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STUDY

The future role of the Adaptation Fund in the international climate finance architecture

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with contributions from Erika Lennon, Aki Kachi, Silke Mooldijk, and Carsten Warnecke

GERMANWATCH

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Woman collecting seaweed at low tide in Zanzibar, Tanzania.

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Content

List of abbreviations/acronyms

ACHM	Ad-hoc Complaint Handling Mechanism
AF	Adaptation Fund
AFB	Adaptation Fund Board
AGF	United Nations Secretary-General's High-Level Advisory Group on Climate Change Financing
AML/CFT	Anti-Money Laundering/Countering Financing for Terrorism
Annex I Parties	Parties included in Annex I to the Convention
APA	Ad Hoc Working Group on the Paris Agreement
CABEI	Central American Bank for Economic Integration
CDM	Clean Development Mechanism
CERs	Certified Emission Reductions
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
COP24	24th Conference of the Parties
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
DA	Designated Authority
EFC	Ethics and Finance Committee
ETSs	Emission Trading Schemes
GCF	Green Climate Fund
GEF	Global Environmental Facility
GHG	greenhouse gases
ICAO	International Civil Aviation Organization
IMO	International Maritime Organization
IPCC	Intergovernmental Panel on Climate Change
LDC	Least Developed Country
MBMs	market-based measures
MIE	Multilateral Implementing Entity
MSMEs	micro, small, and medium enterprises
NDA	National Designated Authority
NIE	National Implementing Entity
Non-Annex I Parties	Parties not included in Annex I to the Convention
PPRC	Project and Programme Review Committee
RGGI	Regional Greenhouse Gas Initiative
SBSTA	Subsidiary Body for Scientific and Technological Advice
SIDS	Small Island Developing States
SOP	share of proceeds
UNEP	United Nations Environmental Programme
UNFCCC	United Nations Framework Convention on Climate Change

Foreword

When the decision to create the Adaptation Fund was adopted during the United Nations Climate Change Conference in Marrakech in 2001, I stood in the negotiations plenary, applauding. Germanwatch has been advocating for global equity and the preservation of livelihoods since the first UN climate summit in the early 1990s. A fund that would finance small-scale, concrete adaptation projects in developing countries focusing on the needs of the most vulnerable to climate change—this was indeed a significant accomplishment.

Germanwatch has been following the Adaptation Fund since its inception. We have attended all Board meetings since the Fund's governing body first convened in 2008. During more than 30 such meetings, Germanwatch has followed the discussions on the Fund's policies and guidelines, entered into formal and informal dialogue with Board members, and suggested improvements. When necessary, we have criticized proposed policies that were not in line with best practice and the aspirations of the Fund, project proposals that were not ambitious enough and progress that was too slow. Together with our partners in the Adaptation Fund NGO Network, for which Germanwatch serves as the secretariat, we have also followed the implementation of projects and brought observations and suggestions from the local level to the Board. As a civil society observer organisation to the Adaptation Fund, Germanwatch will continue voicing the interests of the most vulnerable to climate change, and continue facilitating active engagement of civil society organisations from the Global South to ensure that the Fund lives up to its mandate.

Overall, the Adaptation Fund is a success story today. It is a well-functioning institution that has gained substantial experience in implementation, monitoring, and evaluation of adaptation projects. It has pioneered (enhanced) direct access and strengthened country ownership. The Fund's mandate to use an innovative source of finance was a breakthrough. Unfortunately, that source—a share of proceeds from projects under the Clean Development Mechanism—has dried up in recent years. Consequently, there is a need to secure additional sources of funding for the Fund's valuable work; these can include governmental contributions and additional innovative sources. A decision at COP24 in Katowice, Poland, must ensure that developed country Parties supply the Adaptation Fund's funding needs while new innovative mechanisms are being established and have time to prove they function as a stable source of revenue for the Fund. There are also areas where the Fund could improve its operations, some of which could be addressed in a decision at COP24, others through decisions of the Board.

Germanwatch also works on the development of the international climate finance architecture in a broader sense. We have for many years followed the finance negotiations under the UNFCCC, the work of the Standing Committee on Finance, the establishment of the Green Climate Fund, and development banks' efforts to align more closely with climate objectives. In this international climate finance landscape, the Adaptation Fund covers an essential niche that no other institution is likely to cover in the near future. Particularly, the Fund's focus on the adaptation needs of the most vulnerable is what gives it its legitimacy.

To secure a future for the Fund under the Paris Agreement and enable it to work as effectively as possible, climate negotiators need to act at the upcoming climate conference in Katowice. We hope the present publication, with concrete recommendations for decisions to be taken at COP24, will contribute to this outcome.

Christoph Bals, Policy Director, Germanwatch

Mangrove reforestation in Klong Khone Samut Songkhram Provice, Thailand.

Photo: Vinai Chunkhajorn / Shutterstock.com

Executive Summary

The Adaptation Fund (AF) plays a unique role in the international climate finance architecture. With its distinct mandate, clear specialisation, and innovative features, it contributes to improving quality in adaptation finance. The AF is a fully operationalised and well-functioning fund. Its focus on the most vulnerable people and communities, comparatively small projects and programmes, pioneering (enhanced) direct access, its mandate to explore innovative sources of finance, and its experience in the design, monitoring, and evaluation of adaptation projects are among features that make it unique compared with many other channels of climate finance. Climate negotiators must make a decision at the end of 2018, at the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), to define the Fund's role under the Paris Agreement. A CMA decision should recognise the AF's unique role.

This paper aims to inform decisions on the future role of the AF, particularly at the 24th Conference of the Parties (COP 24) to the United Nations Framework Convention on Climate Change (UNFCCC) in Katowice, Poland, in December 2018. To prepare a CMA decision at COP24, three issue areas are under consideration by negotiators: operating modalities, institutional arrangements, and safeguards. The main part of this paper corresponds to the three areas and aims to provide background information, as well as recommendations, for improving the AF's operations and securing its future. Not all these recommendations would necessarily need to be decided by Parties in the context of COP24; some could also be implemented, for instance, by the AF Board (AFB).

The AF focuses on small-scale adaptation projects, yet it contributes to transformational change. With its concrete indicators focusing on institutional and regulatory systems, it emphasises systemic change and policy reform, which promotes such change. Moreover, through pioneering direct access to adaptation finance, the AF has incentivised institutional capacity building for national institutions, which in turn can enable transformational shifts.

A future international climate finance architecture must ensure complementarity and coherence between climate funds, meet countries' diverse needs, and ensure effective use of resources. A CMA decision should encourage all climate finance channels to aim for high levels of complementarity and coherence.

This paper reviews the actions taken thus far, and areas of collaboration the AF and Green Climate Fund (GCF) boards and secretariats have identified. Both funds should move beyond mere engagement at the board and secretariat levels and agree on concrete coordinated activities at the national level. They should collaborate closely on readiness activities surpassing those for shared entities, and explore ways of harmonising policies, standards, and reporting requirements. (National) Designated Authorities (DAs) at both funds should be encouraged to be the same institutions/officials, or at least have strong collaboration and coordination. This would promote more effective and efficient programming at the national level to make access to, and management of, climate finance easier and less costly for developing countries. The AF should prioritise fund-to-fund arrangements under the GCF's complementarity and coherence framework to enable such a broad collaboration.

The future demand for funding from the AF depends on various factors, and this makes it difficult to predict. The factor that perhaps will most strongly affect the future demand for funding is the country cap, which currently limits the amount available for national proposals to US$10 million per country. This paper shows that the country cap particularly limits direct access countries in their ability to pursue further AF projects. Therefore, the AF might consider modifying the cap so as to ensure there are no negative implications regarding direct access. Increasing or removing the cap would likely lead to a notable increase in funding requested from the AF. Considering the AF's future funding demand is quite likely to increase, the Fund should be more ambitious at setting its resource mobilisation targets.

Different options exist for the AF to meet its future funding needs. Past experience shows the contribution from a share of proceeds (SOP) in the Clean Development Mechanism (CDM), originally meant to be the main source of funding for the AF, has greatly decreased and is far from sufficient for meeting funding needs; new funding sources are needed. In this context, a potential link to Article 6 of the Paris Agreement as a funding source for the AF is currently discussed in climate negotiations and should be explored further. However, the limitations should be kept in mind. Notably, Article 6.4 is highly unlikely to represent a stable and secure funding source for the AF, and a SOP from the co-operative approaches provision of Article 6.2 should therefore be considered as a potential additional source. There will be a need for additional and diverse sources of finance to meet the AF's demand. The AF is in a unique position to explore additional innovative finance sources, such as earmarked proceeds from national emissions trading schemes and carbon taxes, or a levy on maritime greenhouse gas (GHG) emissions. However, alternative funding sources face several challenges and will take time to realise. This indicates a strong need for continuing to rely on contributions from donor governments in addition to market-based mechanisms. Pursuing increased finance from a number of other donor sources has the potential to ensure predictable and sustainable resources for the AF.

There are opportunities for the AF to accumulate knowledge and experience with private sector involvement in adaptation projects, which could over time lead to scaled up adaptation action, including that with the help of private sector finance. The AF should further explore incentives for private investment in adaptation measures. It could build knowledge on private sector involvement in adaptation projects through deeper analysis of the different levels and degrees of private sector engagement in its current project portfolio. It should promote creation of national frameworks that envisage long-term involvement of the private sector in reducing a country's vulnerability to climate change. The AF should also explore further engagement with small-scale local producers and micro and small enterprises, as well as the role of small grants for private sector entities.

This paper also examines the AF's governance and concludes that the Board, with its current composition, is working well. It has shown itself capable of quickly reacting to and addressing evolving needs in the international climate finance architecture. Several of the AF's policies and guidelines are in place to ensure the integrity of its Board and consequently of the decisions it makes. While the gender balance of the Fund's Board has slightly improved over time, a considerable gap still needs to be addressed.

International climate finance channels should envision the harmonisation of environmental and social safeguards and gender policies ensuring the highest international standards and appropriateness. The AF's Environmental and Social Policy, and its Gender Policy, are fit-for-purpose and aligned with international best practices. The Fund should continue to regularly evaluate and review its safeguard practices and, if necessary, make decisions directed at improving them.

The AF has made progress in setting itself high standards for accountability and integrity, such as its adoption of a zero-tolerance policy on corruption and introduction of a complaint-handling mechanism. The Fund follows several international best practices related to its policies on accountability and integrity. However, there is room for further strengthening, such as by reflecting on its standards on anti-money-laundering and countering the financing of terrorism (AML/CFT) in the accreditation process, strengthening the role of its DAs in ensuring accountability and integrity at the country level, and enhancing the independence of its grievance mechanism.

In the areas of stakeholder engagement, participation, and transparency, the AF also applies best practices in many regards. Examples of this include providing an official opportunity for stakeholders to comment on funding proposals before the Board's consideration, and including civil society dialogue, a 1-hour session wherein civil society interacts with the Board, on the official agenda of each Board meeting. Generally, the Fund's policies require and recommend engagement with a wide range of stakeholders throughout the full project cycle. However, the AFB should continue to revise and strengthen its practices concerning stakeholder engagement, participation, and transparency. The AF should also explore options for even greater collaboration with civil society, such as in introduction of official channels for civil society to provide input for the Board's committee meetings, and elected active civil society observers having a seat at the table and the opportunity to intervene on any agenda item.

1. Introduction

In the Paris Agreement, 195 of the world's governments set a global goal on adaptation to the impacts of climate change by "enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change, with a view to contributing to sustainable development" (Article 7.1). The Agreement provides recognition that "adaptation is a global challenge faced by all with local, subnational, national, regional and international dimensions" (Article 7.2). Adaptation finance is crucial in addressing this challenge, especially for countries particularly vulnerable to the adverse effects of climate change.

There is a substantial gap between adaptation finance needs and the amount of international adaptation finance currently being provided. As the United Nations Environment Programme (UNEP) estimated in its Adaptation Gap Report 2016, adaptation costs by around 2030 are expected to be around US$140–300 billion per annum. This means that to ensure adequate adaptation in developing countries, the total financial resources required for adaptation in 2030 would have to be roughly 6–13 times greater than international public finance today.

