

# Independent Evaluation of the Adaptation Fund

## First Phase Evaluation Report

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### ABSTRACT

The Adaptation Fund was established in 2001 to finance concrete adaptation projects and programs in developing country Parties to the Kyoto Protocol and those that “are particularly vulnerable to the adverse effects of climate change.” This Independent Evaluation is the first of two phases in a comprehensive evaluation of the Adaptation Fund. This report presents the findings and analysis for the First Phase evaluation, which is a process evaluation that focuses on the Adaptation Fund’s operational performance from its establishment through June 2015.

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### Attribution

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## **Disclaimer**

The opinions expressed are those of the Evaluation Team, and do not necessarily reflect those of the Adaptation Fund Board, the Global Environment Facility or the World Bank. Responsibility for the opinions expressed in this report rests solely with the authors. Publication of this document does not imply endorsement by the Adaptation Fund Board of the opinions expressed.

## **Acknowledgements**

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We would especially like to thank members of the Adaptation Fund Board and staff of the Adaptation Fund Board Secretariat for their timely assistance and thorough cooperation throughout the evaluation process. We are also thankful to members of the Independent Review Panel and the Evaluation Coordinator for their advice and support.

Details about stakeholders consulted for this evaluation are provided in Annexes 9 and 10.

## **Evaluation Team and Independent Review Panel**

TANGO International in association with Overseas Development Institute (ODI) was selected to undertake this First Phase Independent Evaluation of the Adaptation Fund via an international, competitive procurement process following World Bank procurement rules and procedures.

The Evaluation Team consisted of:

- Mr. Bruce Ravesloot, Team Lead and senior expert in adaptation and international evaluation
- Mr. Charles Ehrhart, Technical Lead and senior expert in adaptation and adaptation finance
- Ms. Nella Canales Trujillo, Research Officer and expert in adaptation and climate finance
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ODI was primarily responsible for evaluating the Adaptation Fund's relevance, while TANGO was responsible for assessing effectiveness, efficiency, and sustainability. Ms. Smita Nakhoda and Mr. Graham Banton, both of ODI, provided additional technical support to the chapter on relevance.

An Independent Review Panel (IRP) was convened by the Adaptation Fund Board to ensure that the evaluation process was as rigorous as possible. The IRP's main responsibilities included:

- Reviewing and commenting on the evaluation's draft TOR and criteria for selecting the evaluation team,
- Recommending an Evaluation Team to the AFB Secretariat from a group of possible institutions, and
- Reviewing and commenting on the Inception Report and Draft Reports of the evaluation.

## Acronyms and Abbreviations

AAU	Assigned Amount Unit
AF	Adaptation Fund
AFB	Adaptation Fund Board
AFB Sec	Adaptation Fund Secretariat
AP	Accreditation Panel
CAF	Cancun Adaptation Framework
CDKN	Climate and Development Knowledge Network
CDM	Clean Development Mechanism
CERs	Certified Emission Reductions
CIF	Climate Investment Fund
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
COP	Conference of the Parties
DA	Designated Authority(ies)
DSA	Daily Subsistence Allowance
EFC	Ethics and Finance Committee
ERU	Emission Reduction Unit
ESP	Environmental and Social Policy
GCF	Green Climate Fund
GEF	Global Environment Facility
IEs	Implementing Entities
IET	Independent Evaluation Team
IIED	International Institute for Environment and Development
IPCC	Intergovernmental Panel on Climate Change
IRP	Independent Review Panel
KM	Knowledge Management
LDCF	Least Developed Countries Fund
LDCs	Least Developed Countries
MDBs	Multilateral Development Banks
MIEs	Multilateral Implementing Entities
NGO	Non-governmental Organization
NIEs	National Implementing Entities
NWP	Nairobi Work Programme
OA	Organizational Assessment framework
ODI	Overseas Development Institute
OECD/DAC	Organization for Economic Cooperation and Development Assistance Committee
OPG	Operational Policies and Guidelines
PPCR	Pilot Programme for Climate Resilience
PPRC	Project and Programme Review Committee
PPR	Project/Programme Performance Reports
RBM	Results Based Management

RIEs	Regional Implementing Entities
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
TANGO	Technical Assistance for Non-governmental Organizations International
ToC	Theory of Change
TOR	Terms of Reference
UNDP	United Nations Development Program
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNISDR	UN International Strategy for Disaster Reduction
WFP	United Nations World Food Programme

