (IPCC 2022), global levels of adaptation finance are insufficient for and constrain implementation of adaptation options especially in developing countries, while risks from climate change are more severe and are occurring faster and earlier than anticipated. Across sectors and regions the most vulnerable people and systems are observed to be disproportionately affected. Climate change impacts and risks are also becoming increasingly complex and more difficult to manage with multiple compounding climatic and non-climatic risks. There is also increasing risk of maladaptation that can lock in vulnerability and risk exposure, which can be avoided by implementing adaptation actions through flexible and inclusive processes and with benefits to many sectors and systems.

Further, according to the report, there are feasible and effective adaptation options which can reduce risks to people and nature. Effectiveness refers to the extent to which an action reduces vulnerability and climate-related risk, increases resilience, and avoids maladaptation. While progress in adaptation planning and implementation has been observed across all sectors and regions, at current rates the adaptation gap will continue to grow. Closing adaptation gaps requires long-term planning and accelerated implementation of adaptation options, particularly in the next decade.

Box 1: Enabling conditions for accelerating effective adaptation action (Source: IPCC 2022)

Enabling conditions identified as “key for implementing, accelerating and sustaining adaptation in human systems and ecosystems” (IPCC 2022, 29):

- Enhanced mobilization of and access to financial resources are essential for implementation of adaptation.
- Building capacity and removing some barriers to accessing finance is fundamental to accelerate adaptation, especially for vulnerable groups, regions and sectors.
- Financial and technological resources enable effective and ongoing implementation of adaptation, especially when supported by institutions with a strong understanding of adaptation needs and capacity.
- Enhancing climate knowledge and sharing on climate impacts and adaptation options, including Indigenous knowledge and local knowledge, promotes societal and policy responses.
- Monitoring and evaluation (M&E) of adaptation are critical for tracking progress and enabling effective adaptation.
- Inclusive governance in adaptation planning and implementation leads to more effective and sustainable adaptation outcomes. Approaches for inclusive governance include multi-stakeholder co-learning platforms, transboundary collaborations, community-based adaptation, focus on capacity-building, and meaningful participation of the most vulnerable and marginalized groups, and their access to resources.

The IPCC report also highlights the following aspects as key for enabling effective adaptation in the context of increasing levels of warming:

- 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.
- In addition to incremental adaptation, there is increased need to also consider transformational actions that fundamentally shift underlying drivers of climate risk and vulnerability.
- Adaptation finance increasingly needs to target underlying vulnerabilities, for example in conflict affected and fragile settings, or when women’s empowerment can be key to the effectiveness of the project.

3.3 The evolving climate finance architecture

The global climate finance architecture is an increasingly complex and evolving constellation of public and private institutions. Resources for climate action are channeled to developing countries through multilateral climate funds – both within and outside of the UNFCCC and Paris Agreement financial mechanisms – and increasingly through bilateral, regional and national climate funds. Dedicated climate funds have proliferated over the past two decades in response to identified needs and international negotiations, and have been designed with specialized and differing mandates. As a result, various multilateral funds are dedicated to, for instance, reducing emissions, accelerating the spread of clean technologies, reducing deforestation, supporting adaptation, or pursue mixed mandates. In general, multilateral climate funds through their dedicated mandates continue to play a key role in setting principles and criteria for funding effective climate action that act as catalysers for aligning the whole financial system with the Paris Agreement.

With adaptation finance gaining more political emphasis and momentum, the adaptation finance landscape has evolved further since the first MTS, with the number of adaptation funders and the volume of adaptation finance provided both having significantly increased (see *Illustration 3*). In addition to multilateral climate funds, including the Global Environment Facility (comprising also the Least Developed Countries Fund and the Special Climate Change Fund), the Green Climate Fund, and the Climate Investment Funds, the adaptation finance

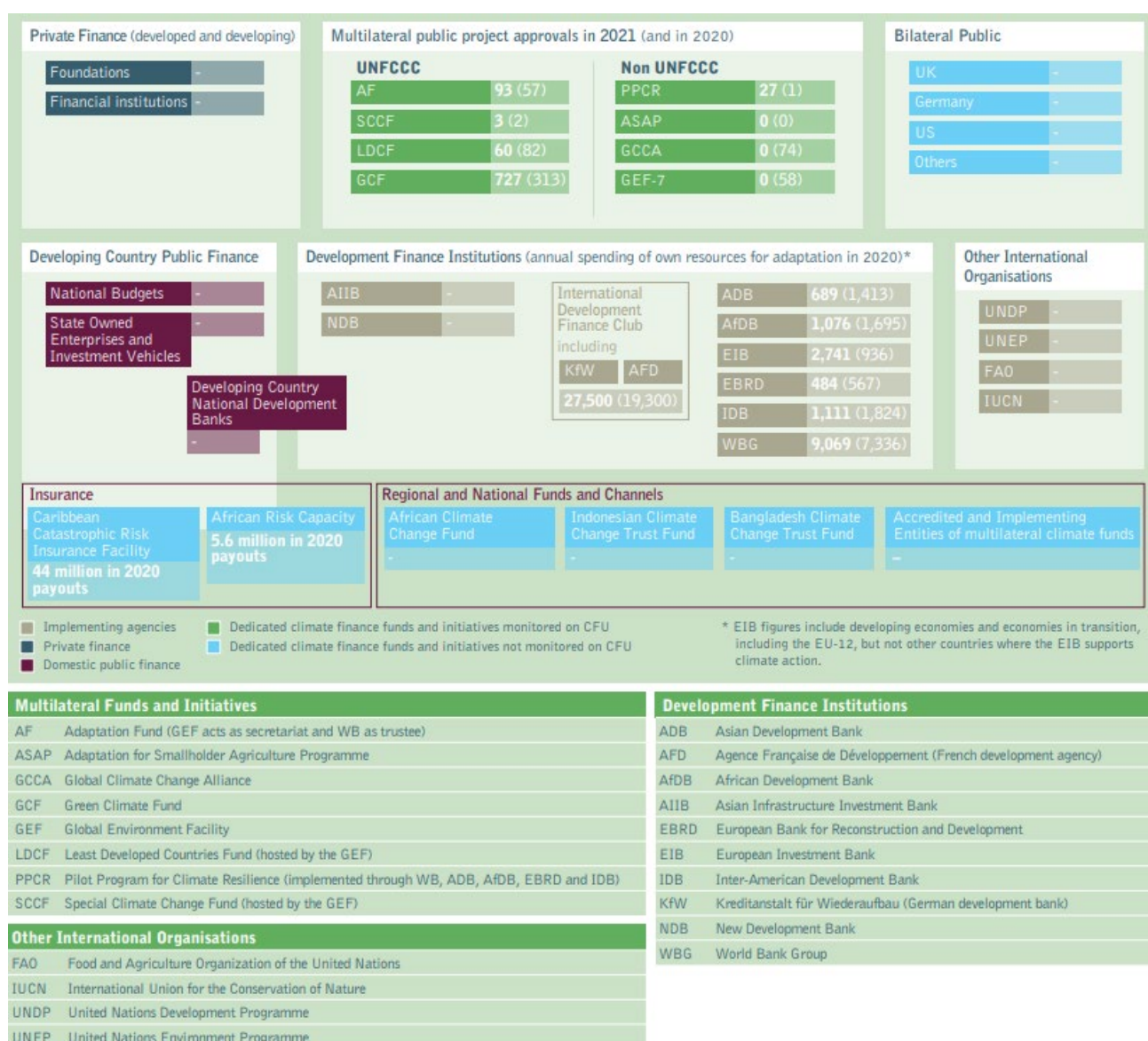
architecture also includes resources from development finance institutions and increasingly from insurance and risk-pooling mechanisms, as well as private finance, with new types and instruments of finance (Watson and Schalatek 2021). Despite these developments, contributions to climate funds for adaptation remain low compared to funds supporting mitigation, and at a global level, adaptation remains severely underfunded.

Funds differ not only in terms of mandates but also in terms of operating modalities, with some working primarily through international intermediaries, such as multilateral development banks and UN agencies, while others also channel resources directly to institutions in developing countries, with the Adaptation Fund being the first climate fund to pilot this innovative direct access modality and being a leader in innovating on further enhancing direct access and devolving decision-making to local levels.

With each of the funds operating under their distinct mandates and operational policies and procedures, no single fund can aim to meet the full range of quantitative and qualitative climate finance or climate adaptation needs. There are both benefits and risks associated with the multitude of funding channels available. Benefits include increased options and possibilities for recipient countries to access climate finance from different channels that work in complementarity and coherence to address their various needs in relation to funding size, delivery model, thematic focus etc. Competition among various actors further incentivises increased innovation and performance, including by enhancing speed, flexibility, and accessibility of funds. On the other hand, the multiplicity of funding channels and their various processes can also be cumbersome for recipient countries.

In this context, the Adaptation Fund has built a strong and distinct niche within the evolving adaptation finance landscape and continuously works on building complementarity and coherence with other climate finance delivery channels.

Illustration 3: Global adaptation finance architecture



Source: Watson and Schalatek 2021, Climate Funds Update (climatefundsupdate.org).

3.4 Principles for impact and effectiveness

The Adaptation Fund is well-established and well-recognized leader at the forefront of putting into practice and championing principles and modalities for greater impact and effectiveness of adaptation finance. Those principles and modalities are aligned with the international community's learning on best practices in development and climate finance.

Effectiveness of adaptation activities becomes ever more important for reducing climate risk in the context of intensifying climate impacts and observed risks of maladaptation. As observed in the 2016 Adaptation Finance Gap Report, "greater emphasis must be put on the question of effectiveness. Increasing the volume of finance only increases resilience if it is spent wisely" (UNEP 2016, xi). Without increasing effectiveness, current implementation rates may not keep pace with increasing levels of climate change. The design of adaptation interventions needs to consider factors identified as making effective risk reduction more likely,

including a thorough understanding of climate risks and their interaction with local contexts, inclusion of the target population in project design, joint agreement on objectives and ways of achieving them, and avoidance of potential and actual negative effects of adaptation actions (maladaptation) (UNEP 2021, xvi).

These findings reflect the Adaptation Fund's experience supporting concrete projects and programmes, as well as relevant international frameworks such as the Cancun Adaptation Framework, the Sendai Framework for Disaster Risk Reduction, the OECD principles on aid effectiveness, and the 2030 Agenda on Sustainable Development Goals, as well as the UN General Assembly's resolution on the human right to a clean, healthy and sustainable environment (UN 2022). The Adaptation Fund has also engaged in the development of the Global Commission on Adaptation's Principles for Locally Led Adaptation (see Box 2), which have been endorsed by the Board (Decision B.35-36/14) and will guide the Fund's work during the MTS (2023 – 2027) period.

Principle 1: Quality matters.

While there is urgency to enhance the adequacy of climate finance by increasing the quantity of flows to developing countries, effectiveness in adaptation finance depends on the quality and nature of funded activities. In the Paris Agreement, Parties define high-quality adaptation by acknowledging that

adaptation action should follow a country-driven, gender-responsive, participatory and fully transparent approach, taking into consideration vulnerable groups, communities and ecosystems, and should be based on and guided by the best available science and, as appropriate, traditional knowledge, knowledge of indigenous peoples and local knowledge systems, with a view to integrating adaptation into relevant socioeconomic and environmental policies and actions, where appropriate.