At the same time, the challenge of adaptation finance is not only about how much funding is being mobilised, but also how it is used. Adaptation finance is a means to an end; therefore, it is crucial that available finance is used as efficiently and effectively as possible so as to reduce vulnerability and increase climate resilience. The AF, with over 10 years of experience in channelling adaptation finance, plays a unique role in the international climate finance architecture and the global response to the impacts of climate change. With its distinct mandate, clear specialisation, and innovative features, the AF can play an important role in improving the quality of adaptation finance.

Due to a proliferation of multilateral climate funds in recent years, there have also been concerns about redundancy and inefficiency. The future international climate finance architecture must be established in a way that ensures more complementarity and coherence between climate funds, meets countries' diverse needs, ensures effective use of resources, enables access to finance through simple and efficient procedures, and maximises the comparative strengths of various climate finance channels.

In this paper, we explore the AF's role in the future climate finance architecture, taking into account past and current debates in international climate negotiations. The paper seeks to inform these debates, particularly discussions related to operating modalities, safeguards, and governance of the AF, which are scheduled for completion at COP24, to be held in Katowice, Poland, in December 2018. It provides concrete recommendations at the end of each section, differentiated by elements that could be addressed in a decision by the CMA and elements that could be directly addressed by the AFB.

Model resettlement village to accomodate people from areas prone to floods and landslides in Musanze, Rwanda.
Houses have rainwater reservoirs, a biogas pit, and a home garden.

Photo: ©Roel Slootweg / Shutterstock.com

2. The AF's unique role in the international climate finance architecture

Since its operationalisation in 2007, the AF has developed a unique role in the international climate finance architecture. It is now a fully operationalised and well-functioning fund that plays a unique role that no other fund currently does. After over 10 years of operations, the AF has gathered a vast amount of knowledge on adaptation to climate change and the design and implementation of measures to deal with its impacts. The lessons learned from testing different concepts and approaches in the field of adaptation—including problems and barriers countries may encounter throughout the full cycle of a project or programme—are an invaluable source of information that can help countries working to develop adaptation projects and programmes.

Among the AF's unique characteristics are:

- It has an explicit focus on the most vulnerable people and communities.[1]
- It funds relatively small projects and programmes. This offers the opportunity to test innovative practices, tools, and technologies for adaptation at a small-scale. This can then be replicated and scaled up using the more substantial financing available through other channels such as the GCF.
- It has pioneered the direct access and enhanced direct access modalities, through which accredited national institutions can directly access international climate finance. The decision of the AFB to cap available funding for proposals from Multilateral Implementing Entities (MIEs) at 50% of total allocations gave National Implementing Entities (NIEs) a stronger chance to receive funding for their proposals, even if the proposals took longer to develop. Promoting direct access has not only improved project sustainability through stronger country ownership and the involvement of local stakeholders, it also strengthened the capacities of national institutions. This has allowed them to build a track record of project implementation, thereby enhancing their ability to attract other financial sources beyond the scope of the AF.
- It has developed a solid understanding of what constitutes a good adaptation project and experience in monitoring and evaluation of adaptation projects. The AF actively promotes sharing of this knowledge among countries and entities.
- It has the institutional mandate and experience to administer innovative sources of finance, owing to its original revenue source – a SOP on certificates traded under the Kyoto Protocol's CDM. This experience with the first-ever international environmental levy could also be applied to other innovative sources.

Recommendations

A CMA decision should:

- *Emphasise the unique role the AF fulfils in the international climate finance architecture.*
- *Highlight the AF's focus on the most vulnerable people, small-scale projects, country ownership through (enhanced) direct access, innovative sources of finance, and its experience in monitoring and evaluation of adaptation projects.*

[1] Adaptation Fund, Operational Policies and Guidelines, ("special attention shall be given by eligible Parties to the particular needs of the most vulnerable communities").

Negotiations plenary at the 21st session of the United Nations Climate Change Conference in Paris.

Photo: Drop of Light / Shutterstock.com

3. The AF's future under the Paris Agreement

While the AF was initially set up under the Kyoto Protocol, many countries have the priority of ensuring that the Fund will continue to play its unique role in a new climate finance architecture under the Paris Agreement. Clarifying that the AF will formally serve the Paris Agreement has been a long process that is still ongoing. In the decisions accompanying adoption of the Paris Agreement, it was agreed that the Fund "may" serve the Agreement. A year later, at COP22 in Morocco, Parties went a step further by deciding the Fund "should" serve the Paris Agreement. However, this would depend on a final decision by the CMA by 2018, based on preparatory work by the Ad Hoc Working Group on the Paris Agreement (APA) on the Fund's operating modalities, institutional arrangements, and safeguards. At the 2017 United Nations Climate Change Conference in Bonn, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) further advanced the issue with the decision that the Fund "shall" serve the Paris Agreement. It noted that the CMA must take further decisions in December 2018.

In parallel with progress in the negotiations, the AF also conducted a process to clearly define its role in the future climate finance architecture, with a new 5-year Medium-Term Strategy approved by the AFB in October 2017. The Medium-Term Strategy builds on the AF's comparative advantages, founded in both the AF's design, as well as the lessons learned in more than 10 years of operations. The strategy is founded on three pillars: Action, Innovation, and Learning and Sharing. Under Strategic Focus 1, Action, the Fund aims to support eligible countries in undertaking high-quality adaptation projects and programmes consistent with their priority, needs, goals, and strategies. Under Strategic Focus 2, Innovation, the Fund supports development and diffusion of innovative adaptation practices, tools, and technologies. Under Strategic Focus 3, Learning and Sharing, it supports learning and sharing regarding adaptation finance and action. Overall, the Medium-Term Strategy defines the AF's mission as being to "serve the Paris Agreement by accelerating and enhancing the quality of adaptation action in developing countries."[2]

This chapter is structured in three sections referring to the three issue areas under consideration by the APA: operating modalities, institutional arrangements, and safeguards. It aims to provide background information on these issues as well as recommendations for improving the AF's operations and securing its future. Not all of these recommendations would necessarily need to be decided by Parties in the context of COP24; some could also be implemented, for instance, by the AFB.

3.1. Operating modalities

3.1.1. Contribution to transformational adaptation

In its Fifth Assessment Report, the Intergovernmental Panel on Climate Change (IPCC) stressed that transformational change is essential for ensuring effective adaptation. It defines "transformational" as "adaptation that changes the fundamental attributes of a system in response to climate and its effects."[3] Thus, it is often stressed that climate finance—for mitigation as well as adaptation—should promote transformative, rather than incremental, change. Taking the above IPCC definition into account, transformative change in the adaptation context can be understood as systemic change towards climate-resilient societies.

Transformation is sometimes equated with scale, to be achieved by deploying large amounts of resources and mobilising additional funds through means such as co-financing. However, the amount of funding, in itself, is an inadequate indicator of transformative impact. Systemic change will be created by projects and programmes that support wider policy and institutional reforms within countries, to create environments that encourage necessary shifts in investment patterns.[4] Transformational change can only happen when ownership is taken. The likelihood of transformational change is far higher when national

[2] Adaptation Fund, *Medium-Term Strategy 2018-2022*, (2018).
[3] Intergovernmental Panel on Climate Change, *Fifth Assessment Report, Climate Change 2014: Impacts, Adaptation, and Vulnerability*, (New York, Cambridge University Press, 2014).
[4] World Resources Institute, *The Future of the Funds*, (2017).

structures and systems are used and relevant stakeholders from the local, subnational, and national levels are brought on board. The AF, by pioneering direct access, has strong experience in working with national institutions and facilitating participatory and transparent processes in countries.

The AF's role in catalysing systemic change is often underestimated because of its focus on small-scale projects and programmes on a grant basis. In its Operational Policies and Guidelines, the Fund also does not specifically refer to "transformational change" or a "paradigm shift" as a primary mandate or objective. However, the AF's emphasis on systemic change and policy reform, with concrete indicators focusing on institutional and regulatory systems, is a strength and promotes transformative change. Notably, outcomes 2 and 7 (see Figure 1 below) in the AF's Strategic Results Framework reflect the Fund's potential for facilitating systemic change and achieving transformative impact at scale.

Box 1. Water system resilience in Honduras – an example of an Adaptation Fund project that supported systemic change.

The AF-funded project in Honduras *"Addressing Climate Change Risks on Water Resources in Honduras: Increased Systemic Resilience and Reduced Vulnerability of the Urban Poor"* aimed at mainstreaming climate change considerations into national water sector policies. One of the projects main activities was to integrate climate change risks and opportunities into the countries new *Water Law* and the new *National Plan Law*. The project also mainstreamed these considerations into investment planning policies for sectors with high water demand. It directly contributed to an enhanced collaboration of the entities involved (such as Ministry of Natural Resources and Ministry of Planning) for effective attention to climate risks. This was accompanied by the implementation of several capacity building activities for the different institutions involved in the project. Through these targeted activities, the project supported lasting transformational changes in the entire water sector and in water-use sectors in the entire country.

Figure 1. AF Strategic Results Framework.

Expected Outcomes in the AF's Strategic Results Framework	
Outcome 1	Reduced exposure at national level to climate related hazards and threats
Outcome 2	Strengthened institutional capacity to reduce risks associated with climate-induced socioeconomic and environmental losses
Outcome 3	Strengthened awareness and ownership of adaptation and climate risk reduction processes at local level
Outcome 4	Increased adaptive capacity within relevant development and natural resource sectors
Outcome 5	Increased ecosystem resilience in response to climate change and variability-induced stress
Outcome 6	Diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas
Outcome 7	Improved policies and regulations that promote and enforce resilience measures

Moreover, the AF, by pioneering direct access to climate finance for developing countries, incentivises institutional capacity building for national institutions that have sought accreditation with the Fund. Such institutional strengthening can result in transformational shifts, making the direct access modality be more than simply a funding channel.[5] Thus, in the long term, the AF will very likely achieve impacts beyond the scope of the funded projects; such as improved governance, policy administration, and capacity of accredited national institutions, which in turn will attract future investments.[6]

The accreditation process for national entities is therefore an important device by which the Fund can, over time, build the conditions for transformative change. It was recently evaluated in a report the Board requested on the experience gained and lessons learned from the accreditation process, including recommendations regarding its efficiency and effectiveness. This analysis concluded that the AF's accreditation process is essentially solid and is a strong feature of the Fund.[7] The analysis also suggested a limited number of enhancements for the Fund's accreditation process. These have been discussed and already partially implemented by the Fund's Board; they include a fast-track accreditation process for entities accredited to the GCF, reducing language barriers for national institutions, early determination whether national institutions are eligible for the streamlined accreditation process, and introduction of standards related to an AML/CFT policy.

! Recommendations

A CMA decision should:

- *Recognise the AF's role in catalysing systemic change and contribution to transformational change.*

The AFB should:

- *Continue to make efforts to ensure that projects approved contribute to transformational adaptation in countries.*

3.1.2. Complementarity and coherence with other funds

The international climate finance architecture is rather fragmented and consists of a variety of bilateral and multilateral delivery channels; each with its own specific focus, procedures, standards, and access modalities. Therefore, it is crucial to aim for a high level of complementarity and coherence between different channels to ensure efficient and effective use of resources. It is also important to guide recipients of climate finance in their navigating this complex landscape, reducing administrative burden, and avoiding redundancy and overlaps, as well as gaps.

The AF, in its Medium-Term Strategy recognised the importance of complementarity and coherence. "Building complementarity and coherence with other climate finance delivery channels" is one of the four cross-cutting themes reflected in all three of the Fund's Strategic Foci. At its 31st meeting, in March 2018, the AFB approved an Implementation Plan for the Medium-Term Strategy. This lists concrete activities for 2018–2022 and states that all of the Fund's activities should be designed to build complementarity and coherence between climate finance delivery channels.[8] In the plan, the Fund has committed itself to closely collaborating with the UNFCCC through its Adaptation Committee and Standing Committee on Finance, as well as with other institutions delivering climate finance. Beyond inter-fund dialogue, engagement with other institutions delivering climate finance will mainly be conducted through specific activities under the three strategic focal areas of Action, Innovation, and Learning and Sharing (see Box 2 for examples).