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## Executive Summary

### Background: The Adaptation Fund

1. The Adaptation Fund was established in 2001 to finance concrete adaptation projects and programs in developing country Parties to the Kyoto Protocol and those that “are particularly vulnerable to the adverse effects of climate change.” By June 2015, the Adaptation Fund Board (hereafter “the Board” or “AFB”) had approved US\$318 million worth of funding for 48 projects in 44 countries. Parties access grant finance through Implementing Entities accredited by the AFB. The Adaptation Fund has accredited 11 multilateral implementing entities, 4 regional implementing entities and 19 national implementing entities.<sup>1</sup> The Adaptation Fund is supervised and managed by an international Board. The World Bank serves as the Adaptation Fund’s trustee on an interim basis and the Global Environment Facility as interim Secretariat.<sup>2,3</sup>

### Nature and Purpose of the Independent Evaluation

2. This Independent Evaluation, conducted by TANGO International in association with the Overseas Development Institute, is the first of two phases in a comprehensive evaluation of the Adaptation Fund. Phase 1 is a process evaluation focused on (1) resource mobilization, (2) decision-making, (3) resource allocation, (4) access to funding, including access modalities, (5) the project/program cycle, and (6) knowledge management. The Adaptation Fund is more than the sum of these processes. Thus, the Evaluation also examined the Adaptation Fund as a whole, linkages among processes, and the context in which the Adaptation Fund operates. Sub-questions have been developed and structured using OECD DAC criteria of relevance, efficiency, effectiveness, and sustainability to identify good practices, identify opportunities for improvement, and provide practical recommendations.

### Key Findings

3. **Relevance:** The Adaptation Fund’s design is coherent with and complementary to other adaptation efforts under the United Nations Framework Convention on Climate Change (UNFCCC). It contributes directly to various adaptation work streams and complements the role of other climate funds by extending access to all developing countries. Though small in size, the Adaptation Fund is amplifying financial support to developing countries and helping close the adaptation finance gap. The Adaptation Fund’s design is appropriate to generating timely lessons about effective approaches to adaptation finance, especially with regards to “direct access,” and scalable and replicable action benefiting the most vulnerable communities and social groups. The Adaptation Fund’s design supports pilot activities with substantial potential for scaling up impact at sub-national, national, and regional levels.

4. The Adaptation Fund’s major features remain relevant and appropriate with the exception of its resource mobilization strategy. While appropriate at the outset, the main income source (2% share of proceeds from Certified Emission Reduction (CERs)) has been ineffective due to the collapse of carbon market prices.

5. **Effectiveness:** Short-term outputs indicate substantial organizational development and

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1 Adaptation Fund. 2014. <https://www.adaptation-fund.org/national-implementing-entities> Accessed June 10, 2015.

2 Decision 1/CMP.3, paragraph 18 and 19

3 The GEF hosts a dedicated team of staff that provide secretariat services to the AFB in a functionally independent manner

suggests that the Adaptation Fund is quickly becoming an effective institution capable of achieving its ambitious objective. The Adaptation Fund's main processes are generally effective and demonstrate steady improvement, with the exception of resource mobilization and knowledge management. While effective knowledge management is critical to any organization, it is particularly important for the Adaptation Fund. The Adaptation Fund's experiences must be systematically tracked and regularly analyzed in order to enrich global knowledge on climate change adaptation and access modalities. Inadequate allocation of resources to knowledge management undermines the Adaptation Fund's short-term effectiveness and long-term significance.

6. The AFB Secretariat has achieved a relatively flat organizational structure and a working environment that encourages the free-flow of ideas, thinking outside the box, and collaborative versus competitive efforts. This has significantly enhanced the Secretariat's effectiveness and is, alongside the team's passionate commitment to reducing vulnerability, the reason it has achieved so much despite a small and unpredictable budget. Despite, and perhaps partially because of its successes, the Secretariat is overstretched and urgently requires more resources to meet its strategic responsibilities. The recent decision to fund two additional staff<sup>4</sup> approved during the AFB's April 2015 meeting,<sup>5</sup> may alleviate this problem. However, careful monitoring is merited. Moreover, the Secretariat will need still more staff if responsibilities increase beyond current core functions.

7. **Efficiency:** The Adaptation Fund and its institutional arrangements provide good value for money. Most of the Adaptation Fund's main processes are reasonably efficient, with some room for improvement in streamlined decision-making. The accreditation process will benefit greatly from a recent decision to create a small entity window and upcoming discussions on how to improve efficiency.