(UNFCCC 2015, Article 7.5)

Principle 2: Ownership matters.

Development interventions are more effective and sustainable when there is strong country ownership, as recognised in the OECD's Paris Declaration and Accra Action Agenda on Aid Effectiveness, the Busan Partnership for Effective Development Co-operation (OECD 2005, 2008 and 2012), as well as the UN's Addis Ababa Action Agenda from the Third International Conference on Financing for Development (UN 2015c). Strong country ownership of projects/programmes is established through alignment with national strategies and plans, the vesting of decision-making authority in national institutions, and – where feasible – the use of national systems to access resources and ensure accountability (i.e. Direct Access) without going through international intermediaries. In terms of relevant national strategies and plans under the Paris Agreement, developing countries undertake adaptation planning processes and prepare related instruments, such as National Adaptation Plan (NAPs), Nationally Determined Contributions (NDCs) and Adaptation Communications, in addition to previous UNFCCC instruments such as National Adaptation Programmes of Action. The principle of country ownership is increasingly being understood to encompass local ownership in line with the concept of subsidiarity, as expressed in the Rio Declaration (e.g. UN 1992, Rio Principle 10), whereby decision-making should be made at the lowest possible and appropriate political and institutional level.

Principle 3: Local participation and empowerment matter.

Early adaptation efforts tended to take a top-down approach, moving from large-scale climate models to sectoral impact studies and then to expert-driven assessments of adaptation options (whether by national or international experts). The Paris Agreement encourages a more bottom-up, participatory and transparent approach. This mirrors broad changes in thinking about effective development and disaster risk reduction (e.g. OECD 2012 and UN

2015b), the spread of human rights-based approaches, and issues specific to climate change risk, vulnerability and capacity assessment.

- The Sendai Framework's Guiding Principles (*ibid.*, paragraph 19.d), which emphasises empowerment and inclusive participation, is indicative of this increasingly mainstream, all-of-society approach to tackling complex problems.
- Additionally, the UN General Assembly Resolution A/RES/76/300 elevated the right to a clean, healthy and sustainable environment which was initially articulated in the principle 1 of the 1972 Stockholm Declaration, to a universal human right, calling upon States, international organizations, businesses and other stakeholders to “scale-up efforts” to ensure clean, healthy, and sustainable environment for all (UN 2022).
- Finally, the Statement of Endorsement for the Principles for Locally Led Adaptation Action recognizes that

Empowering local stakeholders to lead in adaptation gives communities on the frontlines of climate change a voice in decisions that directly affect their lives and livelihoods. Shifting power to local stakeholders, without expecting them to shoulder the burden of adaptation, can catalyze adaptation that is effective, equitable, and transparent. While not all adaptation needs to be locally owned or led, countries and local stakeholders are demanding greater initiative on this and committing to putting more resources into local hands for local adaptation priorities [...].

(Global Commission on Adaptation 2021)

Principles for Locally Led Adaptation Action

1. **Devolving decision making to the lowest appropriate level:** Giving local institutions and communities more direct access to finance and decision-making power over how adaptation actions are defined, prioritized, designed, implemented; how progress is monitored; and how success is evaluated.
2. **Addressing structural inequalities faced by women, youth, children, disabled, displaced, Indigenous Peoples and marginalized ethnic groups:** Integrating gender-based, economic, and political inequalities that are root causes of vulnerability into the core of adaptation action and encouraging vulnerable and marginalized individuals to meaningfully participate in and lead adaptation decisions.
3. **Providing patient and predictable funding that can be accessed more easily:** Supporting long-term development of local governance processes, capacity, and institutions through simpler access modalities and longer term and more predictable funding horizons, to ensure that communities can effectively implement adaptation actions.
4. **Investing in local capabilities to leave an institutional legacy:** Improving the capabilities of local institutions to ensure they can understand climate risks and uncertainties, generate solutions, and facilitate and manage adaptation initiatives over the long term without being dependent on project-based donor funding.
5. **Building a robust understanding of climate risk and uncertainty:** Informing adaptation decisions through a combination of local, traditional, Indigenous, generational and scientific knowledge that can enable resilience under a range of future climate scenarios.
6. **Flexible programming and learning:** Enabling adaptive management to address the inherent uncertainty in adaptation, especially through robust monitoring and learning systems, flexible finance, and flexible programming.
7. **Ensuring transparency and accountability:** Making processes of financing, designing, and delivering programs more transparent and accountable downward to local stakeholders.
8. **Collaborative action and investment:** Collaboration across sectors, initiatives and levels to ensure that different initiatives and different sources of funding (humanitarian assistance, development, disaster risk reduction, green recovery funds, etc.) support each other, and their activities avoid duplication, to enhance efficiencies and good practice.

4. INTERNAL CONDITIONS: COMPARATIVE ADVANTAGE AND IMPACT

The design of the first MTS was shaped by the assessment of organisational strengths, weaknesses, opportunities and challenges contained in the first phase of the Independent Evaluation (TANGO International & ODI 2015). The phase two overall evaluation of the Fund was finalized in 2018 at the start of the MTS period and contains important findings on the Fund's overall relevance, efficacy and effectiveness.

The design of the second MTS further builds on these findings and the Fund's experience with implementing the first MTS, the findings and recommendations of the mid-term review of the first MTS (based on the Board's Decision B.37/38), and the outcome of the stakeholder consultations. In line with the mid-term review's recommendations and the Board's decision B.38/49, a central aim of the second MTS (2023 – 2027) is to build on the first MTS' achievements and to enhance it further by making strategic adjustments to consolidate the Fund's comparative advantage and to optimize its impact.

4.1 Consolidating the Fund's niche and comparative advantage

Advantage 1: Unique mandate and pioneering role

The Adaptation Fund has a specialized and unique mandate, as per its Strategic Priorities, Policies and Guidelines (SPPGs) (AF 2008), contained in Annex I of the Operational Policies and Guidelines (OPG) that is fulfilling an urgent need of developing countries and a unique niche in the climate finance landscape:

- Finance concrete adaptation projects and programmes that are country driven and based on the needs, views and priorities of eligible Parties to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting the cost of adaptation (SPPG, para. 5).
- In developing projects and programmes, special attention shall be given by eligible Parties to the particular needs of the most vulnerable communities (SPPG, para. 8).
- Funding for projects and programmes will be on a full adaptation cost basis to address the adverse effects of climate change (SPPG, para. 12)
- Funding for projects and programmes will be available for projects and programmes at national, regional and community levels (SPPG, para. 13).
- Short and efficient project development and approval cycles and expedited processing of eligible activities shall be developed (SPPG, para. 14).
- Projects and programmes of up to \$1 million or up to \$10 million (OPG, para. 24).
- A concrete adaptation project/programme is defined as a set of activities aimed at producing visible and tangible results on the ground by reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change, including variability (OPG, para. 11).

In fulfilling this mandate, the Fund has been able to pioneer and promote more simplified and enhanced access to adaptation finance than other funding channels, including through direct access and enhanced direct access. Through its dedicated support and requirements for empowering and engaging the most vulnerable groups and communities in all activities financed by the Fund, regardless of the access modality, the Fund has established a niche in delivering high-quality and locally-led adaptation actions.

The Adaptation Fund is the only multilateral instrument under UNFCCC specifically established to finance concrete adaptation projects and programmes in developing country Parties.

Advantage 2: Relevance, efficiency and effectiveness

The first phase of the Independent Evaluation finds:

Though small in size, the Adaptation Fund is amplifying financial support to developing countries and helping close the adaptation finance gap. The Adaptation Fund's design is appropriate to generating timely lessons about effective approaches to adaptation finance, especially with regards to "direct access," and scalable and replicable action benefiting the most vulnerable communities and social groups. The Adaptation Fund's design supports pilot activities with substantial potential for scaling up impact at sub-national, national, and regional levels (TANGO International & ODI 2015, 11).

The Fund has developed a robust framework of operating policies, safeguards, guidance documents, and management systems that result in a highly relevant, effective organisation providing Parties with "good value for money" (*ibid.* 12).

Compared to other funding channels, the Adaptation Fund has the advantage of efficient access to resources and simplified approval procedures for effective adaptation.

The second phase overall evaluation of the Fund further concludes that the Fund has a clear advantage in efficient project-approval and accreditation processes. Even as the volume of accreditation applications and project proposals increases, the Board Secretariat maintains its efficiency (TANGO International 2018, xii).

Advantage 3: Agile and nimble institution

The Fund's governance is unique in several ways resulting in an organizational culture that have been repeatedly stressed by the Fund's independent evaluations as a major determinant of the Fund's success to date.

- The Board composition has a majority of representatives from developing countries. It has established efficient working modalities, including two committees and an accreditation panel, and a collaborative organizational culture that encourages the constructive discussion of innovative ideas, with equal weight between vulnerable recipient countries and contributor countries. It is prepared to rapidly evolve its policies within the overall context and guidance from the UNFCCC.
- The Board Secretariat provides good quality work that is mission-driven and conducive to collaboration and dynamic results. Stakeholders recognize the Secretariat's capacity to develop and rapidly evolve client-oriented solutions in time and cost-efficient manner (TANGO International & ODI 2015, 48).
- The Fund's evaluation function, the AF-TERG provides highly relevant and timely evaluations and recommendations for the Fund to stay responsive to important global trends in adaptation and evaluation.
- Civil society is actively engaged in the Fund's work on the Board level through a regular CSO Dialogue with the Board and through consultations on project proposals and other Board documents, as well as on the project level through consultations and engagement.

These characteristics have produced robust Fund policies and efficient access modalities for high-quality and timely support to developing countries. The Mid-term Review of the MTS finds that "COVID-19 tested the resilience of the MTS and the Fund's ability to adapt appropriately. It provides a test-case for how well the Fund can respond to similar disruptions. The Fund's agile response to COVID-19 compares favorably against other climate financing bodies" (AF-TERG 2021, 32).

The Fund has legitimacy as a nimble and agile innovator that can rapidly evolve to meet the evolving context and urgent needs, compared with other climate finance delivery channels.

4.2 Maximizing impact

The Adaptation Fund can maximize its impact, even with limited resources and resource uncertainty, by focusing on supporting several of the enabling conditions that have been identified as key for accelerating effective adaptation action and that are aligned with the Fund's mandate and advantage compared to other climate finance delivery channels. Stakeholders have identified the following six areas with the potential for the Fund to maximize its impact, which the Board has considered as part of the options and elements for developing the second MTS (see *Document AFB/B.38/5*):

- 1) **Expand support to locally led and locally based adaptation actions:** The majority of Fund's stakeholders have identified that the next funding frontier is further decentralization to the local level and the Fund could expand its current support of participatory, gender-responsive, locally led adaptation actions. The AF "sets as a standard for what makes a quality adaptation project, particularly at the local and community levels."
- 2) **Enhance access to climate finance and long-term capacity of vulnerable countries and groups:** Stakeholders strongly suggested to consolidate the Fund's niche as a fund that is accessible and responsive by focusing on bringing new actors into the adaptation space and engaging vulnerable and marginalized communities and groups, including civil society, youth, women, indigenous peoples, among others.
- 3) **Continue to offer opportunities to address novel adaptation challenges and capture co-benefits for compounded resilience** in the context of inter-related issues, such as loss and damage health, biodiversity, and conflict and fragility etc.: In the context of the evolving nature and scope of adaptation, stakeholders suggested for the Fund to continue to be a standard-setter for effective adaptation based on its strong track record on delivering adaptation benefits in a wide range of sectors.
- 4) **Expand support for innovation and encourage risk-taking:** Stakeholders suggested to explore further opportunities and modalities that can create space for innovation and risk-taking to further unlock effectiveness of adaptation actions on the ground.
- 5) **Enhance learning and encourage scalability:** Stakeholders agreed that the Fund should further tap into the potential of the learning and sharing pillar and the potential for maximizing impact through scaling up of AF funded projects, by building on the Fund's niche as a knowledge broker that supports early interventions and first-mover activities and can share knowledge on what works and doesn't work with other actors.
- 6) **Expand partnerships with other adaptation actors and initiatives** to enhance complementarity and coherence for a successful support to developing countries.