The item "potential linkages between the Fund and the Green Climate Fund" has been on the agenda of every AFB meeting since it was first discussed at the 24th Board meeting in October 2014. At its 30th meeting in October 2017, the AFB decided to request that its secretariat initiate the process towards accreditation with the GCF, and to prepare an assessment of options for fund-to-fund arrangements. However, difficulties may arise when trying to reconcile the role of a GCF-accredited entity with other activities envis-

5 Wang, Bowen, and Neha Rai, *The Green Climate Fund accreditation process: Barrier or Opportunity?* (International Institute for Environment and Development, 2015) http://pubs.iied.org/pdfs/17311IIED.pdf
6 Masullo, Indira, Gaia Larson, Louise Brown, and Lisa Dougherty-Choux, *"Direct Access" to Climate Finance: Lessons Learned by National Institutions*, (World Resources Institute, 2015). https://www.wri.org/sites/default/files/22DIRECT_ACCESS_TO_CLIMATE_FINANCE_LESSONS_LEARNED_BY_NATIONAL_INSTITUTIONS.pdf
7 Adaptation Fund, *Efficiency and Effectiveness of the Accreditation Process: Report on the Experience Gained and Lessons Learned from the Accreditation Process*, (2018) https://www.adaptation-fund.org/wp-content/uploads/2018/03/Final_AFB.EFC_.22.4_Efficiency-and-effectiveness-of-the-accreditation-process_12March2018.pdf
8 Adaptation Fund, *Implementation Plan for Medium-Term Strategy,* (2018). https://www.adaptation-fund.org/wp-content/uploads/2018/03/AFB.B.31.5.Rev_.1_Implementation_plan_for_medium-term_strategy.pdf

Box 2. The AF's concrete activities planned for 2018–2022 aimed at enhancing complementarity and coherence with other climate finance delivery channels.

- For its strategic pillar of Action, the Fund aims for countries prepared to scale up effective projects and programmes for funding from other climate funds and finance channels. Translated into concrete activities, this means funding for readiness activities to support planning, assessment, capacity enhancement for designing and developing scaling up pathways for project scale up.
- For its strategic pillar of Innovation, the Fund has envisaged concrete activities to collaborate with other institutions, funds, and implementing entities to effectively roll out and scale up new and innovative adaptation practices, tools, and technologies.
- For its strategic pillar of Learning and Sharing, the Fund's objective is to collaborate with other climate funds to triangulate lessons and consolidate messages. This includes concrete activities such as grasping lessons learned from accreditation processes collected from the Fund and other funds/institutions, as well as the formation of partnerships with other funds for hosting learning events around different themes.

aged to promote complementarity and coherence between the two funds. The chairs and secretariats of both funds continue to explore different options and their implications.

The GCF is also committed to improving complementarity and coherence, in the context of an operational framework adopted at its 17th Board meeting. This framework has four pillars: (1) board-level discussions on fund-to-fund arrangements, (2) enhanced complementarity at the activity level, (3) promotion of coherence at the national programming level, and (4) complementarity at the level of delivery of climate finance, through an established dialogue. The GCF has, thus far, implemented an Annual Dialogue with representatives of the respective boards and secretariats of climate finance delivery channels, including the AF. In their exchange, the secretariats of both funds identified a number of additional activities the funds could undertake jointly (see Box 3). Into the future, it is crucial the funds move beyond mere engagement at the board and secretariat levels to concrete activities at the national level.

It is crucial that both funds translate the areas identified for collaboration into concrete activities approved by their respective boards. These activities would need to specifically address national stakeholders in the countries in which projects are implemented. For efficient and effective country programming, decision-makers in the countries need to know in advance and at an early stage about, for instance, the possibility of scaling up AF projects at a later stage in the GCF. This might influence areas such as crucial decisions regarding selection of implementing entities to be accredited with both funds.

Box 3. Options for joint activities in the area of complementarity and coherence identified by the AF and GCF secretariats.

As of the time of writing this report, the AF Secretariat and GCF Secretariat had identified the following options for joint activities in the area of complementarity and coherence:

- engaging in country readiness, shared entities
- conducting a survey to assess entities' gaps and needs
- undertaking country programming (e.g., with scalability as a strategic consideration, and country-drivenness as a key operating principle)
- holding a COP24 side-event
- engaging in more substantial dialogue on knowledge management, results, and indicators

Challenges for coherent and efficient country programming can also arise from the fact that, in some cases, countries' registered (National) Designated Authorities ((N)DAs) or focal points[9] for both funds are distinct institutions/officials.[10] At both funds, (N)DAs are the ones that are supposed to promote the coherence and efficiency of country programming, ensuring country ownership. They are the ones that must endorse accreditation applications and funding proposals before they are submitted to the funds' boards. It would therefore be desirable for (N)DAs at both funds to be the same institutions/officials, or at least have strong collaboration and coordination.

The GCF already provides support on country programming to its NDAs through its Readiness and Preparatory Support Programme,[11] while the AF's readiness activities instead focus on entities applying for accreditation and technical support for project formulation and institutional capacity building related to environmental and social safeguards and gender mainstreaming. Both funds should collaborate closely on readiness activities (surpassing those for shared entities) and, by doing so, ensure effective, efficient, and sustainable country programming for adaptation finance activities. This would be a noteworthy step towards streamlining, making access to, and management of, climate finance easier and less costly for developing countries.

Moreover, areas of collaboration between the two funds should also include harmonisation of policies, standards, and reporting requirements to lower barriers for national institutions seeking accreditation. The decision the AFB took in March 2018 to look into the option of fast-tracking accredited entities to the GCF is another important step.[12] Considering the importance of both funds collaborating on the above topics, the AF should primarily focus on fund-to-fund arrangements under the GCF's complementarity and coherence framework, and prioritise them in case a potential conflict arises between concrete fund-to-fund-arrangements and the option of accreditation with the GCF.

Recommendations

A CMA decision should:

- *Emphasise the importance of all climate finance channels aiming for high levels of complementarity and coherence.*
- *Encourage the AF and the operating entities of the financial mechanism of the UNFCCC to undertake concrete activities to enhance complementarity and coherence between them.*

Both the AFB and GCF Board should:

- *Agree on and implement concrete, coordinated activities at the national level.*
- *Encourage that (N)DAs at both funds are the same institutions/officials or at least have strong collaboration and coordination.*
- *Collaborate closely on readiness activities surpassing those for shared entities.*
- *Harmonise policies, standards, and reporting requirements.*

The AFB should:

- *Prioritise fund-to-fund arrangements under the GCF's complementarity and coherence framework.*

9 Focal Points at the AF are called Designated Authorities (DAs), while the GCF uses the term National Designated Authorities (NDAs).
10 At the AF, the DA must be a government official nominated at the ministerial level on behalf of the government.
11 The GCF Readiness Programme provides up to US$1 million per country per year, out of which NDAs and focal points may request up to US$300,000 per year to strengthen their institutional capacity to deliver on the GCF's requirements. The GCF also provides up to US$3 million per country for formulation of National Adaptation Plans and other adaptation planning processes.
12 For re-accreditation, the AF is already fast-tracking entities that have been accredited with the GCF. Moreover, the GCF is also fast-tracking accreditation applications of entities already accredited with the AF.

3.1.3. Funding needs and sources of the AF

a) Current funding trends and future demand

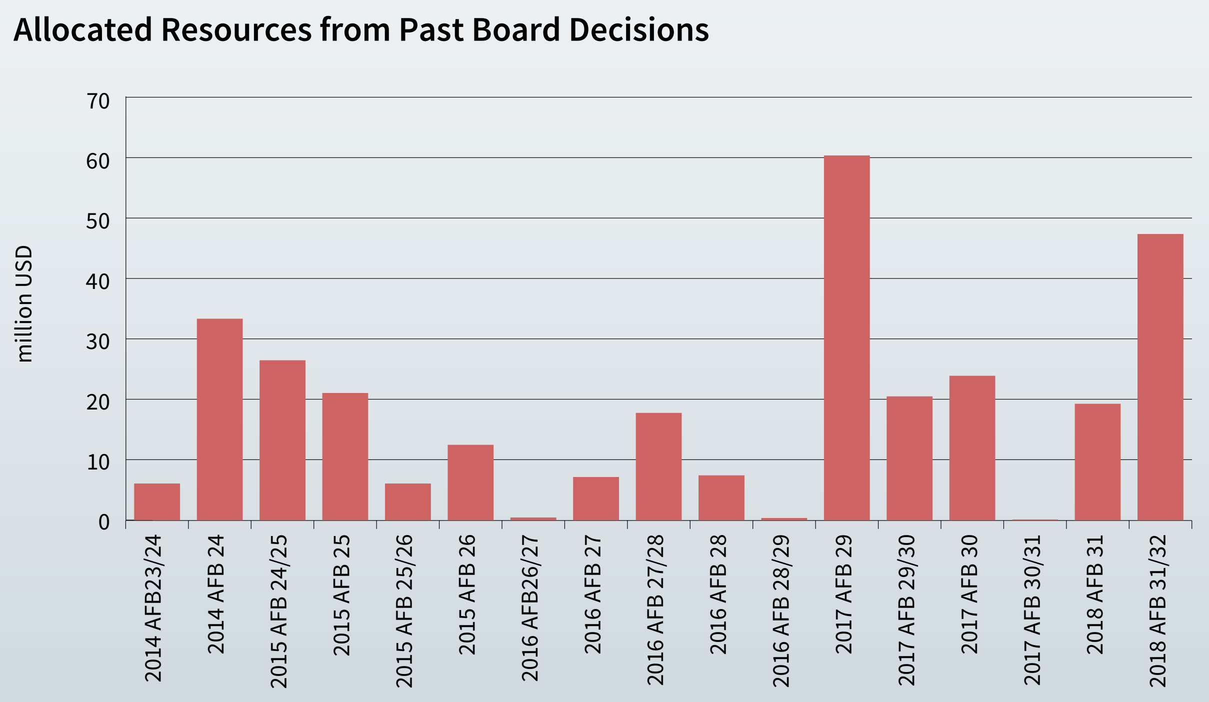
The demand for funding from the AF is increasing. For the Fund's 32nd Board meeting in October 2018, a record amount of US$264 million was requested through 35 fully developed proposals, concept notes, and pre-concept notes; the largest number of proposals received thus far. The Fund's Board normally makes funding decisions three to four times a year: during its two Board meetings and intersessionally[13] between those meetings.

Resources allocated at past Board meetings range from less than US$10 million to more than US$60 million per meeting. This fluctuation might be related to the two-step procedure for submitting project proposals. Most entities hand in concept notes before submitting a fully developed project proposal document. For regional projects, this has even been a three-step procedure, with pre-concept notes submitted to the AFB. At some Board meetings, only a few fully developed project proposals, though a considerably high number of concept (or pre-concept) notes, including project formulation grants, have been endorsed. The decisions on endorsing concept notes are not reflected in Figure 2 below showing allocated resources by past AFB decisions. While Figure 2 shows considerable fluctuation from Board meeting to Board meeting, the analysis on an annual basis in Figure 3 underscores that resources allocated increased in 2017 and were likely to increase even further in 2018.

If funding allocated by Board decisions exceeds available resources, the concerned proposals are placed in a "pipeline" and subsequently funded once new resources become available. Thus far, this has only been the case for a total of 10 proposals by MIEs, between December 2012 and May 2015, because the 50% MIE cap had been reached.