8. **Sustainability:** Uncertainties surrounding the Kyoto Protocol and carbon markets pose a significant, structural threat to the sustainability, adequacy, and predictability of resources for the Fund. Ambitious post-2020 emissions targets could improve and stabilize CER prices. However, if this does not happen, the Fund's financial and institutional sustainability will be jeopardized. Additional revenue-streams from the first international transfers of Assigned Amount Units and the issuance of Emissions Reduction Units will be helpful but fall short of raising the Fund's resource base to appropriate levels. Based on experience to date, voluntary contributions by Annex 1 Parties are also not expected to provide a reliable solution.

## Conclusions

9. The Adaptation Fund has made substantial progress towards establishing processes that support its objective of reducing vulnerability and increasing adaptive capacity to respond to the impacts of climate change, including variability at local and national levels. However, the Board's Secretariat and systems are under significant strain. As a result, further improvements may be more difficult to realize and the quality of Adaptation Fund processes could degrade.

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4 AFB. 2015. Board and Secretariat, and Trustee Administrative Budget for Fiscal Year 2016. AFB/EFC.16/6, para. 5.

5 AFB. 2015. Decisions of the Twenty-Fifth Meeting of the Adaptation Fund Board 10 April 2015. AFB/B.25/7.

10. The Adaptation Fund may have arrived at a point in its history, as pending decisions will soon determine its financial and institutional sustainability. The outcome will largely depend on the Fund's ability to successfully define and defend a specialized role for itself within an emerging global architecture for climate finance. The Fund's niche is most likely to be at the nexus of innovation and learning about concrete adaptation activities and access modalities.

#### Lessons learned with broader relevance for climate finance

11. The Adaptation Fund has generated important lessons with broad relevance for the design and operation of other climate finance mechanisms. Key lessons include:

- **Market-based finance mechanisms:** Though they may play a valuable role in mobilizing resources for adaptation, global carbon market-based mechanisms are too unpredictable to provide a foundation for multi-year planning and budgeting.
- **Inter-institutional coordination:** Inter-institutional coordination is critical to avoiding competition over limited financial resources as well as creating cost-saving synergies (e.g. harmonization of Adaptation Fund and Green Climate Fund accreditation processes).
- **Direct Access:** The Direct Access Modality can be a highly relevant, effective, and efficient means of channeling adaptation finance. However, many National Implementing Entities (NIEs) – particularly in Least Developed Countries and Small Island Developing States – require sustained support to navigate and fully benefit from the accreditation process.
- **Reaching the most vulnerable:** IEs require clear guidelines and practical suggestions for reaching, understanding, and effectively addressing the needs of especially vulnerable social groups within countries.
- **Knowledge Management:** Investments in knowledge management represent an important opportunity to generate and accelerate learning about effective adaptation finance. Strategic partnerships with civil society and research institutions can play a useful role in knowledge management but cannot replace the need for dedicated in-house expertise.

#### Main Recommendations

12. The Adaptation Fund has made substantial progress towards establishing relevant, effective, efficient, and sustainable organizational arrangements and processes. However, like any young organization operating in a dynamic context, there is scope for further improvement. Key recommendations in Chapter 7 address:

- **Governance and management**
- **Operations and quality control**
- **Gender and differential vulnerability to the impacts of climate change**
- **Leveraging impact**
- **Financial sustainability**

## 1. Introduction

### 1.1. Subject of the evaluation: introduction to the Adaptation Fund

13. The Adaptation Fund was established in 2001 under the Kyoto Protocol of the UN Framework Convention on Climate Change to finance concrete adaptation projects and programs in developing country Parties to the Kyoto Protocol, using an innovative funding stream; namely, a share of clean development mechanism (CDM) proceeds and other sources.<sup>6</sup> The operation of the Adaptation Fund was based on an assumption around the stability of the carbon markets, which was levied to finance Fund operation, supplemented by voluntary contributions from Annex I Parties of the Kyoto Protocol.

14. The Adaptation Fund Board (AFB) held its first meeting in 2008.<sup>7</sup> In 2008, the Adaptation Fund established interim institutional arrangements with a Secretariat hosted by the GEF and Trustee services provided on an interim basis by the World Bank.<sup>8</sup> The AFB Secretariat consists of dedicated staff based in Washington, D.C. and provides research, advisory, administrative, and an array of other services to the Board. The World Bank sells CER certificates to support the Adaptation Fund and manages the Adaptation Fund Trust Fund. In 2009, the AFB accepted the offer of the Federal Republic of Germany offer to confer legal capacity and host the Board,<sup>9</sup> and the AFB has had legal capacity since February 2011.<sup>10, 11</sup>

15. The delivery of adaptation financing by the Adaptation Fund is done through two access modalities that are tailored to different country circumstances: a Direct Access Modality through National Implementing Entities (NIEs), and indirect access through Multilateral Implementing Entities (MIEs) or Regional Implementing Entities (RIEs). Implementing Entities (IEs) are accredited organizations that meet a series of financial standards and environmental and social considerations to receive financing from the Adaptation Fund and potentially other sources.