5. RISKS AND ASSUMPTIONS

This MTS (2023 – 2027) and its Theory of Change (see *Illustration 5*) is informed by a context of underlying risks and assumptions. Risks are potential impacts that may undermine the success of the strategy and the mission of accelerating effective adaptation action in vulnerable developing countries and communities towards the goal of enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change through inclusive and transparent processes.

High-level **risks** include:

- The international community's potential failure to limit global average temperature increase to well below 2°C above pre-industrial levels, thereby reducing the effectiveness and feasibility of adaptation options and increasing their cost.
- Developed country Parties might fail to reach climate finance targets, including to mobilize US\$ 100 billion a year through to 2025 and to double adaptation finance by 2025.
- International and national institutions might fail to learn quickly on available adaptation options from each other's successes and failures and to scale up effective solutions.

- National adaptation planning processes might fail to reflect the priorities of marginalised communities and social groups.
- Maladaptive responses to climate change can create lock-ins of vulnerability, exposure and risks that are difficult and expensive to change and exacerbate existing inequalities.
- Developing countries might fail to implement feasible and effective adaptation actions in time to adapt to increasing warming levels due to continued institutional and technical capacity constraints and constraints in accessing available adaptation finance, technology and innovations.
- Adaptation finance might not sufficiently reach the local level and engage local actors and the most vulnerable communities and social groups, thereby hindering the impact and sustainability of funded activities.

Assumptions describe the necessary conditions and resources for a planned change to occur within the wider context. The assumptions under the MTS ToC are based on the Paris Agreement and guidance from Parties (see 3.1 above), evidence on the enabling conditions for accelerating adaptation action (see 3.2 above) and principles for impact and effectiveness in adaptation finance (see 3.4 above). Recognizing the challenges and risks associated with the implementation of the ToC, the assumptions are complemented by relevant pathways:

Assumption 1 - To successfully contribute to implementing the Paris Agreement, the Fund needs to have the capacity to expand its support to developing countries and help accelerate effective adaptation action and efficient access to finance.

Pathway 1: The Adaptation Fund has been mandated to serve the Paris Agreement and negotiations on the full transitioning from CMP to CMA are ongoing, with recent guidance from Parties signalling a growing role for the Fund.

Assumption 2: To enhance adaptive capacity and build resilience, developing countries need to be enabled to implement their adaptation needs and priorities under PA through inclusive processes.

Pathway 2: The Adaptation Fund provides dedicated support to developing countries for access to finance, including direct access, through its Readiness Programme, accreditation processes (including options for streamlining and fast-tracking), and country-driven programming and implementation of funds that reach and engage the local level.

Assumption 3: Dedicated support for enhanced adaptation action, innovation, and learning provided to developing countries through inclusive, transparent and efficient processes is a key enabler for accelerated and effective adaptation for the most vulnerable countries and communities.

Pathway 3: The Adaptation Fund MTS from 2023 to 2027 will focus on three strategic pillars of action, innovation, and learning and sharing, as well as six cross-cutting themes that guide all Fund activities towards country led, locally based, and inclusive processes.

These assumptions are reflected in the following Theory of Change statement (see also *Illustration 2*), which describes how the strategy's goal and mission are linked to its intended outcomes and outputs.

- **IF** the Adaptation Fund successfully serves the Paris Agreement by accelerating effective adaptation action and efficient access to finance, including through direct access, by supporting country-driven adaptation projects and programmes, innovation, and learning with concrete results at the local level that can be scaled up;

- **THEN** developing countries will be enabled to enhance their adaptive capacity, strengthen resilience and reduce vulnerability to climate change through inclusive processes consistent with their adaptation needs and priorities under the Paris Agreement;
- **BECAUSE** targeted support for enhanced adaptation action, innovation, and learning delivered through inclusive, transparent and efficient processes are key enabling conditions for implementing, accelerating and sustaining effective adaptation at the local level for the most vulnerable communities in developing countries.

Illustration 4: Adaptation Fund's niche and comparative advantage

Adaptation Fund's niche and comparative advantage			
 <p>ALREADY ALLOCATED US\$924.9 million to 138 concrete adaptation projects/programmes in more than 100 countries, including 22 SIDS and 41 LDCs.</p>	 <p>DIRECT ACCESS PIONEER: 30% of portfolio is allocated to direct access & 60% of accredited implementing entities are direct access entities.</p>	 <p>BENEFITING 35.9 million TOTAL BENEFICIARIES in the most vulnerable communities in developing countries.</p>	 <p>DEDICATED FUND for delivering concrete and scalable adaptation of up to US\$10 million with tangible results and benefits for the most vulnerable communities in developing countries.</p>
 <p>AGILE & NIMBLE INSTITUTION that is responsive to urgent needs of developing countries and changing context</p>	 <p>EFFICIENT PROCESSES & SIMPLIFIED ACCESS: Swift project review cycle of as little as nine weeks & streamlined and fast track accreditation options</p>	 <p>STRONG GOVERNANCE & SAFEGUARDS: fully established and positively reviewed policies and guidelines</p>	 <p>ALIGNED WITH PRINCIPLES FOR LOCALLY LED that help channel resources to the local level and involve local actors in decision-making</p>
 <p>CATALYZING IMPACT BEYOND FUNDED ACTIVITIES by fostering adaptation innovation, knowledge and learning, and scaling up of results.</p>	 <p>GENDER-RESPONSIVE CLIMATE FINANCE on the Fund and project levels through state-of-the-art gender policy, action plan, and guidance document</p>	 <p>GROWING DEMAND: Increasing trend of funding requests to the Fund surpassing available resources</p>	 <p>SUCCESSFUL TRACK RECORD of building institutional and technical capacity of developing countries for accessing and managing climate finance, and for undertaking high-quality and innovative adaptation</p>

PART II: STRATEGY

The MTS 2023 – 2027 builds on the Fund’s achievements and experience with implementing the first MTS with the aim to further consolidate the Fund’s comparative advantage and optimize its impact. It does so by continuing the strategic focus on financing adaptation action, innovation and learning and sharing, while increasing the ambition under each of these strategic pillars, strengthening the linkage and synergies between them, and further introducing a strategic emphasis on promoting locally led adaptation.

6. STRATEGIC FOCUS, 2023-2027

The Adaptation Fund’s Medium Term Strategy updates and refines the Fund’s niche to better serve the evolving needs of Parties to the UNFCCC. Towards this end, the Fund’s overall goal and vision are informed by the Paris Agreement and the 2030 Agenda for Sustainable Development (especially SDG 13.1).

Goal:

People, livelihoods and ecosystems are adequately protected from the adverse impacts of climate change with their adaptive capacity enhanced, resilience strengthened and the vulnerability of people, livelihoods and ecosystems to climate-change reduced in the context of climate-resilient, sustainable development.

Vision:

Developing country Parties are successfully enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change through inclusive and transparent processes consistent with their adaptation needs and priorities under the Paris Agreement.

The Fund’s unique role within the global response to climate change is informed by guidance from Parties and feedback from the Fund’s various stakeholders during the consultation process, as defined in the following mission statement:

Mission:

The Adaptation Fund serves the Paris Agreement by accelerating effective adaptation action and efficient access to finance, including through direct access, to respond to the urgent needs and priorities of developing countries. The Fund does so by supporting country-driven adaptation projects and programmes, innovation, and learning with concrete results at the local level that can be scaled up. All of the Fund’s activities are designed to promote locally based or locally led action, enhance access to climate finance and long-term institutional and technical capacities, empower the most vulnerable people and communities as agents of change, advance gender equality, encourage and enable the scaling and replication of results, and strengthen complementarity, coherence and synergies with other adaptation funders and actors.

The Fund will pursue this Mission during the 2023-2027 period through three Strategic Pillars and six Crosscutting Themes.

Strategic Pillar 1: Action

Developing countries are supported in undertaking and accelerating high quality, local level and scalable adaptation projects and programmes that are aligned with their national adaptation strategies and processes.

Mandate

The Action Pillar builds on the Fund's well-recognized niche of supporting smaller-size (typically up to US\$10 million), country-driven adaptation projects/programmes consistent with national adaptation planning processes and producing concrete and tangible results for the most vulnerable communities.

COP Decision 10/CP.7 established the Adaptation Fund in 2001 to finance concrete adaptation projects and programmes in developing countries. In 2007, Parties further defined the Fund's mandate in Decision 1/CMP.3. In accordance with paragraphs 1 and 2, the Adaptation Fund shall:

- (a) Assist developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation
- (b) Finance concrete adaptation projects and programmes that are country driven and based on the needs, views and priorities of eligible Parties

In accordance with the Fund's Operational Policies and Guidelines (OPG), a concrete adaptation project/programme is defined as "a set of activities aimed at addressing the adverse impacts of and risks posed by climate change. The activities shall aim at producing visible and tangible results on the ground by reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change, including climate variability. Adaptation projects/programmes can be implemented at the community, national, regional and transboundary level. Projects/programmes concern activities with a specific objective(s) and concrete outcome(s) and output(s) that are measurable, monitorable, and verifiable (paragraph 11).

In accordance with the Fund's Strategic Priorities, Policies, and Guidelines (SPPG) of the Fund, as adopted by the CMP, in "developing projects and programmes, special attention shall be given by eligible Parties to the particular needs of the most vulnerable communities" (paragraph 8).

Parties to the Paris Agreement, in Decision 1/CPMA.3, have recognized "the importance of the adequacy and predictability of adaptation finance, including the value of the Adaptation Fund in delivering dedicated support for adaptation" inviting resources for the Fund, including multi-annual pledges (paragraph 16).

Rationale

In response to rising ambitions for adaptation finance and the Adaptation Fund expressed by Parties in the Paris Agreement and subsequent decisions by the CMP and CMA, as well as trends of increasing requests for funding from the Adaptation Fund, the Fund under its second MTS expects a continued increase in the number of proposals for concrete projects and programmes to be submitted by developing countries to support the implementation of their climate adaptation strategies and processes under the Paris Agreement. Processing increasing amounts of funding proposals and ensuring the quality of proposals submitted for consideration by the Board will support developing countries in undertaking and accelerating high-quality adaptation action.