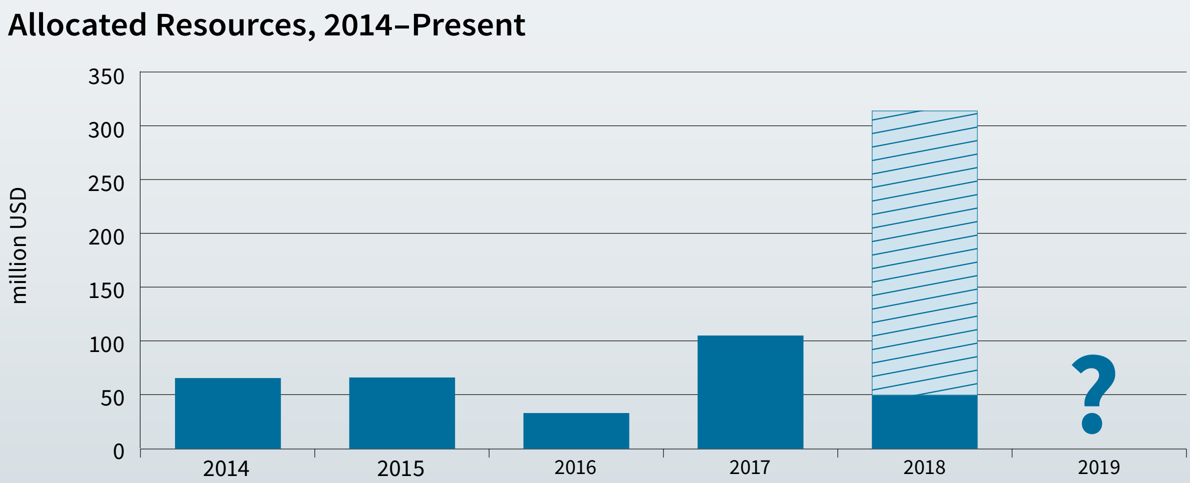
The future demand for funding from the AF—and, consequently, its resource allocation—is dependent on various factors and therefore difficult to predict. The most relevant factors are as follows:

Figure 2. Resources allocated by AFB decisions at Board meetings (June 2014 to July 2018), as well as intersessionally.



[13] The AFB can only approve funding proposals intersessionally if they have been considered at least once at a normal Board meeting.

Figure 3. Accumulated annual resources for funding decisions by the AFB.*



* For 2018, resources requested from the Fund during its 32nd Board meeting in October 2018 are shown (light blue) additionally to the already allocated resources (dark blue). However, the light blue area represents the maximum resources that potentially could be allocated. Past funding decisions show the Board often asks implementing entities to reformulate proposals and re-submit them at the next Board meeting.

- Successful implementation of the Fund's readiness programme is likely to lead to more countries successfully accrediting NIEs, which will submit adaptation proposals to the Fund.[14]

- At its 31st meeting in March 2018, the AFB requested that the secretariat prepare a document on fast-tracking accreditation of entities already accredited with the GCF. A decision by the AFB on such fast-tracking may also lead to a slight increase in funding requested because of an increase in accreditation applications that would be processed faster.

- Initially started as a pilot, the programme for regional project proposals and programmes, launched in May 2015, has proven very successful, with a high number of regional project/programme proposals submitted to the AFB for consideration. The AFB approved the first regional projects/programmes in early 2017 and decided to integrate a funding window for regional projects/programmes into its funding modalities. This funding window's success will most likely continue to cause increased demand for funding.

- If the AF pilots new funding windows and mechanisms, these could, if successful, become part of the Fund's regular funding modalities over time; this would probably also result in increased demand for funding. The Implementation Plan for the Fund's Medium-Term Strategy envisages, for example, an enhanced direct access window and a large innovation grant mechanism. A past example of a successful pilot was that for regional project proposals and programmes.

- In its Implementation Plan for its Medium-Term Strategy, the AF identified several activities for its strategic pillars of Innovation and Learning and Sharing. For activities under Innovation, the Fund estimates need for about US$106 million over 5 years (US$21.2 million annually). Under Learning and Sharing, US$2 million (US$0.4 million annually) is estimated. Those resources are additional to the estimated US$683.5 million over 5 years (US$136.7 million annually) needed for concrete project support under its first strategic pillar of Action. Moreover, information captured and shared effectively under the pillar of Learning and Sharing may lead to increased funding requested over the long term.

- The factor that might most strongly affect future demand for funding is the country cap, which currently limits the amount available for national proposals to US$10 million per country. Lifting or removing this cap would probably lead to a notable increase in funding requested from the AF.

[14] In addition to capacity-building events, the AF, under its Readiness Programme, provides small grants for NIEs seeking accreditation with the Fund. This includes South–South co-operation grants and Technical Assistance Grants for Environmental and Social Policy as well as Gender Policy. Moreover, the Fund offers Project Formulation Assistance Grants for its accredited NIEs. All those activities under the Fund's Readiness Programme have the objective of enhancing developing countries' capacity to directly access funding for adaptation, and increasing the number of NIEs accredited with the Fund.

Box 4. Implications of the country cap.

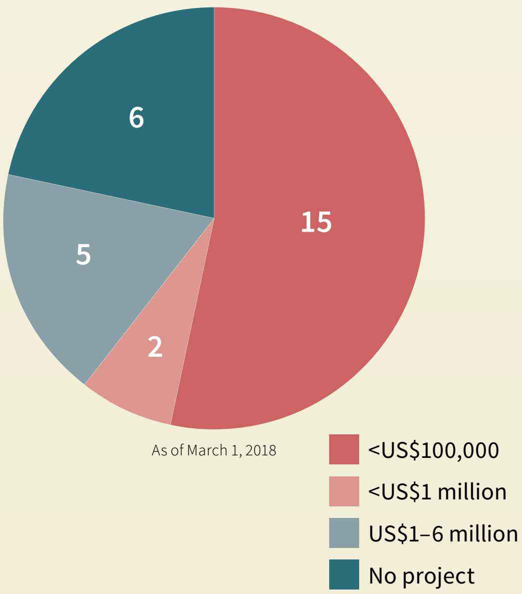
As of March 1, 2018, 15 of the 28 countries that have an NIE had reached their country cap of US$10 million. Two other countries had less than US$1 million. Conversely, among the 35 countries in which an RIE/MIE was implementing projects, a substantially smaller percentage had already reached their country cap. This comparison shows the direct access countries are more strongly limited by the country cap in their ability to pursue further AF projects. These countries went through an often-tedious and time-consuming process of having their own national entity accredited with the Fund. Through the accreditation process and implementation of their first project(s), those accredited national entities strengthened their institutional capacities and gained valuable insights and experiences. It would be beneficial to provide opportunities to those entities to apply those acquired assets to further adaptation projects.

Moreover, the country cap will probably also have implications for the incentives for pursuing accreditation of an own direct access entity. It can be assumed that, for a country to have the incentive to go through the process of accreditation, at least US$5 million would need to be left accessible. This would imply that 29 of the 35 countries for which only an RIE/MIE is implementing a project have only weak incentives to complete the process. In some cases, a country might also realise that another national entity would be better- (or equally well-) suited for implementing national adaptation priorities. However, the country cap would have negative implications on a country's incentive to have a second entity accredited, even if the AF would provide the opportunity to do so.

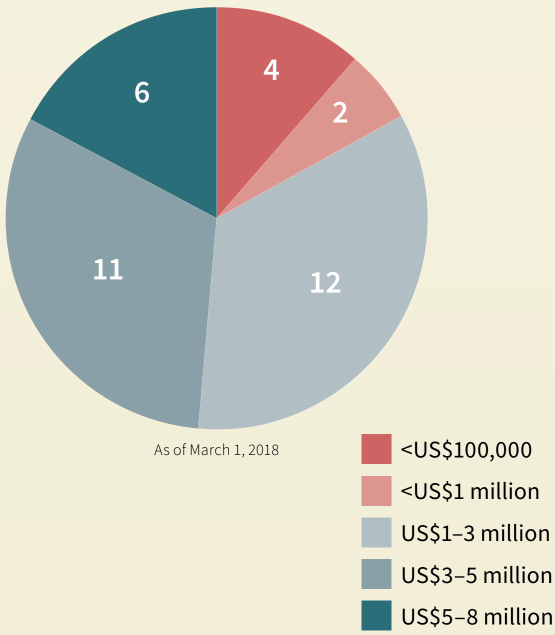
This analysis shows that the present country cap mainly has negative implications for the Fund's direct access entities or those countries considering having a direct access entity accredited.

The AF should therefore consider lifting its country cap in a way that ensures there are no negative implications with regard to direct access. One such option could be lifting the cap to US$20 million for countries with a direct access entity. This would not only lead to increasing demand for direct access projects, but also to increased incentive for countries to have a direct access entity accredited.

Funding Remaining to Reach US$10 Million Country Cap in the 28 Countries with an NIE



Funding Remaining in the 35 Countries with no Direct Access, with Only an RIE/MIE Implementing a Project



Owing to these multiple factors, which may influence the demand for AF funding, it is difficult to estimate a concrete amount of resources needed. However, looking at past annual resource allocation, current funding requests for the 32nd Board meeting in October 2018, and the above-mentioned factors that will probably lead to increased overall demand, we estimate the funding demand from the AF at US$150–300 million annually for the next 5–7 years. The AF set a US$90 million resource mobilisation target for the biennium 2018–2019. The minimum amount needed for implementation of the Fund's Medium-Term Strategy for 2018–2020 is estimated at an annual US$100 million; however, this is only the lower limit. About US$158 million per year will be needed to reach the proposed level of ambition indicated in the Fund's Implementation Plan for the Medium-Term Strategy.[15] In this context, the above-mentioned resource mobilisation target of the Fund for the biennium 2018–2019 seems rather low. Considering the proposed level of ambition in its Medium-Term Strategy, this implies the Fund would need to substantially raise its resource mobilisation target for 2020–2022.

In recent years, the Fund has repeatedly met its resource mobilisation targets. During COP23, it even exceeded its US$80 million target, with new pledges totalling over US$93 million. Taking into account the steadily increasing amount of funding demanded from the AF, and the above factors, the Fund should be more ambitious in setting its resource mobilisation targets.

Recommendations

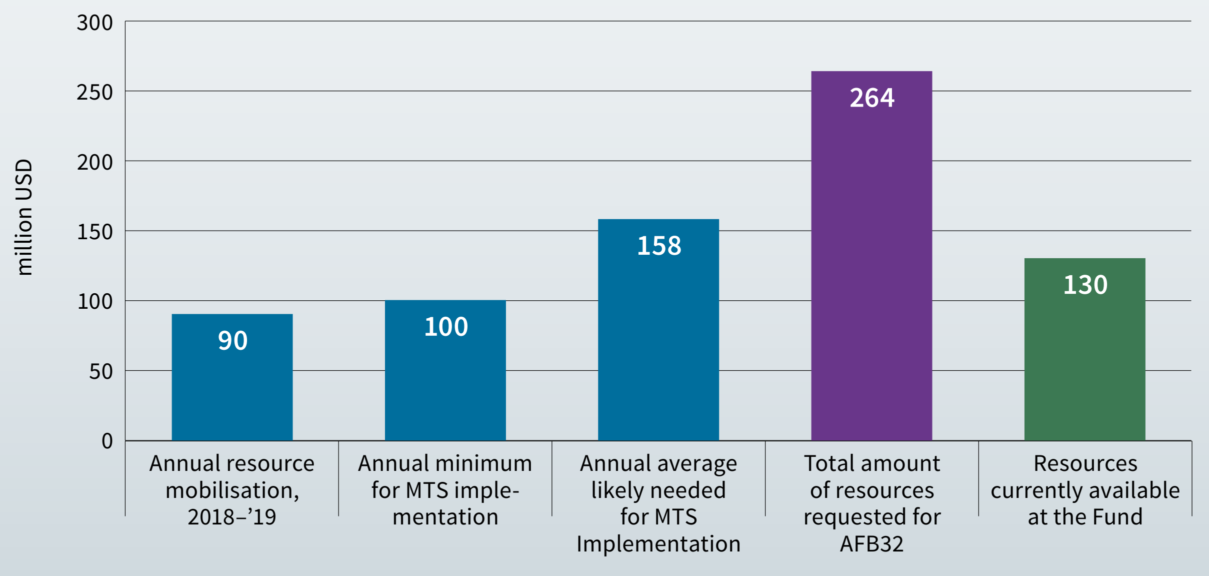
The AFB should:

- *Set more ambitious resource mobilisation targets for the period 2020–2022, ensuring fulfilment of the proposed level of ambition in its Medium-Term Strategy.*
- *Lift its country cap to avoid negative implications on incentives for direct access.*

b) Sources of Funding for the AF

Funding for the AF has historically come from a 2% SOP from the sale of Certified Emission Reductions (CERs). These are credits from projects of the CDM, a provision of the Kyoto Protocol that allowed developed countries to finance emission reductions in developing countries in exchange for credits for use towards their climate tar-

Figure 4. Funding Needs of the Adaptation Fund.