16. As of June 2015, the Adaptation Fund had accredited 19 NIEs, 11 MIEs, and 4 Regional RIEs, and approved US\$318 million worth of funding for 48 projects in the Africa, Asia-Pacific, Latin America, and Eastern Europe regions (see Annexes 13 and 14).<sup>12</sup>

17. The structure of the Adaptation Fund is based on six processes: resource mobilization, decision making, resource allocation, access to funding, project and program cycle, and knowledge management (described in Section 1.3 and Annex 2). These processes utilize a range of internal and external inputs to produce a set of intermediary outcomes that enable Kyoto Protocol developing country Parties to increase their adaptive capacity and reduce vulnerability at local and national levels. Specifically, this is achieved through the provision

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6 Report Of The Conference Of The Parties On Its Seventh Session, Held At Marrakesh From 29 October To 10 November 2001 Addendum Part Two: Action Taken By The Conference Of The Parties. FCCC/CP/2001/13/Add.1. 10/CP.7

7 AFB. 2008. Report of the First Meeting of the Adaptation Fund Board. 19 June 2008. AFB/B.1/13

8 UNFCCC. 2009. Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its fourth session, held in Poznan from 1 to 12 December 2008. 19 March 2009. FCCC/KP/CMP/2008/11; see Decision 1/CMP.4.

9 Endorsed by the Parties to the Kyoto Protocol during CMP 5; FCCC/KP/CMP/2009/21/Add.1.

10 UNFCCC. 2010. Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its fifth session, held in Copenhagen from 7 to 19 December 2009. 30 March 2010. FCCC/KP/CMP/2009/21/Add.1.; see Decision 4/CMP.5; See Decision B.7-8/1 of AFB

11 AF. 2011. Act to establish legal capacity of the Adaptation Fund Board in Germany.

12 Adaptation Fund. 2014. <https://www.adaptation-fund.org/national-implementing-entities> Accessed June 10, 2015.

of funding for concrete adaptation projects and technical support to promote climate resilient measures beyond the specific funding from the Adaptation Fund.

18. The Adaptation Fund’s Results Architecture is framed as follows:

- **Objective:** Reduce vulnerability and increase adaptive capacity to respond to the impacts of climate change, including variability at local and national levels.
- **Goal:** Assist developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change in meeting the costs of concrete adaptation projects and programs, in order to implement climate resilient measures.
- **Impact:** Increased resiliency at the community, national, and regional levels to climate variability and change.<sup>13</sup>

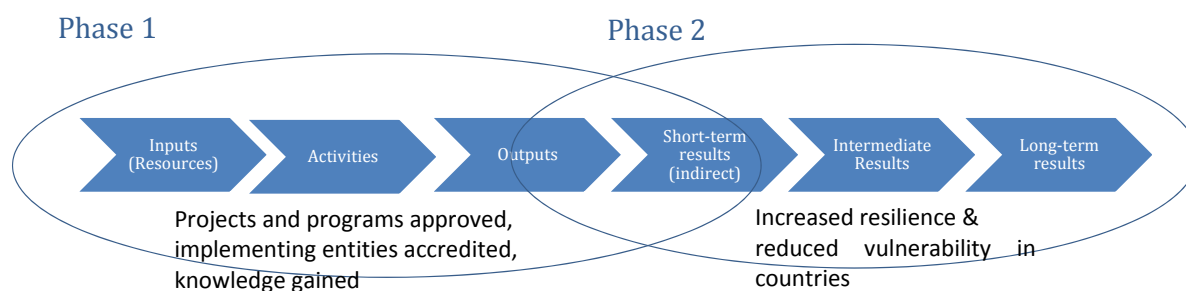
19. Projects have aimed to strengthen adaptation-relevant policies, mainstream climate change in national policy, strengthen institutional capacity to adapt to climate change, pilot and demonstrate promising practices, improve disaster response technologies (e.g., weather monitoring systems and early warning systems), and on a limited basis, collaborate with private partners.<sup>14</sup> The sectors that have received the largest portions of approved funding are food security (US\$58.5 million) and multi-sectoral projects (US\$38.6 million).<sup>15</sup>

## 1.2. Purpose and scope of the independent evaluation

20. At the twenty-fourth meeting of the Adaptation Fund Board in October 2014, the Board approved a two-phase independent evaluation of the Adaptation Fund. The First Phase evaluation was undertaken in parallel to a separate review of the Adaptation Fund by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP).