Further consolidating the Fund's niche and strategic emphasis on quality and effectiveness of concrete adaptation action, the goal of the Action Pillar is to generate evidence and showcase best practices of effective adaptation in line with the cross-cutting themes:

- Promote locally based and locally led adaptation action including by devolving access and decision-making on adaptation finance to national, subnational, and local levels;
- Enhance access and long-term capacities by supporting more holistic and sustainable institutional and technical capacities for accessing and managing finance, that is aligned with national planning frameworks, by actively seeking to identify and address capacity gaps, with a focus on vulnerable countries and communities and through an inclusive, and gender-responsive approach;
- Empower and promote engagement of local and vulnerable communities as agents of change in all adaptation action financed by the Fund, including women and youth, as well as other relevant groups such as indigenous people and the local private sector, where applicable;
- Advance gender equality and promote the empowerment of women and girls through gender-responsive adaptation finance;
- Enable and encourage the scaling and replication of effective adaptation actions, by the Fund itself and various other actors, that make use of respective institutional competencies and leverage policy changes, additional funding and learning to bring the results to scale and maximize impact; and
- Expand the Fund's synergies with existing and new adaptation funders and actors and initiatives, including the private sector, to enhance complementarity and coherence for a sustainable, successful and ambitious support to developing countries.

To further advance adaptation action and effectiveness within the Fund's mandate, the Fund will enhance linkages between the action pillar and the innovation and learning and sharing pillars to:

- Capture co-benefits and learning of innovative and impactful areas of adaptation, such as nature-based solutions, regional and transboundary adaptation, urban development and integrated and cross-sectoral approaches, for system-wide innovation and learning;
- Identify and advance adaptation in sectors and themes with high potential for adaptation but relatively low representation in adaptation portfolios to date; and
- Capture synergies with and benefits for building broader resilience to compounding and more complex risks, including through exploring linkages between adaptation and related areas such health, biodiversity oceans and marine ecosystems, conflict and fragility, and losses and damages.

Expected Results

1) *Vulnerability reduced, resilience strengthened, and adaptive capacity enhanced*

Project beneficiaries' vulnerability to climate variability and change reduced, their resilience strengthened, and adaptive capacity enhanced through inclusive processes that empower local and vulnerable communities as agents of change

2) *Access and institutional capacity enhanced*

Long-term capacity of national and regional institutions to access finance and implement high quality and local-level adaptation, including by involving and enhancing the capacity of sub-national and local institutions, strengthened through efficient processes and targeted support, including accreditation, readiness programme, and adaptive management

3) *Evidence for effective action generated and results replicated and scaled up*

Developing countries' readied to generate results and evidence from early and high-impact adaptation interventions in relevant sectors and themes for scaling up with support from other climate funds and actors

Delivery Model

- Expand support for Locally Based Adaptation including through additional delivery modalities under regular projects and/or existing windows for further involving sub-national and local actors such as programmes of micro-grants and micro-loans;
- Consider an additional window for LLA taking into account the Fund's experiences on local actions including the Direct Access and Enhanced Direct Access modalities as well as any other modality under the innovation window (AFCIA, etc.)
- Expand existing modalities for engaging local and vulnerable groups, including local private sector, in the project cycle (readiness support for implementing ESP and GP, including consultations), for example by introducing new project review criteria for community engagement and empowerment, or enabling peer-to-peer support for executing entities, where possible;
- Expand existing Readiness Programme for Climate Finance towards a more comprehensive and iterative approach for assessment of needs and addressing gaps: this would expand technical support for both accreditation and project/programme design, include targeted assessments of needs and possibly expand delivery channels, scope of support and recipients (Designated Authorities, Executing Entities, local communities, women's organizations, youth, indigenous people etc.);
- Strengthen synergies between Fund processes (including accreditation, readiness, project cycle, KM, communications) to maximize Fund effectiveness and relevance to country needs as articulated in national adaptation frameworks and planning processes, including NAPs, NDCs, and Adaptation Communications;
- Incentivize scalability and replicability beyond project scale up grants as part of project design and implementation and readiness support, e.g. through developing a projects scalability framework, leveraging partnerships or introducing relevant project review criteria; and
- Develop processes to identify potential areas and sectors where the Fund's impact can be expanded and issues have been under-funded, or linkages and synergies with related issues can be catalysed, including through the Readiness Programme.

Strategic Pillar 2: Innovation

Modalities for funding the development and diffusion of innovative adaptation practices, tools and technologies expanded, risk-taking encouraged, and linkages to learning strengthened

Mandate and background

Article 10, paragraph 5, of the Paris Agreement highlights the central importance of innovation for overcoming barriers and help meet the urgency of climate change:

Accelerating, encouraging and enabling innovation is critical for an effective, long-term global response to climate change and promoting economic growth and sustainable development.

Para 87 of the Glasgow Climate Pact highlights the importance of international collaboration for climate action:

Importance of international collaboration on innovative climate action, including technological advancement across all actors of society, sectors and regions in contributing to progress towards the PA.

Para 60 refers to strengthening cooperative action of technology development, transfer and the importance of predictable finance:

Strengthen cooperative action on technology development and transfer for...adaptation actions, including accelerating, encouraging and enabling innovation and the importance of predictable, sustainable and adequate financing from diverse sources.

Under the first MTS, the Fund has successfully established an “innovation facility” with different types of grant modalities for developing and diffusing innovative adaptation practices, tools and technologies: large grants of up to US\$ 5 million for all IEs, small grants of up to US\$ 250,000 for NIEs, , and small grants of up to US\$ 250,000 for other entities that are not accredited with the Fund (incl. civil society organizations, businesses, youth, researchers, sub-national governments etc.) through the AF Adaptation Innovation Accelerator administered by UNDP and UNEP. The funding windows have received significant response and successful roll-out.

To support and clarify the objectives of the Fund’s innovation work, the Board set up an innovation task force that developed the Fund’s vision and definition¹ for innovation in the context of climate change adaptation, as well as innovation criteria for AF project proposals, which were adopted by the Board in Decision B.36/39.

Vision: *The Adaptation Fund will fund innovative practices that demonstrate potential to help the most vulnerable communities adapt to the impacts of climate change through its innovation facility and through other modalities. It will fund a broad range of projects and programmes underpinned by a strong innovation rationale, thus creating a portfolio of diverse and locally appropriate innovation projects and programmes. It will support projects and programmes that encourage multi-*

¹ A broad definition was adopted deliberately to permit a variety of approaches towards innovation, as evidence of the no exhaustive list of thematic areas that may be covered under Innovation.

stakeholder partnerships by including e.g., youth, women, disabled people, researchers, civil society, and the private sector. It will support rolling out and scaling up successful innovations, encourage and accelerate new adaptation practices, tools and technologies, and generate evidence on the conditions that lead to successful innovation. It will encourage, as part of an innovation approach partnerships, iteration, learning and adaptive management.

Rationale

In the context of increasing climate urgency and needs, the objective for the 2023 to 2027 period is to further build on and expand the innovation pillar to consolidate the Fund's role as an agile, nimble, and pioneering fund with a track record of unlocking innovative approaches for effective adaptation actions and launching a number of dedicated innovation programmes. The Fund's stakeholders identified the Fund's comparative advantage as *"at the forefront of innovating and testing new practices and technologies then sharing these, particularly through south-south collaboration."*

The Mid-term Review of the MTS found that the innovation pillar offers potential for the Fund to support projects with a higher risk of failure than "conventional" projects with potentially higher reward for adaptation impact. For the next MTS, the Mid-term Review recommended that the Fund supports innovative solutions with higher risk. This has been confirmed by stakeholders during the consultation process: *"Innovation projects must dare to fail, while keeping risks low for involved communities."*

Stakeholders also highlighted the potential to strengthen the innovation pillar through enhanced linkages to the other pillars and enhanced capacity-building and readiness support for innovation.

Expected Results

1) New innovations and risk-taking encouraged and accelerated

Development of innovative adaptation practices, tools and technologies encouraged and accelerated, including solutions with high impact potential even if it comes with a higher risk of failure

2) Successful innovations replicated and scaled up

Innovative adaptation practices, tools and technologies that have demonstrated success in one country spread to new countries/regions or are scaled up from smaller to larger scales

3) Access and capacities enhanced for designing and implementing innovation

Access and capacities enhanced, knowledge generated, and awareness raised, for implementing entities and non-accredited actors to design and implement innovative adaptation solutions

4) Evidence base generated and shared (linkage with learning and sharing pillar)

Evidence on the conditions that lead to successful innovation generated and shared, and partnerships, iteration, learning and adaptive management encouraged. Evidence of effective, efficient adaptation practices, products and technologies generated as a basis for implementing entities and other funds to assess scaling up.

Delivery model

Continuation and expansion of Innovation Facility, including by:

- Support innovation projects and programmes that encourage multi-stakeholder partnerships by including e.g., youth, women, disabled people, researchers, civil society, indigenous people and the private sector
- Expanding and encouraging access to innovation grants, including by non-accredited actors
- Exploring further opportunities and modalities that can create space for innovation and risk-taking
- Supporting capacity-building and readiness for innovation to increase countries' and entities' awareness and capacity for developing and implementing innovation projects, including for target groups such as women and youth, and NIEs
- Enhance learning and sharing of knowledge on innovation in adaptation
- Explore alignment and synergies with UNFCCC technology framework incl. Technology Needs Assessments and Technology Action Plans
- Exploring and creating new partnerships for innovation in adaptation

Strategic Pillar 3: Learning and Sharing

Knowledge and evidence, including local and indigenous knowledge, on effective and innovative adaptation action and finance is generated and disseminated with various stakeholders for application

Mandate and background

Since the Fund's operationalization, the capturing of knowledge and learning from funded adaptation projects and programmes has been a key part of its work, and included as a mandatory element for all projects and programmes. In accordance with the criteria outlined in the Strategic Priorities, Policies and Guidelines (SPPG) adopted by the CMP, decisions on the allocation of resources of the Fund shall take into account the potential for "lessons learned in project and programme design and implementation to be captured" (paragraph 16(d)).

With one of the largest portfolios of concrete adaptation projects under implementation to date, knowledge creation and sharing aimed at enhancing adaptation from local to global levels has become one of the Fund's key assets and comparative advantages in the adaptation finance architecture. Many of its projects have been scaled up by various funders and partners.

Under the first Medium-term Strategy, the strategic pillar dedicated to learning and sharing has further consolidated the Fund's role as knowledge leader on adaptation by nurturing learning across all levels from project/programme levels, to the "whole of organization"/Fund level processes and global adaptation communities in line with Fund's Knowledge Management Framework and Action Plan (AF 2016i). The Fund has introduced dedicated learning grants of up to US\$ 250,000 for NIEs and organized knowledge events for NIEs and other stakeholders for NIEs to exchange lessons learned from implementation. The Fund has also made available online learning resources on direct access, innovation, learning and project scale-up grants in different languages, and knowledge products, including publications and podcast, related to best practices in adaptation finance, such as locally led adaptation, gender-sensitive adaptation finance, youth engagement in adaptation, food security, scalability of Fund projects and transboundary adaptation. The Fund also supports adaptation communities of practice on different themes.

Rationale

For the next strategic period 2023 to 2027, the Mid-term Review of the MTS has recommended to further build on the high potential of the learning and sharing pillar. The Fund's stakeholders expressed that the Fund should maximize its niche and role as pioneer that supports early interventions and first-mover activities and can share knowledge on what works and doesn't work for scaling up of effective solutions by other actors.