[15] Adaptation Fund, *Implementation Plan for Medium-Term Strategy 2018-2022*, (2018).

gets. However, since 2011, there has been a sharp fall in CDM market prices, activity (including registration of new projects), and emission credits issuances.[16] As a result, the CDM's contribution to the AF has greatly decreased and is far from sufficient for meeting funding needs. Moreover, the CDM's future after 2020 is unclear, both because there will be no third Kyoto Commitment Period and because Parties have not yet clarified what kind of role, if any, the CDM might play in the Paris Agreement. The AF must therefore look for different sources of funding.

The SOP from the CDM was an innovative source of finance; the first international environmental levy ever introduced. This puts the AF in a unique position to explore additional innovative sources. Through its Resource Mobilization Task Force, it has the mandate and structure to pursue efforts to establish innovative financing mechanisms and drive them politically. It also has institutional experience in administering those sources; this can be built upon when exploring new options.

In an informal document, the APA identified seven options for funding, including a link to Article 6 of the Paris Agreement.[17] This section discusses the potential of a mechanism established by Article 6.4 of the Agreement to contribute to the AF, and explores various other potential funding sources.

Article 6 of the Paris Agreement

Article 6 of the Paris Agreement provides for a number of ways countries can co-operate in implementing NDCs, including through the transfer of emission reductions similar to in the precedent the CDM set in the Kyoto Protocol. Specifically, Article 6.4 of the Paris Agreement establishes an international crediting mechanism to allow for voluntary co-operation between Parties to further reduce global GHG emissions; this shares a number of similarities with the CDM. Similar to the CDM, there is a stipulation (Art 6.6) that an SOP from the activities referred to under paragraph 4 should be used to (i) cover administrative expenses and (ii) "to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation." Nonetheless, Article 6.4 is not necessarily a secure funding source for the AF, for several reasons.

First, the future outcome of negotiations on implementation of Article 6.4 (and Article 6 more broadly) is, at the time of writing this report, highly uncertain. Rules, modalities, and procedures for the mechanism are scheduled to be adopted at COP24 in Katowice, but Parties have made limited progress thus far and negotiations may take longer. The nature of the mechanism's SOPs under Article 6.6 is also unclear: an important outstanding question is whether the stipulated SOP for adaptation would be directed to the AF. Conceivably, such proceeds could instead be directed through the GCF or distributed in other ways.[18] A further imperative outstanding question regards the percentage share of the proceeds and the point of application (i.e., on generated credits or credits bought).[19] The Subsidiary Body for Scientific and Technological Advice (SBSTA) 48-2 negotiations in Bangkok in September 2018 produced a draft text on the rules for Article 6.4, in which a 5% share was optionally included.[20] The text, however, is only a draft and not necessarily the object of broad consensus.

Second, Article 6 of the Paris Agreement provides for another avenue to internationally transfer emission reductions. This is in its Article 2 on "cooperative approaches" that could constitute an alternative, competing approach with potential to undermine demand for the Article 6.4 mechanism. The mechanism faces a likely disadvantage because of the additional costs associated with administrative expenses, the SOP for adaptation, and the requirement for an overall mitigation of global emissions. By comparison, the Paris Agreement text could be interpreted so as to allow the "cooperative approaches" in Article 6.2 to do much the same in terms of international transfers of emission reductions, yet without the expense for a centralised governance body, a financial contribution towards adaptation, and without having to achieve an overall mitigation in GHG emissions; factors that all make the 6.4 mechanism comparatively more expensive. Some Parties have called for at least a SOP and an overall mitigation of GHG emissions from Article 6.2 as well. However, if they fail, co-operative action taken under Article 6.4 is likely to be less attractive than the co-operative approaches under Article

16 United Nations Framework Convention on Climate Change, *"CDM insights - intelligence about the CDM at the end of each month"*. CDM. Accessed September 25, 2018. https://cdm.unfccc.int/Statistics/Public/CDMinsights/index.html

17 United Nations Framework Convention on Climate Change, Additional tool under item 8 of the agenda: Further matters related to implementation of the Paris Agreement: (a) Preparing for the convening of the first session of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, (2018). https://unfccc.int/sites/default/files/resource/APA1.6.Informal.1.Add_.6.pdf

18 The future relation between the AF and GCF is discussed elsewhere in this paper. Though this has not been a topic of intense discussion in the negotiations thus far, it is generally accepted, and with the CDM the precedent is set that the SOP would flow to a fund such as the AF or GCF.

19 Warnecke, Carston, Ritika Tewari, Sönke Kreft, and Niklas Höhne. *Innovative Financing for the Adaptation Fund: Pathways and Potentials*, (NewClimate Institute / Germanwatch e. V., 2017). https://newclimate.org/wp-content/uploads/2017/02/170208_innovativefinancefortheaf.pdf

20 Subsidiary Body for Scientific and Technological Advice. (2018). Draft CMA decision containing the draft rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement, https://unfccc.int/sites/default/files/resource/sbsta48.2_12b_DT_Outcome.pdf

6.2. As a result, interventions that can choose between both options might avoid Article 6.4, which would lead to reduced finance for the AF.

Third, international demand for emission reductions is highly uncertain. High-volume emitters have either clearly stated they will not make use of international credits (United States,[21] European Union) or do not specify (China, Japan, Canada). Countries that have clearly stated they would use credits to achieve their NDCs are not major emitters (e.g., New Zealand, Switzerland, Liechtenstein, Norway).[22,23] International aviation is a possible further source of demand for emission reductions. The International Civil Aviation Organization (ICAO) adopted the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) with the aim of delivering carbon-neutral growth from 2020 onward. CORSIA's potential impact on finance for the AF, however, is highly uncertain at this stage. This is because further finance for the AF depends on the type of credits used, demand, and credit price. CORSIA could increase the demand for emission reductions, but it is unclear if it will accept CDM credits, credits under Article 6.4, voluntary credits, or all or some mix of them. Another consideration is that if CORSIA accepts all CDM credits without limitation, it has been estimated that up to 3.8 billion CERs could supply the market from existing projects at prices well below €1 per unit. That would result in highly limited new CDM, 6.4, or other projects, and therefore very limited financing for the AF.[24]

For these reasons, additional and diverse sources of finance must be found to ensure future AF support.

Other innovative sources of funding

International aviation and shipping

In 2010, the UN Secretary-General's High-Level Advisory Group on Climate Change Financing (AGF) identified a potential source of climate finance in revenues generated from a tax on international shipping and aviation.[25] The ICAO declined to impose a levy for adaptation and instead created CORSIA. Although the mechanism created through Article 6.4 will likely be eligible for use in CORSIA, as mentioned above, the SOP percentage contribution of the Article 6.4 mechanism, as well as the overall demand for credits from the mechanism, are highly uncertain.

The International Maritime Organization (IMO) continues to discuss different GHG emissions reduction measures. It identified "market-based measures" (MBMs) as a potential medium-term measure for reducing GHG in the international shipping sector.[26] A share of revenues could go to the AF depending on the characteristics of such an MBM. However, an IMO MBM would only be finalised in the period 2023–2030, so it does not offer a source of AF funding over the short term.

Earmarking (sub-) national ETSs and carbon taxes

In 2018, the total value of implemented national and subnational emission trading schemes (ETSs) stood at US$56 billion, covering 10% of global GHG emissions.[27] With a growing number of countries implementing ETSs, this could provide a stable source of finance for the AF. There are several ways to raise funds from ETSs. First, it is possible to earmark a part of the revenues generated from auctioning allowances; the EU ETS, the California–Quebec cap-and-trade scheme and the Regional Greenhouse Gas Initiative (RGGI) in the northeastern United States raise revenue through auctioning allowances. Alternatively, a levy could be placed on allowance trading.[28]

Similarly, revenues from carbon taxes could be earmarked. The total value of implemented carbon taxes is currently US$25 billion, covering 4.5% of global GHG emissions.[29] However, there is no indication that countries are considering earmarking ETSs and carbon taxes. This would require strong encouragement, from civil society campaigns, the AFB, and climate negotiators, such as in the form of a CMA or COP decision inviting countries to consider this action.

21 The United States' future in the Paris Agreement is unclear for other reasons.
22 Cames, Martin, Sean Healy, Dennis Tänzler, Lina Li, Julia Melnikova, Carsten Warnecke, & Marie-Jeanne Kurdziel, *International Market Mechanisms after Paris*. (2016). https://www.dehst.de/SharedDocs/Downloads/EN/JI-CDM/International_market_mech_after_Paris_discussion_paper.pdf;jsessionid=F51BEBCC61CD4BBCC2CEDFA75CEF8AEC.2_cid331?__blob=publicationFile
23 Kachi, Aki, Dennis Tänzler, Lina Li, Martin Cames, Ralph Harthan., Carsen Warnecke, & Marie-Jeanne Kurdziel. *Current Status of the Discussion on New Market Mechanism Development*. (2016). https://www.dehst.de/SharedDocs/Downloads/EN/JI-CDM/Workshop_market_mechanism_paris_input_paper.pdf;jsessionid=F51BEBCC61CD4BBCC2CEDFA75CEF8AEC.2_cid331?__blob=publicationFile
24 Fearnehough, Harry, Thomas Day, Carsten Warnecke, and Lambert Schneider, *Discussion paper: Marginal cost of CER supply and implications of demand sources*, (Berlin, German Emissions Trading Authority), 2018. https://newclimate.org/wp-content/uploads/2018/03/Marginal-cost-of-CER-supply.pdf
25 Advisory Group on Finance. *Report of the Secretary-General's High-level Advisory Group on Climate Change Financing*. (New York, United Nations, 2010). https://www.cbd.int/financial/interdevinno/un-climate-report.pdf
26 International Maritime Organization. (2018). *INITIAL IMO STRATEGY ON REDUCTION OF GHG EMISSIONS FROM SHIPS*. (London: International Maritime Organization, 2018). https://unfccc.int/sites/default/files/resource/250_IMO submission_Talanoa Dialogue_April 2018.pdf
27 The World Bank. Carbon Pricing Dashboard | Up-to-date overview of carbon pricing initiatives. Accessed September 27, 2018. https://carbonpricingdashboard.worldbank.org/map_data
28 Ibid.
29 Ibid.

Need for diverse funding sources

The CDM and the Article 6.4 mechanism of the Paris Agreement do not represent a stable and secure funding source for the AF for a number of reasons: their uncertain futures and the role they may play after 2020, the amount of demand for their credits after 2020, and the potential competition to satisfy that demand. Therefore, it is imperative the AF makes use of its unique mandate and structure and explores alternative sources of funding. These include a SOP from the co-operative approaches provision of Article 6.2, that CORSIA accepts the Article 6.4 mechanism for compliance and limits oversupply from the existing CDM, and earmarked proceeds from national ETSs and carbon taxes and a levy on maritime GHG emissions. However, as mentioned, those options for alternative funding sources also face several challenges and will take time to realise. Therefore, it is highly recommended to continue to also rely on contributions from governments and philanthropic sources, in addition to contributions from market-based mechanisms. In the past, government contributions have partially covered the finance gap created by the CDM's setback. However, only a few governments have pledged resources to the Fund. Pursuing increased finance from a number of other donor sources can potentially ensure predictable and sustainable resources directed to the AF.