21. This report presents the findings and analysis for the First Phase evaluation, which is a process evaluation, focused on the Adaptation Fund’s operational performance from its establishment through June 2015. Phase 2 will be an Outcome Evaluation focusing on the Adaptation Fund’s overall results.<sup>16</sup> Timing and a detailed Scope of Work for the Phase 2 evaluation are still to be determined. Figure 1 provides a graphic representation of the distinction between the two evaluation phases.

**Figure 1: Phase 1 and Phase 2 differentiation**



13 AF. 2010. An Approach To Implementing Results Based Management – RBM. AFB/EFC.1/3/Rev.1, paragraph 10

14 Canales Trujillo N. and S. Nakhooda. 2013

15 Adaptation Fund. 2014. <https://www.adaptation-fund.org/national-implementing-entities> Accessed June 10, 2015.

16 Process evaluations measure how well a program is operating as intended by assessing its operations and determining whether its target population is being served. Impact evaluations measure the program’s results and how well its goals were attained.

22. The *overall objective* of this Phase 1 Evaluation is to assess the Adaptation Fund's operational performance against the Fund's design and implicit logic. The evaluation's *specific objectives* are to:

- Identify good practices in Fund operational performance
- Identify opportunities for improvement in Fund operational performance
- Provide practical recommendations on how improvements can be carried out

23. The main audience of the Phase 1 of the evaluation includes all the CMP, development partners, Adaptation Fund Board (AFB), AFB Secretariat, Trustee, IEs, executing entities, communities implementing and participating in interventions of the Adaptation Fund, Designated Authorities for project/program submission, and Adaptation Fund observers. Evaluation results will be relevant to inform the future development of the Adaptation Fund and other climate change financing mechanisms, especially the Green Climate Fund (GCF).

### 1.3. Evaluation methodology

#### 1.3.1. Main conceptual approach

24. The Phase I evaluation is a process evaluation intended to inform discussions and decisions on the Adaptation Fund's operational aspects. It will communicate how well the Adaptation Fund's implicit or assumed logic and the design are working in relation to the following main processes of the Adaptation Fund, as outlined in the TOR (see Annex 2 for more detail on these processes, and Annex 15 for the TOR):

- *Resource mobilization* - the sale of CERs and approaches taken by Fund management to secure financial support from multi- and bi-lateral agencies
- *Decision-making processes* - the governing structure of the Adaptation Fund and the function of its component parts, including institutional linkages and relations (cooperation, transparency, etc.) with the interim host organization (GEF) and Trustee (World Bank)
- *Resource allocation* - the design and application of strategic priorities and objectives (i.e., Results Based Management)
- *Access to funding* - direct access modalities and the Accreditation process
- *Project/program cycle* - the one- and two-step funding windows, assessment of project cycle performance, and project/program level knowledge management (i.e., Monitoring and Evaluation)
- *Knowledge management* - at the Adaptation Fund level, knowledge management includes reviews and comprehensive evaluations of the Adaptation Fund<sup>17</sup>

25. The Adaptation Fund is the primary unit of analysis for this evaluation. During the evaluation inception phase, the IET undertook preliminary research of available documentation to develop the evaluation analytical framework, referred to here as the evaluation matrix. The evaluation matrix contains the specific evaluation questions that

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<sup>17</sup> TANGO International in association with ODI. 2014. Terms of Reference for the First Phase of the Adaptation Fund Evaluation. July 7. Final Version.



guided data collection, analysis, and reporting by the IET throughout the evaluation process (see Annex 4).

26. The evaluation matrix expands upon the key evaluation questions indicated in the TOR with sub-questions, indicators, and data sources. The evaluation matrix organized the evaluation sub-question by the following Organization for Economic Cooperation and Development Assistance Committee (OECD/DAC) evaluation criteria: relevance, effectiveness, efficiency, and sustainability. Value for Money was a key theme to the overall evaluation process, covered under the efficiency criteria, to assess whether the resources invested in the Adaptation Fund's operations were 'reasonable.'