As a multilateral climate fund that is focused on serving vulnerable developing countries and communities, it is well placed to inform and advance global knowledge and processes on effective adaptation based on lessons from the local level.

The objective for the next MTS is to consolidate and systematize learning across the Fund's processes and operations, including by enhancing linkages and capturing synergies with the action and innovation pillars, developing new knowledge partnerships and continue to innovate around outreach and visibility of learning on adaptation, as well as by catalyzing learning about new and emerging adaptation areas, innovative solutions and co-benefits with

related areas such as health, biodiversity, conflict, fragility and migration, climate mitigation and losses and damages.

Expected Results

1) *Knowledge generation and dissemination of learning on effective and innovative local adaptation increased and expanded*

Knowledge and evidence on high quality, innovative and local-level adaptation action and efficient adaptation finance processes, including local, indigenous and traditional knowledge where relevant, generated and disseminated with a wide range of actors

2) *Capacity to capture and disseminate learning strengthened*

Developing countries' and implementing entities' capacities to capture and disseminate project-level learning strengthened to help inform national and sub-national adaptation strategies and planning processes

3) *Knowledge partnerships expanded and outreach increased*

New knowledge partnerships created to expand knowledge generation and outreach and visibility of Fund's knowledge products increased

Delivery model

The Fund will catalyse the capturing of project level and Fund level learning and knowledge sharing across the Fund's operations:

- Expand learning grants to facilitate south-south learning and sharing on best practices, including lessons on successes and failures
- Highlight and actively communicate on local communities and vulnerable groups' adaptation experiences and roles as "agents of change"
- Support capacities of recipient countries and implementing entities for enhanced project-level learning processes to capture lessons and learning from the Fund's portfolio of concrete projects/programmes (action pillar) and innovation facility (innovation pillar)
- Support communities of practice and local-level partnerships on topics relevant for locally based and locally led adaptation
- Increase production and dissemination of Fund and IE knowledge products on best practices and emerging areas in adaptation finance that reflect diverse stakeholders' and beneficiaries' perspectives, including where relevant indigenous and traditional knowledge, as well as intersectional perspectives, including on climate adaptation innovations
- Increase outreach and visibility of Fund's knowledge products and activities, including through knowledge events and thematic podcasts
- Engage in more structured and strategic partnerships with research institutions, academia, and knowledge networks at international level and within countries with the aim of involving various actors in knowledge generation
- Participate and contribute to more thematic communities of practice aimed at sharing best practices and lessons learned and sharing the Fund knowledge work

Crosscutting Strategic Themes

The following six strategic themes will guide the Fund's processes and activities across strategic pillars and related funding modalities in the 2023 to 2027 period by integrating them into the three strategic pillars' expected results and delivery models.

➤ **Promoting locally based and locally led adaptation**

One of the key advantages of the Adaptation Fund is its overall institutional design and track record of promoting the involvement of national to local level actors in the planning and implementation of adaptation solutions. Since its inception, Fund has promoted the direct access modality and under the first MTS has piloted the enhanced direct access modality, which further devolves decision-making to the local level and local actors. The Fund has endorsed the Principles on Locally Led Adaptation and based on its existing portfolio, has built internal capacity to manage projects that demonstrate locally led adaptation, as evidenced by the results of several completed EDA projects. In addition, all of the Fund's activities regardless of access modality deliver direct benefits for the local level and are "locally based".

As part of the new MTS, the Fund seeks to further enhance and expand its support for locally led adaptation in order to contribute to its mission of accelerating effective adaptation action, innovation and learning in developing countries.

- Under the action pillar, the Fund will continue to support concrete adaptation projects and programmes that meaningfully involve and deliver benefits to local actors. Support will be expanded to modalities that promote locally led action, including the Direct Access modality as well as the Enhanced Direct Access modality.
- By fostering innovation and creating a portfolio of diverse and locally appropriate innovation projects and programmes, the Fund will benefit from its existing portfolio of "locally led adaptation" that has proven to be effective and efficient including under the Adaptation Fund Climate Innovation Accelerator (AFCIA) which ensures access of climate finance to non-accredited entities to the Fund.
- In line with the Fund's KM strategy objective to "enhance developing countries' knowledge about effective adaptation, especially in relation to the most vulnerable communities" and in the context of the learning and sharing pillar of the new MTS, the cross-cutting theme of "locally led adaptation" of the new MTS will enable the Fund to expand its knowledge base on successful and efficient adaptation actions involving local actors through different modalities, including through the participation in communities of practice for locally led adaptation.

Recognizing the specific nature of LLA interventions which require dedicated capacity and significant resources for successful project implementation, the Fund will further explore options to support LLA stakeholders during project design and implementation, including through the Fund's readiness program as well as additional guidance documents, i.e. template, review sheet, KM products, etc. Such dedicated support will help overcome some of the existing challenges experienced during the first MTS including for example the low programming under the EDA window due to preparatory work during the launch of the window. However, the existing Fund's diverse network of implementing entity constitutes a strong basis for a successful and swift rollout of the LLA themes under the new MTS.

➤ **Enhancing access to climate finance and long-term institutional capacity**

Institutional and technical capacity is critical for achieving accelerated and sustained adaptation action, innovation, and learning and sharing. The IPCC highlights that building capacity and removing some barriers to accessing finance is fundamental to accelerate

adaptation, especially for vulnerable groups, regions and sectors (IPCC 2022). Article 11 of the Paris Agreement mandates the international community's support for country-driven capacity-building for developing countries, particularly those with the least capacity, such as the least developed countries (LDCs), and the Small Island Developing States (SIDS). In order to effectively deliver on the Fund's mandate, the AFB established the Readiness Programme for Climate Finance (the Readiness Programme) in 2013 (AFB Decision B.22/24) and in 2016, institutionalized the programme as a permanent feature of the Fund (AFB Decision B.27/38). The readiness support has unlocked financial and non-financial resources necessary for accrediting direct access entities and developing high-quality project proposals that comply with the Fund's environmental and social safeguards and gender policies. This in turn has been crucial for engaging and benefitting the most vulnerable communities and social groups in project design and implementation

In addition to the dedicated readiness and capacity support, all of the Fund's activities contribute to long-term institutional and technical capacity of developing countries to access and manage resources. By strengthening national systems, building a successful track record of projects, and generating evidence and learning, the Fund has been empowering recipient countries to access other funds and scale up AF-funded projects.

Under the MTS 2023 to 2027, the Fund aims to further support capacity-building across all three pillars of the MTS, with dedicated support being delivered not only for accreditation and concrete projects/programmes, but also for the new funding modalities for innovation and learning and sharing. It is also expected that additional capacity building under this cross-cutting theme will help unlock the potential of LLA as well as address implementation challenges described above. The Fund also aims to further explore how to strengthen the focus on the long-term capacity for the most vulnerable communities and local actors, e.g. through strengthening the readiness programme, including for innovation and learning and sharing, strengthen programming linkages with existing national planning processes (such as NAPs and NDCs etc.).

➤ **Empowering and benefitting the most vulnerable people and communities as agents of change**

In recognition of the disproportionate adverse impacts of climate, the Paris Agreement indicates that adaptation action should follow participatory and fully transparent approach and consider the needs of vulnerable people, groups and communities (Articles 7.5 and 7.6). On the one hand, vulnerable groups, such as poor, youth, indigenous people or refugees, tend to have limited or less access to opportunities, information, resources and services, that diminish their resilience to adapt to climate change hazards. On the other hand, many of these groups, for example, rural and indigenous peoples, play a key role in adaptation interventions in the sectors such as water, forestry and agriculture, which are being impacted by climate change.

Across operations and funded activities, the Adaptation Fund aims to engage, benefit and empower the most vulnerable people, communities and social groups to increase their adaptive capacity and resilience, and to enhance their access to resources. Recognizing that vulnerability and vulnerable groups are context-specific and vary between countries, the Fund requires the particular needs of the most vulnerable to receive special attention in developing adaptation projects and programmes and meaningful participation of the most vulnerable and marginalized groups throughout the lifecycle of the project and programme implementation. The Fund-supported projects are required not only to identify the most vulnerable and marginalized groups, but also to address the specific threats and obstacles that hinder their empowerment. Activities also invest in capacity building of the most vulnerable promote inclusive governance in adaptation planning and implementation

Under the second MTS, the Fund aims to further expand this approach by focusing on the empowerment of vulnerable people and communities as agents of change. This highlights the important and active role that beneficiaries and affected communities play for shaping project outcomes and transformative change on the ground. AF-funded projects that have successfully supported locally led adaptation, are designed to empower vulnerable and/or marginalized groups such as women or indigenous peoples as active leaders in their communities. Such roles can even be included in formalized relationships with executing entities.

➤ **Advancing gender equality**

Gender responsive climate finance is crucial to the effectiveness and sustainability of adaptation. Gender norms and related cultural rules are part of what structures the interactions and reactions to climate threats and opportunities in human systems by influencing roles, expectations, attitudes and behaviors of human beings. Climate change impacts women and girls, men and boys, and non-binary people differently because of existing gender inequalities, gender discrimination and social exclusion that could be perpetuated by systemic power imbalances and structural barriers. In addition, gender interacts with other forms of inequality, and therefore by better understanding and addressing the complexity and particularity of inequalities in the lives of women, girls, men and boys and non-binary people would enable more targeted and locally appropriate actions.

In this context, gender equality is an integral part of the Adaptation Fund's strategic focus and underlying theory of change. Without a commitment to gender equality, the Fund's vision, goal, and desired impact cannot be realized, and this is explicitly and implicitly recognized in the Fund's mission statement. Under the first MTS, the Fund has updated its Gender Policy and Action Plan, and has developed a related guidance document for IEs on the implementation of the policy. The Fund has also published studies and knowledge products on new concepts in the area of gender-responsive climate finance, such as intersectional approaches.

Accordingly, the Fund under the second MTS remains committed to working within its operational framework and with its partners to uphold the human rights of everyone, regardless of their gender, and to contribute to gender equality and the empowerment of women and girls. Acknowledging that men and boys, women and girls have differing adaptation needs, priorities and capabilities and by responding to those in a gender-differentiated and intersectional way, the Fund aims to provide targeted support to women and girls as positive change agents with deep knowledge of adaptation-relevant systems, such as those related to food, water or energy, at the forefront of climate change and by actively addressing their disproportionately higher vulnerability.

➤ **Encouraging the scaling and replication of results**

Since its establishment, the Adaptation Fund has promoted the scaling up of its funded projects by other partners in a range of sectors including in climate resilient water management, food security, agriculture, ecosystem-based adaptation, and multi-hazard early warning systems. Conversely, all Fund projects need to build on information and experiences from previous projects in the same location or sector, if any. By the end of FY21, a total of 19 AF funded projects have been scaled up by various partners including the Green Climate Fund.

Under the action pillar, projects scaling up address the Fund's objective to achieve greater impact by promoting greater sustainability and long-term resilience. Under innovation, by supporting pilot interventions with strong proof of concept, the scaling up of projects helps disseminate successful adaptation practices and innovations. Under learning and sharing, the

project scaling up constitutes an important source of learning and demonstrating replicable models of AF interventions including for the benefice national, regional, and local actors.