Recommendations

A CMA decision should:

- *Further explore the potential link to Article 6 of the Paris Agreement, while remaining mindful of the limitations of such a link and that Article 6.4 most likely will not represent a stable and secure funding source.*
- *Additionally, consider a share of proceeds from the co-operative approaches provision of Article 6.2.*
- *Emphasise the need for additional and diverse sources of finance to meet the AF's demand.*
- *Encourage the AF to make use of its unique mandate and experience and explore alternative sources of funding, such as earmarked proceeds from national ETSs and carbon taxes, and a levy on maritime GHG emissions.*
- *Strongly emphasise the need for continuing to rely on governmental contributions in addition to market-based mechanisms.*
- *Highlight the importance of ensuring predictable and sustainable resources for the AF.*

The AFB should:

- *Based on its Resource Mobilization Task Force, continue to pursue efforts to establish innovative financing mechanisms, and drive them politically.*

3.1.4. The AF's role in engaging with the private sector

Climate change impacts pose a direct threat to local private sector entities, especially micro, small, and medium enterprises (MSMEs) in developing countries, which usually comprise the largest part of the national economy. These often provide the majority of employment and income-generation opportunities for the local population, and supply essential goods and services. Incentives should be further explored for private investment in adaptation measures through means such as new adaptation technologies providing business opportunities or financial services provided by the private sector. Creating incentives for the private sector to engage in adaptation action also implies the need to improve national institutional and regulatory frameworks, and could result in public–private partnerships. However, it is crucial that the role of public service provision is not undermined in such partnerships for adaptation. In many cases, responding to local adaptation needs, particularly of the most vulnerable communities, does not involve potentially profitable revenue-generating activities, and therefore makes private sector involvement unlikely. In such cases, grant-based support for the public sector or non-profit entities remains the most viable way to finance adaptation.

To date, there are only a very few adaptation projects financed by multilateral climate funds and that are exploring the potential of private sector engagement. The AF does not have an explicit focus on the private sector as does, for

Weahter station in Nakhon Nayok, Thailand.

example, the GCF's Private Sector Facility. Moreover, grants are the only financial instruments available to the AF, while the GCF, for instance, also disposes of the options of loans, guarantees, and equity to finance adaptation projects, which could enable a broader set of options for engagement with the private sector. Nonetheless, experience in the GCF thus far shows that, with only one exception, adaptation projects have been financed with grants. This may suggest grants in many cases remain the most appropriate form of funding adaptation.

That notwithstanding, many researchers and project developers are exploring how, and under which circumstances, the private sector could be engaged in adaptation. There are opportunities for the AF to accumulate knowledge and experience on private sector involvement in adaptation projects. This could over time lead to scaled up adaptation action with the help of other climate financing channels, including private sector finance.

In its Medium-Term Strategy, the AF specifically encourages implementing entities to include private sector entities in proposals for the Fund's Innovation Facility.[30] This includes an activity to assess, and if feasible pilot, co-financing innovative action by private sector entities. Moreover, the Fund has planned a specific activity to build public and private partnerships and collaborations to support project development for scaling up.

Additionally, it would be beneficial to grasp lessons learned from projects in the AF's current portfolio, in which the Fund has engaged with the private sector. In a number of such projects, the Fund is involved in such engagement on distinct levels:

- The AF programme in Mauritius specifically addresses the country's domestic hotel and tourism industry.[31] The programme focuses on combating beach erosion and flood risk in coastal areas. Among these efforts, it has established a priority ranking of vulnerable coastal sites, which is to guide future investments by the private sector. Moreover, consultative workshops and training promoting compliance with climate-proofed planning and design actively targeting private sector entities aiming to build capacity to replicate effective coastal adaptation measures.

- The "enhanced direct access" project in South Africa includes the Heiveld Co-operative for rooibos farming as one of the recipients of support from the AF-financed small grants facility. The region of the Heiveld Co-operative, Suid Bokkeveld, is extremely vulnerable to climate change due to changes in rainfall patterns and increased occurrence of drought. With the funding it received, it is reviewing climatic impacts on its rooibos production and planning strategies to respond to them. This will not only help small-scale local farmers increase their production and income, but also generally help strengthen the sector of fair and organic rooibos production in South Africa, as other rooibos co-operatives will also benefit from the project's insight and experience.

- The AF's project in Costa Rica, implemented by Fundecooperación, is pursuing direct engagement with the private sector by seeking to provide small-scale producers with the appropriate tools, technologies, and techniques to better adapt to negative impacts of climate change.

The AFB did not endorse a proposal involving the private sector that was to be co-financed by one of its implementing entities, the Central American Bank for Economic Integration (CABEI). It was unable to approve it because the suggested activities by the Fund would have been highly dependent on the co-financed activities. This proposal aimed at seeking to enhance MSMEs' adaptive capacity through provision of financial and non-financial services. The Board reasoned that such a proposal would have been in conflict with an annex to the Fund's Operational Policies

[30] The AFB has approved the launch of an Innovation Facility amongst the activities in the Implementation Plan for the AF's Medium-Term Strategy.
[31] World Resources Institute, *The Future of the Funds*, (2017).

and Guidelines related to financing of the full cost of adaptation. This states that an “AF project should be able to deliver its outcomes and outputs regardless of the success of other project(s).”

For its 32nd Board meeting in October 2018, the AFB will also consider a proposal that involves private investors. This one is a concept for a regional project, from the UNEP. The project seeks to create a financial mechanism that allows private sector impact investors to fund restoration projects directly linked to adaptation efforts.

A deeper analysis of the different levels and degrees of private sector engagement in the Fund’s current project portfolio is needed to grasp lessons learned and experiences from those projects, which then potentially could be scaled up.

Additional recommendations for further engagement with the private sector include:

- As part of its seventh outcome indicator, “Improved policies and regulations that promote and enforce resilience measures,” the Fund could include activities that enhance national policies and regulations to create clear conditions and incentives for the private sector to engage in adaptation activities. This should be aimed at creating national frameworks that envisage long-term involvement of the private sector in reducing a country’s vulnerability to climate change.

- With its focus on the adaptation needs of the most vulnerable social groups and communities, the Fund could focus its engagement with the private sector on small-scale local producers and micro and small enterprises.
  The Fund’s principle of “Funding on full adaptation cost basis of projects and programmes to address the adverse effects of climate change” should be maintained. However, the Fund could explore options for certain elements or components of projects to be co-financed by private sector impact investors and microfinance institutions that are aiming to reduce vulnerability to climate change impacts. For example, under the Fund’s pillar of innovation, there could be a special funding window for proposals that include co-financed components.

- The Fund should explore the role of small grants for private sector entities, and how those grants can indirectly leverage further resources from the private sector, as in the case of the Heiveld Co-operative mentioned above. In such projects, it must generally be ensured that knowledge and experience generated via grants from the AF are not monopolised by the private sector recipients, but rather are shared publicly.

Recommendations

The AFB should:

- *Further explore incentives for private investment in adaptation measures.*
- *Build knowledge on private sector involvement in adaptation projects by grasping lessons learned, through deeper analysis of the different levels and degrees of private sector engagement in the Fund’s current project portfolio.*
- *Promote creation of national frameworks that envisage long-term involvement of the private sector in reducing a country’s vulnerability to climate change.*
- *Explore further engagement with small-scale local producers and micro and small enterprises.*
- *While maintaining the full adaptation costs basis, explore options for private sector impact investors and microfinance institutions to co-finance certain elements or components of projects.*
- *Explore the role of small grants for private sector entities.*

3.2. Governance

3.2.1. The Fund's governing body

The Fund's governing body, its Board, is composed of 16 members and 16 alternate members representing Parties to the Kyoto Protocol. Depending on the representatives from the Eastern European region, a minimum of 62.5% (and a maximum of 69%) of Board members are from developing countries (see Figure 5 below).[32]

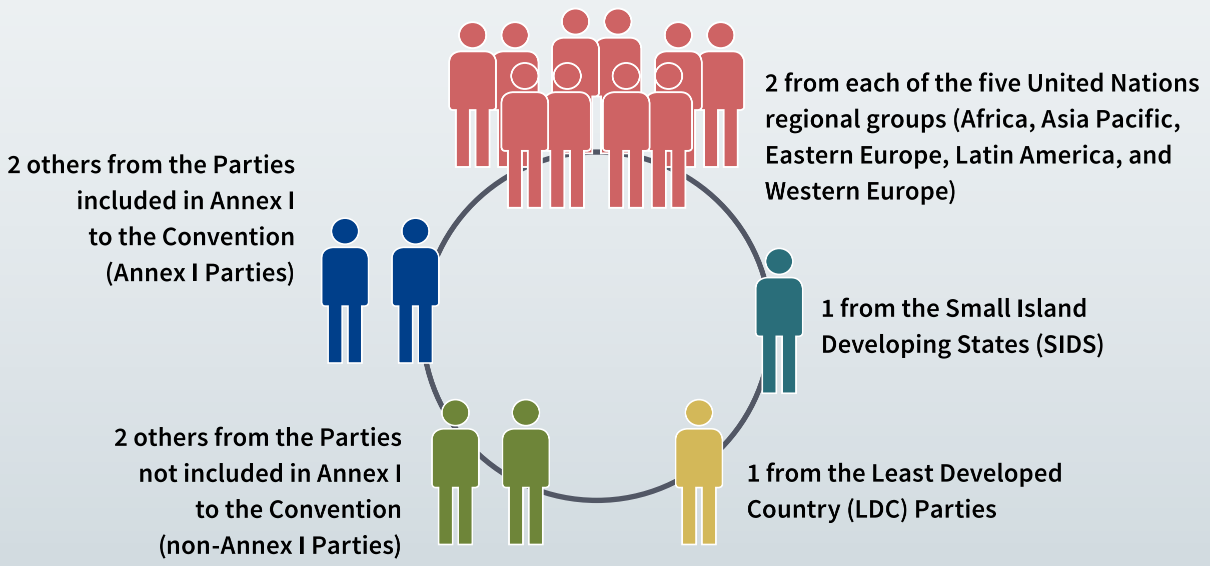
While in other funds, alternates usually only have a seat at the table and contribute to discussions in absence of Board members, during AFB meetings, both Board members and alternates typically participate in discussions. This is one possible factor contributing to enhanced quality and efficiency of discussions and debates at the AFB level. The Board basically works in two committees, the Project and Programme Review Committee (PPRC) and the Ethics and Finance Committee (EFC). Both are composed of a total of 16 Board members and alternates. Additionally, the Board's work is supported by an Accreditation Panel composed of two Board members or alternates and three external experts.