27. The main conceptual approaches used during the inception phase to develop the evaluation matrix, specifically to formulate the sub-questions, were the Organizational Assessment (OA) Framework and the Theory of Change approach. The IET used the Theory of Change approach to develop a detailed overview of the Adaptation Fund's operational hypothesis, including the operational processes that are the focus of this evaluation, using a comprehensive graphic (see Annex 3). This Theory of Change was used as the basis to develop the sub-questions around the Adaptation Fund's operational design and implicit logic as related to the operational processes. The OA framework domains were then reviewed to ensure a balanced approach in the evaluation matrix questions between internal and external factors that affect these processes.

28. In addition, during the inception phase, a timeline of key events was prepared to ensure Fund milestones were reflected in the evaluation matrix, and a stakeholder analysis was undertaken with assistance from the Evaluation Coordinator at the time to map stakeholder relationships with the Adaptation Fund and their interest or potential involvement in the evaluation.

### **1.3.2. Data collection methods and their application**

29. The evaluation followed a mixed method approach to answer the evaluation questions using primary and secondary sources. Detailed design of the mixed methods was based on the IET preparatory activities undertaken during the inception phase. The evaluation matrix states the combination of mixed data collection methods used to answer each evaluation sub question.

30. Mixed methods included (a) an extensive structured literature review of over 70 internal documents and 60 external documents, (b) stakeholder interviews and focus group discussions during an evaluation mission to COP 20 in Lima (December 2014) or via Skype/phone with 47 individuals at 16 organizations (see Annex 9 for full list), and (c) an e-survey to verify and validate analysis, and address remaining information gaps. Invitations to participate in the e-survey were emailed to 103 diverse stakeholders (i.e., AFB members and alternates, IEs, other climate funds, World Bank, GEF, civil society; see Annex 10). Fifty-one people started the survey, and except where indicated (see Annex 12), 44 respondents answered the survey questions.

### **1.3.3. Evaluation timeline and deliverables**

31. The evaluation timeframe spanned 11 months: from October 2014 to August 2015. The inception phase was organized from October – December 2014. A draft Inception Report was submitted in October 2014; the final Inception Report was submitted in December 2014, including the evaluation matrix, methodology details and the results from

the preparatory work undertaken by the IET. Mixed method data collection and preliminary analysis started during the inception phase and continued until April 2015, when the preliminary draft report, excluding the results of the e-survey, was submitted. This was followed by a presentation of the preliminary findings to the AFB, also in April 2015. The revised and complete draft report was submitted in June 2015, and the final report submitted in August 2015.

32. The evaluation was implemented in line with the data collection, analysis, and quality assurance protocols indicated in the Inception Report. Timelines were adhered to with the exception of the e-survey activity. Development of the e-survey was contingent upon analysis presented in the draft report. The IET organized two rounds of revisions instead of the one round planned in the evaluation timeline. As a result, final completion date of the evaluation was delayed from June to August 2015.

### **1.3.3. Limitations of the evaluation**

33. As part of the Inception Phase, the IET identified potential risks to the evaluation process, associated limitations to those risks, and mitigation strategies (see Annex 5). Several risks were either not identified or not fully mitigated, which limited quality of analysis presented by the IET.

34. The sheer amount of documentation related to Fund operations posed a challenge for the structured review undertaken by the IET within the time and resources allocated. Significant time and staff resources were spent to develop a basic descriptive overview of the operational process details, a large part of which was not appropriate for the final report analysis, and was – therefore – annexed or not incorporated. This delayed the start of an integrated analysis of this information.

35. The Adaptation Fund operates in dynamic climate finance architecture with a wide range of internal and external stakeholders. It was challenging to reconcile the varying perceptions on Fund operations from primary data into a consolidated and weighted analysis. This was only partially achieved.

36. The Adaptation Fund is a complex unit of analysis. The evaluation timeline did not include sufficient time to develop a fully informed evaluation matrix. Moreover, the evaluation coordination mechanism set up by the Adaptation Fund, which involved an Evaluation Coordinator and a pro-bono International Review Panel (IRP), was not effective. It did not allow for essential *direct* interaction and iteration with key Adaptation Fund stakeholders to properly tailor the evaluation matrix. The IET – with the benefit of hindsight – finds that the evaluation matrix included in the approved inception report was too detailed, included overlapping sub-questions, and did not effectively capture the ‘bigger picture’ of the Adaptation Fund’s operational design. Based on feedback from reviewers, the IET undertook significant reorganization of the analysis. However, the final report still includes some duplication of findings and may be dense to read for stakeholders not familiar with Fund operations.