As a cross cutting theme, the scaling up of existing projects contribute to achieve the Fund's objective by (i) helping countries raise their adaptation action with further access to resources for climate adaptation investments in a facilitated way, (ii) promote facilitated access to climate finance with a reduced transaction costs and improved time efficiency in the overall proposal cycle and (iii) allow the Fund and countries achieve sustainability and continuation of results achieved by first interventions. The Fund will explore opportunities to expand the range of stakeholders that may scale up AF projects, and to take steps towards being more proactive towards scaling up, upstream in the project design process.

➤ **Strengthening complementarity and coherence, and synergies, with other adaptation funders and actors**

Enhancing complementarity, coherence, and coordination with other climate finance channels as well as with other partners under the UNFCCC, is at the forefront of the Adaptation Fund's mission to accelerate effective adaptation action, innovation and learning in developing countries. Under the first MTS, the Fund has continuously strengthened its collaboration with other climate funds, including the GEF, GCF and CIFs, including through the annual dialogue of climate funds and other operational initiatives at secretariats' level, related to accreditation and re-accreditation, direct access, knowledge management, readiness support, results management and the scaling up of successful projects

Under the second MTS, the Fund will continue to strengthen complementarity and coherence with other climate funds and UNFCCC bodies across strategic pillars and Fund operations, and will further explore synergies and partnerships with other adaptation funders, actors and initiatives, including civil society and the private sector.

Financial implications & allocations

Funding decisions under the MTS 2023 – 2027 will continue to be guided by the Strategic Priorities, Policies and Guidelines of the Adaptation Fund, adopted by the CMP as Annex 1 of the OPG. The majority of resources will continue to be reserved for concrete adaptation projects/programmes under the action pillar, while grants under the innovation and learning and sharing pillars will also be expanded, and new grant opportunities may be developed or in line with the strategic pillars and cross-cutting themes. Details on grant opportunities and timelines of implementation will be developed in the Implementation Plan of the MTS 2023 – 2027.

Illustration 5:

Theory of Change of the Medium-Term Strategy (2023 – 2027)



PART III: ENABLING SYSTEMS

7. SUCCESS STRATEGY

The Adaptation Fund has a solid track record of supporting concrete adaptation projects/programmes in vulnerable countries through established operational policies, procedures, and systems, which have further evolved during the first MTS period. The Fund's success strategy for the 2023-2027 period builds upon these foundations. As a continuously growing and learning institution, the Fund will continue to develop its policies and systems, as needed to fulfill its mandate and strategic mission and to remain efficient and fit for purpose under the Paris Agreement.

7.1 Niche

The Adaptation Fund will maintain its specialised niche within the evolving architecture of international climate finance, characterised by its focus on:

- Delivering concrete adaptation action with tangible results on the ground in developing country Parties
- Funding smaller-scale ("starter") projects/programmes, typically up to US\$10 million for a single-country project or US\$14 million for a regional programme
- Involving vulnerable and marginalized communities and groups in developing countries
- Direct and Enhanced Direct Access modalities that strengthen country ownership and locally led action by devolving decision-making from global to national, sub-national and local levels
- Providing simplified and efficient application and approval procedures for a fast channelling of urgently required adaptation funding to meet the needs of vulnerable developing countries and communities
- Building the capacities and track records of developing country institutions to access other sources of adaptation finance
- Testing new and innovative practices, tools, and technologies for effective adaptation
- Generating an evidence base of effective adaptation for global learning and sharing, especially through south-south collaboration, and for scaling up of successful solutions by other funders

7.2 Governance and institutional arrangements

The Adaptation Fund is supervised and managed by an international Board, which has been hosted by the Federal Republic of Germany since 2009. The World Bank currently serves as interim Trustee and the Global Environment Facility provides Secretariat services through a dedicated and functionally independent team, also on an interim basis. The World Bank monetizes units generated by flexibility mechanisms under the Kyoto Protocol and the Paris Agreement, such as Certified Emissions Reductions (CER) received by the Fund and manages the Adaptation Fund Trust Fund. The Secretariat provides research, advisory, administrative, and an array of other services to the Board.

Successive reviews of the Adaptation Fund by the Subsidiary Body for Implementation², as well as the two rounds (phase 1³ and phase 2⁴) of an independent evaluation of the Fund in 2015 and 2018 (TANGO International & ODI 2015 and 2018)⁵, concluded that these arrangements work well, are reasonably efficient and should be maintained. There is no inherent conflict between these arrangements and the Fund serving the Paris Agreement, nor are there evident conflicts between these arrangements and the Fund's MTS. Therefore, the Fund presumes a continuation of existing institutional arrangements subject to future guidance from Parties.

The Adaptation Fund aims to embody the highest aspirations of transparency and accountability. In 2009, the Adaptation Fund Board established an Ethics and Finance Committee, a Project and Programme Review Committee, and an Accreditation Panel. All three have fulfilled crucial roles in an effective and efficient manner (TANGO International & ODI 2015). They have been maintained with no changes to their respective terms of reference in the 2018-2022 period. In 2019 the Fund launched an independent evaluation function, the Adaptation Fund Technical Evaluation Reference Group (AF-TERG). The Board commits to enhance transparency and accountability of the Fund and is open to review the current processes and procedures of the Fund's operations whenever it is deemed necessary while balancing efficiency.

Civil society contributes to the Adaptation Fund in a variety of ways, including resource mobilisation, real-time updates on and assessments of supported projects, input from the intended beneficiaries, inputs to policy development, and knowledge management. Though current practices are reasonably effective in terms of transparency and even accountability to civil society organisations, there is still scope for improvement (TANGO International & ODI 2015, paragraphs 85-86). In the 2018-2022 period, the Board has reviewed the existing engagements with civil society and explored options for further enhancing civil society participation and engagement in the work of the Fund based on recommendations from the Adaptation Fund Civil Society Network. In the 2023-2027 period, it aims to conclude this process by developing a policy or guidelines for civil society engagement and putting it into action for even greater collaboration with not only civil society but also wider stakeholders.

Implementation of the Fund's Medium-Term Strategy may require the Secretariat to recruit additional staff. Staffing decisions will be made on the basis of specific proposals presented to the Board on an annual basis.

7.3 Principles and modalities

Decision 5/CMP.2, paragraphs 1 and 2, established an initial set of principles and modalities to guide the Adaptation Fund (UNFCCC 2007b). In 2008, these principles and modalities were updated and expanded upon by Parties, as per Decision 1/CMP.4, Annex IV (UNFCCC 2009). This second set of guiding principles and modalities was incorporated into the Fund's Operating Policies and Guidelines and is broadly consistent with Decision 5/CMP.2 (UNFCCC 2007b) as well as the Accra Agenda for Action (OECD 2008), the Busan Partnership for

² The Fourth Review of the Adaptation Fund is scheduled to be finalized at CMP17 in November 2022.

³ The first phase of the Overall Evaluation of the Adaptation Fund was conducted in 2014-2015, focused on the Fund's institutional design and processes.

⁴ The second phase of the Overall Evaluation focused primarily on the Fund's portfolio, including long-term outcomes, impacts and sustainability of the Fund's interventions, and was built upon the first phase of the independent evaluation of the Fund and two reviews conducted by country Parties to the Kyoto Protocol (CMP) from 2011-2014, as well as lessons learned. The second phase of the evaluation looked into the Fund's systems and processes and specifically at the Fund's portfolio of projects and programmes from 2010 to March 2017.

⁵ The independent overall evaluation of the Fund was conducted under Board decision B.13/20.

Effective Development Cooperation (OECD 2012), and strategic goals under the Sendai Framework for Disaster Risk Reduction (UN 2015b).

Since the development of the Fund's MTS in 2017, new decisions by the CMP and CMA related to the Paris Agreement and Adaptation Fund have been made. As per decisions 13/CMA.1 and 1/CMP.14, the Fund started serving the Paris Agreement under the guidance of, and became accountable to, the CMA with respect to all matters relating to the Paris Agreement from 1 January 2019 and will exclusively serve the Paris Agreement once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available to the Adaptation Fund. Regarding source of finance, by the same decisions, the Parties decided that the Fund continues to receive the share of proceeds, if available, from activities under Article 6, 12 and 17 of the Kyoto Protocol, and that it shall be financed from the share of proceeds from the mechanism established by Article 6, paragraph 4, of the Paris Agreement and from a variety of voluntary public and private sources.

In Glasgow, Scotland in November 2021, by decision 3/CMP.16, the Parties confirmed that Parties to the Paris Agreement are eligible for membership on the Adaptation Fund Board, and that developing country Parties to the Paris Agreement that are particularly vulnerable to the adverse effects of climate change are eligible for funding from the Adaptation Fund. By decision 3/CMA.3, Parties also decided that the share of proceeds that is levied to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation (a levy of 5 per cent) shall be delivered to the AF pursuant to decisions 13/CMA.1 and 1/CMP.14. By decision 2/CMA.3, the Parties also encouraged participating parties and stakeholders using cooperative approaches to commit to contribute resources for adaptation, in particular through contributions to the AF, and to take into account the delivery of resources under Article 6 of the Paris Agreement, to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. While the Fund's Medium-Term Strategy cannot presume future decisions by Parties, it can ensure alignment of the Fund's relevant policies and instruments with the existing guidance and decisions by Parties.

If the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available to the Adaptation Fund during 2023-2027 period, the Fund will exclusively serve the Paris Agreement, and this will affect the overarching principles and modalities of the Fund. With a view to being prepared in advance before the full 'transition' occurs, since 2019, the Adaptation Fund Board have considered relevant matters, reviewing and updating the Fund's key instruments, policies and guidelines such as the Operating Policies and Guidelines for Parties to Access Resources, Strategic Priorities, Policies and Guidelines, Risk Management Framework, Environmental and Social Policy, Gender Policy and Action Plan, Knowledge Management Strategy and Action Plan, Open Information Policy, Zero Tolerance Policy Against Corruption, Ad-Hoc Complaint Handling Mechanism, and annexes, updates, amendments and guidance documents as necessary and appropriate.

Operating policies and guidelines: The Fund's Operating Policies and Guidelines for Parties to Access Resources (OPG) were established in 2009 (AF 2009) and updated to reflect further guidance from Parties in 2014 (AF 2014a), 2016 (AF 2016a) and 2021 (AF 2021a). The OPG, along with its annexes and ancillary policy documents, describes funding priorities, eligibility requirements, fiduciary standards, accreditation and re-accreditation processes, streamlined accreditation process, the Fund's complaint handling mechanism, risk management framework, open information policy, resource mobilization strategy, its policy for dealing with project/programme delays, its evaluation policy, and its medium-term strategy as well as environmental, social, gender, and monitoring and reporting requirements.