Several of the Fund's policies and guidelines are in place to ensure the integrity of the Board and consequently of the decisions it takes. To mitigate the potential risks of ethical transgressions and financial mismanagement by the Board, the AF Risk Management Framework specifically refers to the following three rules and procedures:[33]

- The Fund has a zero-tolerance policy on fraud and corruption for its Board, which was adopted in October 2014. As stated in this policy, "Board members and alternates refrain from condoning, supporting or otherwise failing to address fraudulent or corrupt behaviour that may affect the Fund's decision making process and operations, either by their peers or by anyone actually or potentially involved in the Fund's operations."[34]

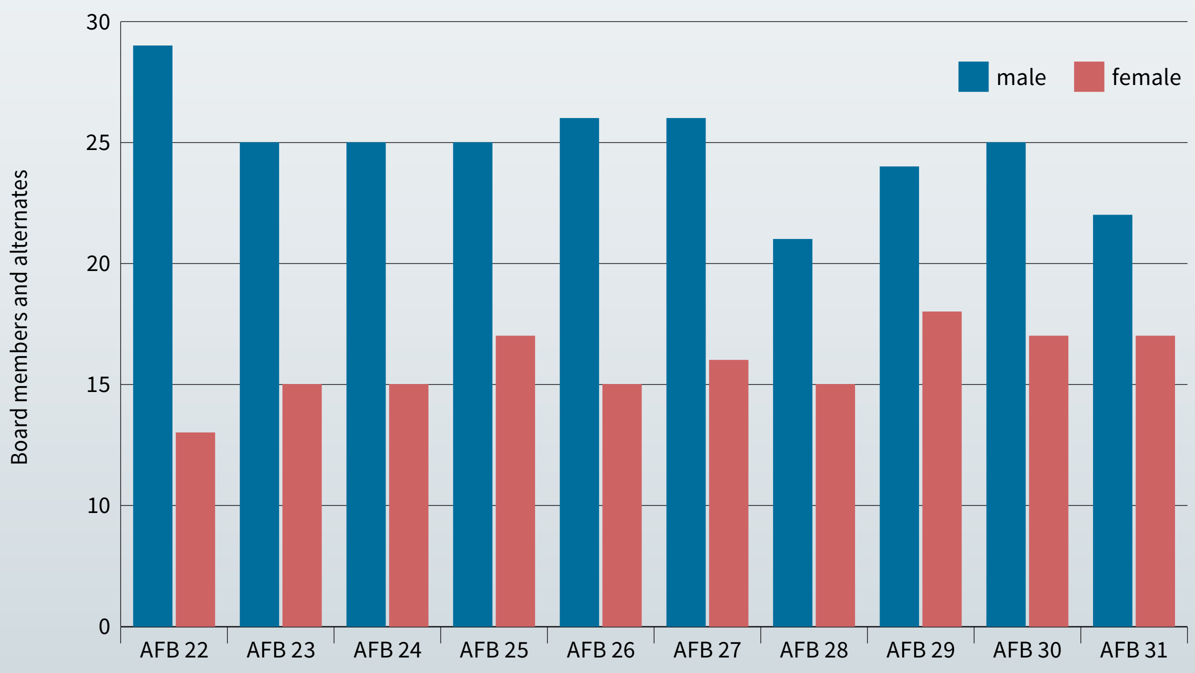
- The Fund has a procedure for termination of Board membership, as outlined in its rules on procedures for the AFB.[35]

Figure 5. Composition of the Adaptation Fund Board.



[32] The Eastern European region is composed of developing and developed countries. The percentage of developing/developed countries of AFB members will vary depending on the constituency's selection for Board members and alternates.
[33] Adaptation Fund, *Risk Management Framework for the Adaptation Fund*, (2014).
[34] Adaptation Fund. *Zero Tolerance Policy for the Board*, (2014).
[35] Adaptation Fund. *Rules of Procedure for the Adaptation Fund Board*, paragraph 52 ("The Board may propose to the CMP the termination of the membership of any member or alternate for cause including, inter alia, breach of the conflict of interest provision, breach of the confidentiality provisions, or failure to attend two consecutive meetings of the Board without proper justification.").

Figure 6. Gender Balance in the Adaptation Fund Board.



- The Fund has a Code of Conduct that obligates Board members to disclose any conflict of interest. Board members and alternates must, at each meeting, declare any conflicts of interest they may have in relation to any agenda items.[36]

An increased number of closed sessions limits analysis of the effectiveness of the AFB's decision-making process for outside observers. Nonetheless, three observations support the conclusion that the Board is a well-functioning governing body:

- In the Fund's 10-year history, all of the Board's decisions have been by consensus, even though there is the possibility of voting if no consensus can be reached. Decisions can be taken by a two-thirds majority of all members present, based on a "one member, one vote" policy.[37] Developing countries, generally represented by around 69% of the Board's members, could theoretically win such a vote. This underscores that there is no general division of the Fund's Board between developing and developed countries, and decisions are made based on individual deliberation. However, having the option of making a decision by vote in the case no consensus is reached may lead to more willingness among the Board's members to reach a decision by consensus knowing they will probably lose a potential decision achieved by vote.

- The Board makes individual decisions on each submitted project proposal or application for accreditation and no "package decisions" are made.

- The Board considers all project proposals and concepts on their individual merits. Concept notes and proposals are often not endorsed or approved, and are asked to be reformulated taking into account specific consideration provided on the proposals, as the Board strives to ensure high quality in proposals funded.

The Board with its current composition is working well. Generally, it can be observed that it is able to quickly react to and address emerging needs and demand in the international climate finance architecture. The process of developing and approving the Fund's Medium-Term Strategy for 2018-2022 is a case in point. The recent elaboration and approval of the corresponding Implementation Plan was a

[36] Also stated in Rules of Procedure of the Adaptation Fund Board.
[37] Adaptation Fund, *Rules of Procedure of the Adaptation Fund Board*.

Group of women at a community reunion in the Bissaque neighborhood in the city of Bissau, Guinea Bissau.

notably fast and efficient process.[38] The pending question at the UNFCCC climate negotiations, on if and how the AF could fully serve the Paris Agreement, put the AF in a distinctive position where it has had to define and concretise its role and mandate in the international adaptation finance architecture. Within this process, the AFB proved its capacity to quickly respond to evolving needs.

While Figure 6 shows the gender balance of the AFB has slightly improved over time, there remains a considerable gap that needs to be addressed.[39] Notably, at the time of this report, the vice-chair of the AFB, chair of the PPRC, and chair and vice-chair of the EFC were women. Thus, of six chair/vice-chair positions, four were held by women.

Recommendations

A CMA decision should:

- *Acknowledge that the AFB with its current composition is working well and maintain its composition.*
- *Stress the need for an adequate gender balance in the AFB's composition.*

[38] Nonetheless, a consultative process with further stakeholders would have enhanced this process even further, as was the case for the draft text of the Medium-Term Strategy 2018-2022 itself.
[39] Further aspects considering the Fund's Gender Policy are considered in Chapter 3.2, on safeguards.

3.3. Safeguards

This section considers the Fund's Environmental and Social Policy,[40] Gender Policy,[41] existing guidelines, and practices ensuring integrity and accountability, as well as transparency and stakeholder engagement. The benefits of strong standards on transparency, accountability, and integrity in multilateral climate funds far surpass strengthening their own institutional capacities. They are, additionally, promoting a transformation towards strengthened institutional governance for their financial intermediaries, national implementing and executing entities, and other beneficiaries.[42]

An analysis published by Transparency International in 2017 on the AF's anti-corruption policies and practices recognised a number of best practices demonstrated, including the Fund's direct access, fiduciary, access to information, and public participation policies.[43] Transparency International also recognised the Fund's substantive progress in addressing several issues by, for example, adopting a zero-tolerance policy on corruption and introducing a complaint-handling mechanism. Other areas of substantial progress are the policy to ensure downstream accountability and anti-corruption safeguards in project implementation.[44]

This chapter also examines concrete policies and practices regarding the Fund's safeguards that could be further strengthened. Recent developments in, and decisions of, the AFB show it has been continuously evaluating and reviewing its safeguard practices and taken concrete decisions to improve them. Recent Board discussions on the Fund's anti-money laundering policies are an example of this.

3.3.1. The AF's Environmental and Social Policy and Gender Policy

Harmonisation of environmental and social safeguards, as well as gender policies of different multilateral climate funds, would be desirable because it directly contributes to making access to and management of climate finance easier and less costly for developing country Parties. Despite this, harmonising gender policies and environmental and social safeguards should be guided by the principle of any harmonisation being aimed at achieving the highest international standards, and should ensure that safeguards are fit-for-purpose to avoid unnecessary burdens. The detail necessary and requirements an environmental and social policy must have and fulfil might vary depending on the different types of projects a fund finances. For example, the types of risks that need to be addressed might vary considerably between concrete, small-scale adaptation projects and large, regional investments in renewable energies.

Likewise, it is crucial that safeguards are applied during the accreditation process, as well as at the portfolio level, including monitoring and reporting of safeguards. Safeguard frameworks should include information on explicit procedural requirements for their implementation. As elaborated below, the AF can be considered a model in this regard.

The AF's Environmental and Social Policy was approved in 2013 and revised in 2016. It is considered to be aligned with relevant international best practices. John H. Knox, former United Nations Special Rapporteur on human rights and the environment, in his Letter to the SBSTA in May 2016 described the Policy as strong and exemplary and offering safeguards to be followed by others.[45] Knox highlighted the importance of including broad provisions on human rights to ensure climate finance mechanisms and their approved projects comply with all relevant human rights norms. He referred to the Policy as a best practice because it states, "Projects/programmes supported by the Fund shall respect and where applicable promote international human rights."[46] It also includes that core labour rights[47] and indigenous peoples' rights[48] must be respected.

The Fund also has developed specific guidance regarding ongoing reporting on safeguard-related issues during project implementation, tracking potential environmental and

40 Adaptation Fund, *Environmental and Social Policy*, (revised March 2016).
41 Gender Policy and Action Plan of the Adaptation Fund, (March 2016).
42 Adaptation Fund, Transparency International. *A Tale of Four Funds*. Best practices of multilateral trust funds in safe-guarding climate finance from corruption and waste, (2017).
43 Transparency International, *Protecting Climate Finance - Progress Update on the Adaptation Fund's Anti-Corruption Policies and Practices*, (2017).
44 Ibid.
45 Knox, John H., *Human Rights and Safeguards in the New Climate Mechanism established in Article 6, paragraph 4 of the Paris Agreement*, (2016). The letter can be found on the website of the Office of the United Nations High Commissioner for Human Rights. https://www.ohchr.org/Documents/Issues/Environment/Letter_to_SBSTA_UNFCCC_May2016.pdf
46 Adaptation Fund, *Environmental and Social Policy*, para. 15.
47 Ibid. para. 17.
48 Ibid. para. 18.

social risks at the portfolio level, including specific requirements for accredited entities during project implementation and completion. The Global Environmental Facility (GEF) Independent Evaluation Office acknowledges the AF's leading role concerning safeguarding climate-finance at the project implementation level, recognizing that the AF's policies included a number of provisions the GEF's minimum standards did not contain, and that the GEF's own environmental and social safeguard policies could be strengthened by harmonising upwards.[49]

The Fund, when reviewing the efficiency and effectiveness of its accreditation process, emphasised that the high standards of its Environmental and Social Policy have strengthened the existing safeguard policies of several accredited entities of the Fund, especially of National Accredited Entities. Requiring accredited entities to be able to comply with the AF's safeguards provides the AF an opportunity to promote harmonisation upwards on a wider scale than if it only took a project-by-project approach. The Policy provided an impetus for entities seeking accreditation with the Fund to be more ambitious when elaborating and reviewing their safeguard policies.[50]

Hence, the AF's Environmental and Social Safeguards can generally be categorised as exemplary and fit-for-purpose.

The AF's Environmental and Social Policy includes a standard on gender equality and women's empowerment, requiring that men and women have equal opportunities to participate and to receive benefits, and not to suffer disproportionate impacts.[51] Additionally, in March 2016, the Fund adopted a human rights-based Gender Policy and Action Plan that expands on this standard to ensure women and men have equal access to the Fund and that women suffer no disproportionate impacts. In its Gender Policy, the AF recognises that women's rights are fundamental human rights, and integrates key international instruments. Furthermore, though it is a separate policy, the Gender Policy integrates elements of the Environmental and Social Policy, such as in those related to access, and marginalised and vulnerable groups. It also strives to enhance this in ways such as requiring implementing entities to identify a grievance mechanism that can provide both men and women an avenue for redress, including for gender-related complaints.

Through this, the AF works to mainstream gender throughout its work and applies this to all its activities. As with the Environmental and Social Policy, the Gender Policy applies both at the project level and with accreditation. This lets the AF have broader influence and promote systemic change as the entities already accredited, and seeking accreditation, can be more ambitious in promoting gender equality as they seek to work to implement the policy. Thus, as with the safeguards, the Gender Policy is exemplary.

Critically, the AF also provides grant support for technical assistance and readiness support to accredited entities, and entities seeking accreditation, to help build their capacity to implement the Environmental and Social Policy as well as the Gender Policy.