37. During the evaluation, the IET had to coordinate with and respond to multiple stakeholders: formal communication was only with the Evaluation Coordinator, and through the Evaluation Coordinator with the IRP, the AFB Sec, and AFB. This coordination was not effective. Stakeholders had varied expectations of the evaluation process and deliverables that were not always evident to the IET, roles and responsibilities in review of IET

deliverables were unclear, and there were limited opportunities for pro-active communication on evaluation progress. Despite identifying this as a key risk during the inception phase, the IET was not able to effectively manage this. This had a negative impact on how effectively and efficiently the finite IET time and staff resources were applied during the evaluation.

#### **1.4. Structure of the evaluation report**

38. This report includes 7 chapters and 16 associated Annexes. Due to the number and size of the Annexes, these are incorporated into a separate document. Several Annexes include original descriptive narrative and analyses prepared for this evaluation and are recommended for further reading.

39. This first Chapter of the main report provided an introduction to the Adaptation Fund, and described the evaluation scope of work and methodology. Chapter 2 discusses the relevance of the Adaptation Fund to stakeholder policies and priorities. Chapters 3 and 4 assess the effectiveness and efficiency of the Adaptation Fund's main processes, respectively, and contributing factors. Chapter 5 reviews financial, institutional, and technical sustainability of the Adaptation Fund. Chapter 6 presents conclusions and select lessons learned with broader relevance for climate finance, followed by recommendations in Chapter 7.

## 2. Relevance of Fund design to stakeholder policies and priorities

40. Relevance captures the extent to which the objectives of a program remain valid under the current financial gap; the consistency of the activities and outputs with the overall goal and objectives, as well as with the intended impacts and effects.<sup>18</sup> This chapter, therefore, assesses the Adaptation Fund's relevance against the following criteria: (1) coherence of Fund programming vis-à-vis United Nations Framework Convention on Climate Change (UNFCCC) guidance; (2) coherence vis-à-vis national adaptation priorities; (3) addressing the adaptation finance gap; appropriateness of key Fund design features, namely (4) funding mobilization, (5) addressing vulnerability, (6) Direct Access Modality; and finally, (7) the appropriateness of changes in design.

41. The IET finds that the design of the Adaptation Fund is coherent with other adaptation efforts under the UNFCCC and that Adaptation Fund projects are generally coherent with stated national adaptation needs. The Adaptation Fund's design is a relevant component of the current climate finance architecture. It complements the role of other funds by extending access to all developing country Parties to the Kyoto Protocol. The Adaptation Fund's design and subsequent improvements are based on the experience of other funding mechanisms and have, in turn, informed the design of concurrent climate funds. In particular, the Direct Access Modality and adaptation activities trialed by the Adaptation Fund have generated important learning for adaptation finance practice. Another important lesson learned is that the strategy of mobilizing funds primarily from CERs was appropriate but unreliable. As a result, the Adaptation Fund experience has made an important contribution to closing the adaptation finance gap.

### 2.1. Coherence of Adaptation Fund programming with UNFCCC guidance

42. "Policy coherence" implies that different policy communities are working together towards agreed-upon objectives.<sup>19</sup> This section discusses the coherence of the Adaptation Fund in relation to UNFCCC efforts in adaptation finance. The IET uses categories for coherence modified from those identified by the Adaptation Committee: (a) provision of inputs into adaptation work streams; and (b) joint collaboration with other funds.<sup>20,21</sup>

43. The experience of the Adaptation Fund represents a critical input into key adaptation work streams under the UNFCCC, namely the Nairobi Work Programme (NWP) and the Cancun Adaptation Framework (CAF).<sup>22,23</sup> The NWP has been an important vehicle for sharing adaptation knowledge from a wide range of organizations.<sup>24</sup> The NWP is mentioned as a source of information for developing projects and programs under the Adaptation Fund

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18 OECD. 2015. Evaluation of Development Programmes.

19 OECD. 2012. The DAC Journal Development Co-operation Report 2001. Paris: OECD.

20 Adaptation Committee. 2013.

21 The Adaptation Committee identified 3 categories, a) Provision of input into other work streams; (b) Joint collaboration; and c) provision of holistic advice. Considering that the AF is a means for implementation and not an advisory body, we are including only a modified version of categories a) and b).