Environmental and social safeguards: The Adaptation Fund has had a comprehensive Environmental and Social Policy (ESP) since 2013 and ESP Guidance Notes for Implementing

Entities since 2015, both of which were updated in 2016 (AF 2016d and 2016h). The ESP requires project/programme proposals to identify, avoid, minimize, or mitigate environmental and social harms that might result from funded projects/programmes (e.g., impacts to marginalized and vulnerable groups, human rights, gender equality and women's empowerment, indigenous people, biological diversity). The ESP, which built upon the Fund's pre-existing policies, operating procedures, and project cycle, is now integral to the accreditation process.⁶

Gender: The Fund's Gender Policy and Action Plan was adopted in March 2016 (AF 2016e) and amended in 2021 (AF 2021). It is a human rights-based policy systematically integrating key ESP principles, with the goal of achieving gender equality and the empowerment of women and girls throughout its operations, by adopting an intersectional and a gender-responsive approach that ensures that the Fund's supported projects and programmes provide women and men regardless of their background, age, race, ethnicity, with equal opportunities to strengthen their agency, build their resilience, address their differentiated vulnerabilities and increase their capability to adapt to climate change. The Fund's Gender Policy implements two mandates: i) "do no harm", to address and mitigate against assessed potential project/programme risks for women and girls, men and boys in relation to concrete adaptation actions financed by the Fund; and ii) "do good", to proactively address existing structural gender gaps and gender norms that hinder women's resilience and capacity to adapt to climate change, by adopting gender-responsive measures that lead to concrete benefits and opportunities for women and men. Under the Gender Policy, IEs are required to take specific actions to ensure gender-responsive interventions, including conducting a gender assessment and undertaking a meaningful and gender-responsive stakeholder consultation throughout the project lifecycle, reporting on gender indicators in its monitoring and evaluation framework plus capturing gender lessons and knowledge in its monitoring and evaluation and. In that regard, the advancement of gender equality and the empowerment of women and girls as a core cross-cutting theme is an integral part of the Fund's work, increasing the adaptive capacity of human systems in line with its mission to support effective, sustainable and inclusive adaptation.

Transparent and open governance: Since its inception, the Fund has disclosed information and published policies, meeting reports, project proposals, project reviews, project performance monitoring and evaluation reports, and related documents on its website. In 2013, the Fund formalised these practices under its Open Information Policy (AF 2013b) and began using the International Aid Transparency Initiative standard to ensure compliance with Parties' expectations of transparent and open governance. The Fund strives to be a leader in transparent decision-making and, therefore, continues to adapt and improve transparency. As part of its effort to provide information in more accessible formats, the Fund has made available an interactive mapping portal on its website, giving users full access to financial and other data across its project/programme portfolio.

Learning and sharing: The Fund's Knowledge Management Strategy and Action Plan was thoroughly revised in 2016 (AF 2016i). It aims to:

- Enhance developing countries' knowledge about effective adaptation, especially in relation to the most vulnerable communities
- Improve the design and effectiveness of concrete adaptation activities by learning and sharing lessons from projects/programmes
- Share knowledge about Direct Access, accreditation and adaptation finance readiness
- Share data, information and knowledge about reducing vulnerability and increasing adaptive capacity so as to position adaptation as a global priority

⁶ In his Letter to the UNFCCC Subsidiary Body for Scientific and Technological Advice, the UN Special Rapporteur on human rights and the environment described the Adaptation Fund's ESP as a strong example to be followed by others (Knox 2016).

Knowledge management has been a mandatory component of projects and programs since the inception of the Fund. Under the Medium-Term Strategy the Fund has been very active in extracting and generating lessons learned from its funded adaptation interventions and sharing them with countries around the world using different dissemination mechanisms for increased efficiency of adaptation interventions.

Given the large amounts of knowledge accumulated by the Fund and the continuous learning needs expressed by countries, the Fund will update the current Knowledge Management Strategy and Action Plan to reflect these realities. This strategy will continue to focus on enhancing developing countries' knowledge about effective adaptation and improve the effectiveness of concrete adaptation activities through shared learning. It will also explore entering and strengthening partnerships with other organizations and knowledge institutions.

Illustration 6: Constellation of the Fund's existing policies, strategies and guidance documents



7.4 Complementarity, coherence and coordination

Enhanced complementarity, coherence and coordination between climate finance delivery channels pose significant opportunities to advance the Adaptation Fund's effectiveness, efficiency and sustainability. As important, enhanced complementarity, coherence, and coordination may make accessing and managing climate finance easier and less costly for developing country Parties. Therefore, to further increase complementarity, coherence and coordination in the delivery of climate finance the Fund is committed to continuing to work with other climate funds, including the GEF, GCF and CIFs, and other UNFCCC constituted bodies, including the Adaptation Committee, the Climate Technology Center and Network, the Paris Committee on Capacity-Building, and the Standing Committee on Finance, during the 2023-2027 period.

The Fund will continue its engagement with the other climate funds under the UNFCCC complementarity and coherence framework as well as bilateral discussions with each of the climate funds. Considering its important role in building resilience over the past fifteen years, the Fund will further expand its cooperation with other organizations active in the climate change adaptation arena and joining partnerships, knowledge platforms and other initiatives including among other the Hydromet development alliance, the Locally Led Adaptation community of practice, the COP26 Catalyst for Climate Action, and climate and development ministerial meetings.

Key opportunities for enhanced complementarity, coherence and coordination with other climate funds include:

- Approaches to environmental and social safeguards, long-term capacity-strengthening, achieving gender equality, and empowering women and girls
- Climate finance readiness support
- Diffusion of innovative adaptation products, systems, and technologies
- Fiduciary policies and financial safeguards
- Fast-tracking of implementing entities for accreditation and reaccreditation
- Scaling-up of projects and programmes
- Learning and sharing, and knowledge management
- Monitoring systems and the measurement, reporting and verification of support provided/outcomes achieved
- Private sector engagement
- Streamlined pathways for scaling up successful projects/programmes
- Mobilisation of financial resources

7.5 Culture and competencies

The Adaptation Fund's organisational culture and core competencies are essential to the success of its Medium-Term Strategy. The Board recognizes that as the volume and diversity of the Fund's areas of work grow, the Fund needs to continually monitor and adjust, as needed, its ways of operation, to ensure they are fit for purpose. The Board commits to monitoring and safeguarding:

- Its own operational culture – especially the Board's non-hierarchical working environment and willingness to rapidly evolve Fund policies within the overall context of guidance from Parties
- The Secretariat's organisational culture – including its agile working environment that encourages the free flow of ideas, thinking outside the box, and collaborative versus competitive efforts.

The Board also takes responsibility for monitoring, reinforcing and capitalising on the Fund's capacity to innovate vis-à-vis its own processes, structures, and strategies; work directly with

vulnerable countries (including, *inter alia*, LDCs and SIDS); and target the most vulnerable communities and social groups.

7.6 Resource mobilisation

The Adaptation Fund's initial resource mobilisation model relied primarily on a two per cent share of proceeds arising from the sale of Certified Emission Reductions (CERs). This has been an innovative funding model that set the Adaptation Fund apart from other multilateral climate funds, as it was designed to rely on an automatic funding source generated by an international carbon market with the potential for increasing climate mitigation ambition and commitments to mobilize increased resources vulnerable developing countries' adaptation actions.

In 2008, this innovative mechanism was projected to generate revenues of around €480 million for the 2008-2012 period. Unfortunately, CER values crashed; and the Fund has relied on the effort of Board members, its Secretariat, civil society, and Parties to meet fundraising targets through *ad hoc* resource mobilization from contributing governments on an annual basis. The Fund has also continued to receive resources from the sales of CER unit, monetized by the trustee, although the revenue from that source has remained relatively low. As of June 2022, cumulative revenues from the share of proceeds for the Fund amount to USD 211.80 million.

Parties to the Paris Agreement have decided that the Fund shall be financed from the share of proceeds from the Agreement's multilateral market mechanism established by Article 6, paragraph 4 and from a variety of voluntary public and private sources. An equivalent of 5 per cent of the "share of proceeds" from carbon markets linked to the 6.4 multilateral mechanism will be transferred to the Adaptation Fund to assist developing countries Parties that are particularly vulnerable to the adverse effects of climate change (UNFCCC 2021, Decision 3/CMA.3). In addition, through Article 6.2, strong encouragement is provided to Parties to provide funding to the Fund voluntarily (*ibid.*, Decision 2/CMA.3).

For the period of the second MTS from 2023 to 2027, it is important to note that the operationalization of the Article 6.4 and 6.2 mechanisms is still ongoing with their Supervisory Body to develop recommendations on a number of issues, including "appropriate levels for the share of proceeds for administrative expenses and its operation, including in order to enable a periodic contribution to the share of proceeds for adaptation for the Adaptation Fund" (Decision 3/CMA.3, para. 6 (b)). These details in the administrative systems are quite complex and the process to operationalize them is expected to take time. The start of the mechanisms' implementation therefore remains relatively uncertain and it is not yet clear how much resources will be generated for the Fund and when they would be transferred.

Responding to the decline in revenue from the CERs, the AF Board developed an initial fundraising strategy in 2013 and in 2016 adopted the Fund's first Resource Mobilization Strategy and Action Plan for the period from 2017 to 2020 (AF 2017b). The main focus of both strategies were to bridge the gap with country contributor donations while trying to diversify funding away from contributions from contributor governments, towards raising revenue from the private sector.

The Fund's minimum resource mobilisation target for the 2016-2017 period was US\$80 million per year, and was raised to US\$100 million per year for the 2018-2020 period in response to growing demand. For the period of 2021-2022, the Board increased the minimum target to US\$ 120 million per year, noting that more resources would be welcome to meet the demands by countries as expressed in a growing active pipeline of submitted proposals to the Fund.

The Fund has been successful in meeting these targets, even in 2020 in the challenging context of the global COVID-19 pandemic.

In addition, the Adaptation Fund is the only multilateral climate funds that has successfully set up procedures for receiving contributions from sources alternative to government funding, including donations from the private sector and individuals, and has started to receive such donations. While resources mobilized are far from sufficient for meeting funding needs, these achievements demonstrate the potential for this diversified model.

The *ad hoc* and unpredictable nature of resourcing limits the Fund's ability to carry out its mission and to maximize its role in the international climate finance architecture. The fact that the Fund was set-up with the initial notion that an automatic and steady funding stream would be available through CER sales has meant that no other mechanisms for regular, predictable financing was instituted. Despite these resource mobilization challenges and uncertainties, and the constraints these put on Fund operations and countries' ability to submit proposals, the Fund has made significant achievements and grown into a mature institution with an ever increasing pipeline of proposals under development that exceed the available resources.

The Fund's second MTS will operate in the context of increasing adaptation efforts to double global adaptation finance by 2025. In this context, Parties to the Paris Agreement in 2021 welcomed the record annual resource mobilization from recurring and new contributors equivalent to nearly US\$ 349 million. Recognizing the importance of the adequacy and predictability of adaptation finance, including the value of the Adaptation Fund in delivering dedicated support for adaptation, developed country Parties are invited to consider multi-annual pledges contributions to the Adaptation Fund.

The Fund is ready to respond to growing demands and expectations by countries by further increasing its ambition and delivery of resources to developing countries. The Board has already increased the amount of resources and number of entities eligible for accreditation per country, and is in the process of developing the second Resource Mobilization Strategy and Action Plan for the period 2022 – 2025 that will set out an approach for setting resource mobilization targets that are based on countries' needs for Fund resources.

This second Medium-term Strategy (2023 – 2027) sets out the Fund's strategic priority areas for contributing to accelerating adaptation finance, with specific funding windows, targets, and timelines to be defined in the subsequent MTS Implementation Plan. The Implementation Plan will inform the resource mobilization targets under the resource mobilization strategy, in addition to related considerations, such as the active pipeline of proposals and guidance from Parties.