Recommendations

A CMA decision should:

- *Encourage harmonisation of environmental and social safeguards and gender policies of the different climate funds serving the Agreement, ensuring the highest international standards and appropriateness.*
- *Recognise that the AF's Environmental and Social Safeguard Policy, as well as its Gender Policy, are fit-for-purpose and aligned with international best practices.*
- *Recommend that the AFB regularly reviews its existing policies and guidelines on safeguards and improves them if necessary.*

The AFB should:

- *Continue to evaluate and review its safeguard practices on a regular basis and, if necessary, make decisions directed at improving them.*

49 Global Environment Facility Independent Evaluation Office, *Review of the GEF Policy on Agency Minimum Standards on Environmental and Social Safeguards*, (2017). https://www.gefieo.org/sites/default/files/ieo/evaluations/files/safeguards-2017.pdf

50 Adaptation Fund, AFB/EFC.22/4. *Efficiency and Effectiveness of the Accreditation Process*, (2018). https://www.adaptation-fund.org/wp-content/uploads/2018/03/Final_AFB.EFC_.22.4_Efficiency-and-effectiveness-of-the-accreditation-process_12March2018.pdf

51 Adaptation Fund, *Environmental and Social Policy*, para 16.

3.3.2. The AF's practices on accountability and integrity

Integrity and accountability policies of climate funds are essential for preventing corrupt, fraudulent, and abusive behaviour and processes, not only at the board and secretariat levels, but also at the level of project implementation. These funds should go beyond ensuring proper policies and safeguards for their own institutions and implementing entities. Institutional arrangements in project setups are often complex and implementing entities only have an intermediary role with several executing entities involved in project implementation, as well as consultants and other actors providing subcontracted services. Moreover, decision-making processes at the country level, especially for the selection of national institutions seeking accreditation with the AF or projects being submitted to the Fund, are also complex.

DAs play a crucial role in the Fund and standards ensuring their accountability and integrity represent a key issue. One of the biggest challenges for several countries in efficiently and effectively channelling resources to the groups most vulnerable to the negative impacts of climate change is related to the lack of DAs' commitment to standards of accountability, integrity, and transparency.[52] As suggested by Transparency International, this challenge could be overcome by extended training for DAs on accountability and integrity concerns, as well as through constructive dialogue with those authorities and a forum for them to share best practices. They should also be encouraged to regularly report on their performance in these areas. Generally, it would be desirable to strengthen the role of DAs at the AF. More commitment could be generated if instead of nominated government officials, this mandate were institutionalised within a government agency/ministry and went beyond only individual people appointed for this.

The anti-money laundering policy is one example of a concrete standard ensuring accountability and integrity. Money laundering and financing of terrorism are inconsistent with the Fund's Operational Policies and Guidelines, and are prohibited in the standard legal agreements, under corruption and illegal activities. However, such AML and CFT measures should surpass only remedial approaches and include robust preventive measures.[53] At its 31st Board meeting in March 2018, the AFB requested that the Accreditation Panel provide feedback on the need for introducing accreditation standards related to AML/CFT. In the case such

H'mong ethnic minority children in Mucangchai, Vietnam.

[52] This observation is based on experiences of and statements made by some members of the AF NGO Network.
[53] Transparency International, *Protecting Climate Finance. Progress Update on the Adaptation Fund's Anti-Corruption Policies and Practices*, (2017).

a need is confirmed, the Board also requested that the Panel identify the type of capacities that should exist within the applicant entity. This proposal by the Panel will be presented to the Fund's EFC in October 2018. A Board decision referring to the need for such concrete capacities to be provided by applicant entities would strengthen the Fund's standards on AML/CFT. Concrete action on this matter offers potential for the Fund to show it is able to regularly review and, if needed, amend its policies and guidelines to ensure they are based on international best practices.

Ensuring accountability also requires climate funds to have a process that gives impacted people avenues for seeking redress. Both the Environmental and Social Policy and Gender Policy of the AF require the implementing entities to identify a grievance mechanism that can provide an accessible, transparent, fair, and effective process for hearing complaints from communities alleging environmental or social harm. This is critical and in line with best practices, as climate projects can have unintended consequences. Effective grievance processes help a fund to bolster its accountability.

However, the AF could improve its own grievance process. The Environmental and Social Policy notes that complaints related to AF-funded projects can be filed with the Secretariat. The AF does now have an Ad-hoc Complaint Handling Mechanism (ACHM),[54] but this could be improved in several key areas in order to be considered a best practice. While the AF claims the ACHM is independent, there is insufficient information to confirm this and independence is key to a complaint mechanism being fair and effective. The ACHM should also be accessible and capable of hearing complaints related to any AF-funded project, regardless of whether the grievance process at the implementing entity has previously been used. Reasons such as fear of retaliation may deter a person from filing a complaint to an implementing entity's mechanism, and in those instances, he or she should be able to go directly to the AF.

Providing a mechanism for grievance redress is a critical component of accountability. In this area, the AF has taken valuable steps, though there is room for improvement.

Generally, it can be observed that the AF already follows several international best practices related to its policies on accountability and integrity. However, they can be further strengthened. As with all institutions, it is crucial that the AF not only relies on policies in place, but also regularly reviews their effectiveness and enhances them.

Recommendations

A CMA decision should:

- *Recognise that the AF's policies on accountability and integrity are following international best practices.*
- *Recommend the AFB regularly revise the Fund's policies on accountability and integrity and, if necessary, improve them.*

The AFB should:

- *Decide on the need for concrete capacities to be provided by applicant entities, aiming to enhance the AF's standards on AML/CFT.*
- *Approve concrete activities to strengthen the role of the Fund's DAs.*
- *Review its grievance mechanism, provide further information to confirm the independence of its ACHM, and provide the opportunity to use the ACHM directly without using an implementing entity's complaint mechanism.*
- *Continue to regularly evaluate and review its policies on accountability and integrity and, if necessary, make decisions directed at improving them.*

[54] Adaptation Fund, *Ad-Hoc Complaint Handling Mechanism*, Accessed October 8, 2018. https://www.adaptation-fund.org/projects-programmes/accountability-complaints/ad-hoc-complaint-handling-mechanism-achm/

3.3.3. The AF's stakeholder engagement, participation, and transparency practices

The Fund recognises that civil society contributes to it in a number of ways. Civil society representatives provide input from the Fund's intended beneficiaries and give real-time updates on, and assessments of, supported projects as well as support for resource mobilisation. The Fund considers its current practices for engaging with civil society reasonably effective in terms of transparency and accountability. It has also decided to closely collaborate with the AF NGO Network in aiming to explore options for even greater collaboration during 2018–2020.[55]

Several practices of the AF regarding stakeholder engagement, participation, and transparency can generally be considered best practices. However, here too, there is room for improvement.

Best practices include:

- The Fund uploads all project proposals (fully developed as well as concept and pre-concept notes) to its website and provides an opportunity for the public to send comments on them to the Secretariat, which are then forwarded to the Board for consideration (see Box 5 for further discussion).

- Annual project performance reports submitted by the implementing entities are also made publicly available on the AF's website.

- The Fund's policies require and recommend engagement with a wide range of stakeholders throughout the full project cycle.[56]

- Civil society can participate in AFB meetings as observers, though without the opportunity to intervene in the proceedings. The AF's civil society dialogue is a 1-hour session scheduled as an official part of the Board meeting agenda, wherein civil society is given the opportunity to interact with the Board. The AF NGO Network organises these dialogues and provides funding for NGO's from developing countries to attend them and contribute to them. The Fund also gives civil society stakeholders the opportunity to contribute to the CSO dialogue via video conference.

Further improvement needed:

- The Fund's Board meetings should not only be streamed online live, but also should be recorded and archived. This would allow people from different countries and time zones to follow the different issues discussed and decisions made by the AFB.

- During past AFB meetings, an increasing number of sessions have been closed to the public with no public explanation for this decision. The Fund's disclosure policy should require that reasons for meetings to be closed, as well as for not disclosing information, be explained to the public.

- Moreover, the Fund's two committees (PPRC and EFC) meet in closed sessions prior to each Board meeting. Thus, important decisions are often discussed during those committee meetings prior to them being made at the Board meeting and without the opportunity for meaningful civil society engagement. In an attempt to provide input from civil society, the AF NGO Network has published briefing papers with the Network's recommendations, and positions on the agenda items being discussed during committee and Board meetings. However, there are no official channels for civil society to provide input for committee meetings.

- As the above-mentioned civil society dialogue during the Fund's Board meetings is often scheduled after several important Board decisions have already been made, civil society recommendations often arrive too late to have an impact. To enhance effective opportunities for civil society to participate and engage, it is necessary to have elected active civil society observers (from developing and developed countries) who have a seat at the table and the opportunity to intervene on any agenda item. Granting those observers the opportunity to attend closed meetings (after signing a confidentiality agreement) would also increase transparency.

- The Fund should provide resources for active developing countries observers to attend its Board meetings.

- Stakeholders in the countries in which projects are implemented often face challenges in providing valuable feedback on project proposals that span several hundreds of pages and are not in their native language. Thus, the Fund should require that implementing entities provide

[55] Adaptation Fund, *Implementation Plan for Medium-Term Strategy,* (2018). https://www.adaptation-fund.org/wp-content/uploads/2018/03/AFB.B.31.5.Rev_.1_Implementation_plan_for_medium-term_strategy.pdf
[56] Transparency International, *A Tale of Four Funds*, (2017).

brief summaries (3–5 pages) in the respective countries' official language, in addition to the complete project proposal templates already required.

- The Fund's Accreditation Panel should explore opportunities to solicit and take account of stakeholder input on accreditation and re-accreditation applications (as the AF does for project/program proposals submitted to the Board for approval).

- The Fund should review and improve opportunities provided to stakeholders to engage in intersessional decision-taking.

Box 5. The opportunity for stakeholders to provide comments and input on project proposals and concepts

The AF's providing stakeholders the opportunity to give comments and input on project proposals is one example of an international best practice policy for participation and transparency. Despite this clearly being a best practice, compared with other climate finance channels, it remains important to review the policy's effectiveness. Past experiences have shown stakeholders essentially failed to use this opportunity. The AF NGO Network has therefore sought to reach out to stakeholders and encourage them to provide feedback. Yet even now, only a very limited number of comments are submitted to the Fund. This is often due to the relatively short time periods for commenting (usually about 3 weeks). If stakeholders, at the time proposals are uploaded to the website for public comment, have not been involved in the process before and must sometimes go through up to 600 pages of a single project proposal, with no information provided in their country's official language, those 3 weeks are brief considering those stakeholders often need to reach out to their personal networks to obtain information needed to provide substantive feedback. The AF NGO Network is currently working on a strategy to promote this opportunity and build capacities among civil society organisations, thereby improving their ability to give their feedback. However, this process not only needs resources but also time and continuous effort to prove its efficacy. The Fund itself should also review the effectiveness of this standard and consider ways to improve it.

! Recommendations

A CMA decision should:

- *Recognise existing good practices of the AF for promoting stakeholder engagement, participation, and transparency.*
- *Recommend the AFB regularly revise the Fund's practices on stakeholder engagement, participation, and transparency and, if necessary, make decisions directed at improving them.*

The AFB should:

- *Explore options for greater collaboration with the AF NGO Network.*
- *Ensure documents for Board meetings are made available a minimum of 2 weeks before the committee meetings start.*
- *Request that live webcasts of Board meetings are recorded and archived on the Fund's homepage.*
- *Specify in its disclosure policy that reasons for meetings being closed, and reasons for not disclosing information, will be explained to the public.*
- *Explore official channels for civil society to provide input for the Board's committee meetings.*
- *Explore the opportunity of having elected active civil society observers with a seat at the table, as well as the opportunity for them to intervene on any agenda item.*
- *Require that brief summaries (3–5 pages) of project proposals in the respective countries' official language are made publicly available.*
- *Explore opportunities to solicit stakeholder input on (re-)accreditation and intersessional decision-making.*

Germanwatch

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