The Fund looks forward to working with stakeholders on developing a resource mobilization model capable of meeting Parties' rapidly growing expectations, based on existing decisions on share of proceeds under the Paris Agreement's Article 6 Mechanism and the Fund's resource mobilization experiences and achievements to date, to enhance the diversity, flexibility, and reliability of income streams.

8. MANAGEMENT SYSTEMS

The Adaptation Fund has a robust set of management systems in place that enabled the successful implementation of the Fund's 2018-2022 Medium Term Strategy. As the Fund's 2018-2022 Strategy has rolled out new strategic focuses, the Fund's activities have diversified to a large extent with several new funding windows and grant types launched. In the meantime, in light of increasing and urgent adaptation finance needs and stakeholders' recognition of the Fund's value as a key adaptation finance delivery channel, the demand for the Adaptation Fund is expected to continue to grow at a fast rate. For the 2023 – 2027 period, although most of Fund's existing policies and guidelines remain relevant, the management systems need to be reviewed and updated on a continuous basis to remain fit-for-purpose in light of evolving needs.

8.1 Adaptive and Results-based Management

The Fund's Results-based Management (RBM) system is an integrated approach to performance improvement that has been widely adopted by governments, UN agencies, development banks, and CSOs. It links monitoring, evaluation and learning with strategic planning and budget allocation processes to:

- Ensure alignment between goals, impacts, outcomes and outputs
- Enable ongoing, evidence-based decisions to improve organisational and project / programme performance

The Adaptation Fund's RBM system is described in its Approach to Implementing Results-Based Management (AF 2010), Strategic Results Framework (*ibid.*, Annex I), Fund-Level Effectiveness and Efficiency Results Framework (*ibid.*, Annex II), and Project-Level Results Framework and Baseline Guidance (2011a). During the 2018 – 2022 period, the Fund has further improved this system by developing an operation's manual for all operational processes in line with existing policies and procedures. The Fund has also rendered its RBM system more inclusive by following the key principles of Adaptive Management (AM), which has proved successful to continue implementing the MTS and supporting recipient countries during the COVID-19 pandemic. During the 2023 – 2027 period, the Fund will further improve its reporting capacity with an online reporting system for project performance reports (PPR) to be implemented by end 2022.

The Fund will continue reporting on its impact using the five core indicators⁷ as defined in the current strategic results framework and on annual basis as part of the Fund's annual report.

Once the new MTS is approved by the Board and following the Board guidance, the Fund's results framework will be updated to reflect any new reporting requirement including those newly proposed under the Fund's evaluation policy and any adjustment of the Fund's core indicators.

Inclusiveness is an important RBM principle (UNDG 2011, 5-6). Strong RBM systems engage stakeholders in the development of results frameworks and implementation of monitoring, evaluating, and learning processes. Within the context of the Fund's Medium-Term Strategy, AM implies an explicitly experimental approach to managing structures, systems, and processes. Specifically, AM is the integration of design, management, and monitoring to systematically test assumptions, learn and adapt. Within this formula:

⁷ The five core indicators include (1) Number of beneficiaries (direct and indirect); (2) Number of Early warning systems; (3) Assets produced, developed, improved, or strengthened; (4) Increased income, or avoided decrease in income and (5) Natural habitats protected or rehabilitated.

- "Testing assumptions" is about trying different actions to achieve a desired outcome. The goal is to develop an understanding of *which* actions work and *why*.
- "Learning" is about systematically documenting processes and results. This documentation is used to avoid making the same mistakes in the future and, through sharing, enable the broader community to benefit from the Fund's experiences.
- "Adaptation" is about taking action to improve Fund structures, systems and processes based on the results of monitoring. If the Fund is not achieving expected results, this can only be due to faulty assumptions, poor execution, changing circumstances, or a combination of these problems. Adaptation involves changing assumptions and/or execution to respond to new information obtained through monitoring efforts.

8.1.1 Monitoring, evaluation and reporting system

This second Medium-Term Strategy constitutes the Fund's highest-level Results Framework for the 2023-2027 period and, as such, is the basis against which the Fund will be evaluated for both learning and accountability purposes. Towards this end:

- Implementing Entities will monitor, evaluate and report on projects/programmes funded under the three pillars in order to assess performance and distil valuable lessons that can improve the outcomes and impact of future projects. The Fund will encourage participatory impact assessments as part of a comprehensive framework for project/programme-level M&E and sharing lessons learnt from failures as well as successes. In keeping with the Fund's commitment to transparency and accountability, as well as current policy Project Performance Reports (PPRs) will be posted online.
- The Secretariat will monitor whether activities under the three strategic pillars are being implemented and crosscutting themes advanced in line with the Fund's 2023-2027 Strategy, standards are being met, risks are being managed, targets are being reached, and resources are being used efficiently. Findings and recommendations will be submitted to the Board in an Annual Performance Report. This, along with additional materials it may deem fit, will inform the Board's Annual Report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) or Paris Agreement (CMA).
- In line with the recommendations of the mid-term review of the first MTS and as including in the secretariat management response, the secretariat will seek to enhance the reporting on linkages between pillars of the new MTS, with a dedicated section in the Fund's APR; using an indicator and a template to be approved by the Board as part of the revised results framework.

Through the evaluation function of the Fund, the Technical Evaluation Reference Group of the Adaptation Fund (AF-TERG), the Board will assess the MTS implementation as well as any other initiatives that support the achievement of the Fund's objectives. The following elements will guide the Board on this aspect, including among others:

- An independent performance evaluation of the three pillars' activity portfolios, focusing on progress towards Expected Results, lessons to be learnt from failures as well as successes, and implications for Fund-level outputs and objectives. This evaluation will specifically assess the relevance, efficiency, effectiveness and potential long-term impact of activities under the strategic pillars action, innovation, and learning, as well as the Fund's second Medium Term Strategy as a whole.
- An independent mid-term evaluation of the MTS which will take stock of what the Fund has accomplished during the first half of the strategic period, and to cast its sights on what will be needed to reach the ambitious targets set by the strategy.

- Any other independent process evaluation or overall evaluation of the Fund, examining the relevance, efficiency, effectiveness and sustainability of the Fund's institutional arrangements, strategic priorities, policies and processes. These independent evaluations will be finalised in time to inform the Fund's third Medium Term Strategy for the 2028-2032 period.

Additional evaluations (thematic or any other) may be conducted during the 2023-2027 period should the Board expect findings to improve Fund performance or processes.

In the context of the Fund's new Evaluation Policy (AF 2022b) which seeks to promote (i) accountability for the achievement of the Fund objectives and (ii) learning, feedback, and knowledge-sharing on results and lessons learned among different groups participating in the Fund, the MTS evaluation and learning will be informed by the three-level evaluations as defined by the EP including (i) project level evaluation, (ii) Implementing Entities Level evaluation and (iii) Fund's level evaluation.

8.1.2 Knowledge management system

Knowledge management and learning are key components of RBM and are important components for any organisation dealing with adaptation to climate change. Learning encompasses a cycle of planning, periodic performance assessment and organizational learning – all of which are supportive of knowledge creation and sharing. It is important to ensure that learning influences strategy development and programme/project design, and that lessons are fed back into programme/project implementation. A learning component is also critical for identifying and managing risks while bearing in mind the expected results and resource levels. This involves increasing knowledge by learning, knowledge dissemination and feedback into decision making, project design and strategy development. During the 2023 – 2027 period the Fund will further improve its cross- collaboration between KM and the other workstreams of the Fund thus ensuring cross-fertilization of ideas and improved delivery of learning outcomes to the countries it serves.

8.2 Risk management system

The Adaptation Fund recognises that ethical transgressions, financial mismanagement and adverse project/programme impacts could interfere with its Mission. Although all the risks do not and cannot be eliminated, they can be identified and mitigated. The Fund, therefore, established a comprehensive Risk Management Framework in 2010, which was amended in October 2014 (AF 2014b). This document describes risk management roles and responsibilities for the Board, Secretariat, and Implementing Entities. The Fund's risk management system also includes the processes and mechanisms the Fund has in place for each category of risk, including the Fund's Rules of Procedure (2009), Code of Conduct for Board Members (2013a), Zero Tolerance Policy on Corruption (2014c), OPG (2021a), ESP (2016d), Gender Policy (2021b) and Ad-Hoc Complaint Handling Mechanism (2016j).

Table 1: Policies and procedures applicable to identified risks

Type of Risk	Board Members and Alternates	Secretariat staff, consultants & trustee	Implementing Entities (IE)
Ethical	<ul style="list-style-type: none"> Rules of Procedure Code of Conduct Zero Tolerance Policy on Corruption 	World Bank rules and procedures	<ul style="list-style-type: none"> IE's relevant policies and mechanisms Fund's Operational policies and guidelines Fund's Ad-Hoc Complaint Handling Mechanism Project Agreement
Financial	<ul style="list-style-type: none"> Rules of Procedure Code of Conduct Zero Tolerance Policy on Corruption and fraud 	World Bank rules and procedures	<ul style="list-style-type: none"> IE's relevant policies and mechanisms Fund's Operational policies and guidelines Fund's Ad-Hoc Complaint Handling Mechanism Project Agreement
Environmental/ Social	N/A	N/A	<ul style="list-style-type: none"> IE's grievance mechanisms Fund's Operational policies and guidelines (esp. Environmental and Social Policy, Gender Policy and Action Plan, and related guidance documents) Fund's Ad-Hoc Complaint Handling Mechanism Project Agreement

Source: (Adapted from AF 2014b, 3)

This Framework, its supporting policies, and related procedures have in general been effective to date. Nevertheless, the Fund will review on a regular basis and update the risk management system during the period of the Fund's 2023-2027 Strategy as necessary.

8.3. Quality management systems

The Adaptation Fund has a reputation for being efficient and agile in its operational processes, including the speedy decision making of its Board and delivery of quality services by its small yet flexible secretariat. It is important that the Fund has quality management systems in place to ensure the consistent delivery of high quality services to clients in a timely manner.

8.3.1 Human resources management system

The World Bank Group provides human resource infrastructure and management services to the Adaptation Fund Board secretariat through the Group's Human Resource Management (HRM) system. This system must be able to recruit, retain, and motivate high quality staff and consultants capable of implementing the Fund's Medium Term Strategy. These arrangements work well and, as such, will be maintained subject to further guidance from Parties. During the 2018-2022 period, the number of the secretariat staff members has been increased in a moderate pace to launch the new strategic focuses. The Fund will need to continue reviewing human resource needs to ensure an adequate level of capacity for implementing the 2023-2027 Strategy in full swing and respond to the emerging needs.

8.3.2 Business processes

Business processes of the Fund must be suitable for emerging needs such as the diversifying activities and an increasing volume. By maintaining the compact yet flexible organizational nature, it is important that business processes of the Fund are relatively simple and fit for multiple purposes (e.g., multiple funding windows). The Fund will continuously review the existing processes on all organizational levels for improvement, including those that have worked well in the 2018-2022 period.

8.3.3 Information technology (IT)

Information technology is vital to increasing the capacity of the Fund in its speed and volume of information processing. It could also mitigate inherent risks of manual operations. During the 2018-2022 period, the Fund has made a relatively modest investment to enhance relevant online systems for managing its growing projects and programmes portfolio. In the 2023-2027 period, further investment in IT systems is encouraged to increase the efficiency of the Fund's processes and operational capacity.

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