22 The NWP is a program of work under the Subsidiary Body for Scientific and Technological Advice (SBSTA) of the UNFCCC established in 2005 to assist all Parties to improve their understanding of impact, vulnerability, and adaptation to climate change; and make informed decisions on practical adaptation actions and measures to respond to climate change UNFCCC.2005. Decision 2/CP.11 Five-year programme of work of the Subsidiary Body for Scientific and Technological Advice on impacts, vulnerability, and adaptation to climate change. FCCC/CP/2005/Add.1. Page5.

23 The CAF is a framework adopted by UNFCCC Parties to enhance action on adaptation.

24 Adaptation Committee. 2013. The State of Adaptation under the United Nations Convention on Climate Change: 2013 Thematic Report. Bonn: UNFCCC Secretariat

in its Strategic Priorities, Policies, and Guidelines. The Adaptation Fund supports the National Adaptation Plan (NAP) process, established by the CAF, mainly by strengthening institutional capacity to receive and manage adaptation finance. While the NAP process is still nascent, projects funded by the Adaptation Fund have the potential to contribute to the implementation of broader national planning processes. In particular, lessons gleaned from in-country and country-led adaptation proposal design and implementation (particularly by domestic institutions) could be highly valuable for the NAP process.

44. Several Adaptation Fund projects included elements specifically aimed at strengthening national capacity to plan for climate change and related institutional capacities. The accreditation requirements of the Adaptation Fund as well as its reporting and results management processes further emphasize relevant aspects of institutional strengthening and learning.

45. In addition, the work of the Adaptation Fund is helping to advance many vital elements of the adaptation finance priorities that have been identified in various COP decisions and other guidance. A key example is the Adaptation Fund's work with NIEs, which contributes to broad adaptation capacity amongst stakeholders in developing countries.

46. The Adaptation Fund works alongside a number of other funds that support adaptation. It was created under the Kyoto Protocol in 2001 alongside the Least Developed Countries Fund (LDCF), which was set up to help the least developed countries of the world adapt to climate change, as well as Special Climate Change Fund (SCCF). The Global Environmental Facility (GEF) serves as secretariat for all three of these Funds and also manages the LDCF and SSCF. More recently, the GCF was established as an operating entity of the Financial Mechanism of the UNFCCC. It is directed to spend 50% of its funding on adaptation activities in developing countries.<sup>25, 26</sup>

47. The design of the Adaptation Fund complemented other adaptation-oriented funds within the international climate finance architecture at the time of its operationalization. It extended the range of countries eligible to access adaptation finance, as it offers funding to all 'particularly vulnerable' developing Parties to the Kyoto Protocol. It expanded the focus of activities beyond planning and urgent and immediate needs of Least Developed Countries (LDCs), which had been the first priority activity of the LDCF as mandated by the COP, to finance concrete adaptation projects and programs. While its resourcing was low compared to recognized needs for adaptation finance, the operationalization of the Adaptation Fund substantially increased international grant finance for adaptation available to countries at the time.

48. The Adaptation Fund is operating in increasingly complex climate finance architecture in a manner that has helped set new norms and practices. As we discuss further in Chapter 4, the Adaptation Fund's experience with direct access modalities, accreditation processes, and fiduciary standards has been emulated by other funds including the GEF and the GCF. The Adaptation Committee's strategy for increased cooperation in climate finance supports an ongoing dialogue between the GEF, the GCF Board, and the Adaptation Fund's Board.<sup>27</sup>

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25 In Grant Equivalent terms

26 UNFCCC. 2014. Cooperation and Support: Climate Finance.

27 UNFCCC. 2014. Cooperation and Support: Climate Finance.

The Adaptation Fund maintains a very close working collaboration with the GEF as the host of the Adaptation Fund's Secretariat.

49. There is also evidence of good collaboration with other donors and adaptation funds at the country level. The Adaptation Fund Board is represented in the governing committee of the Pilot Program on Climate Resilience (PPCR), a World Bank administered trust fund launched in 2008. In this way, the PPCR and Adaptation Fund sought to ensure the coherence of programming efforts. For example, the project funded by the Adaptation Fund in Samoa has been designed to complement the efforts of the PPCR project. Both projects share a Steering Committee and together have increased the project activities' scope and coverage.<sup>28</sup> In Tanzania, the project supported by the Adaptation Fund is being implemented jointly with an LDCF project. This has built synergies and avoided duplication of efforts in relation to capacity strengthening for non-governmental organizations (NGOs) and academic institutions, and administrative issues, including joint procurement.<sup>29</sup>

50. The Adaptation Fund also helped mainstream adaptation within the portfolio of some of its IEs. For example, after its experience with the Adaptation Fund, the United Nations World Food Programme (WFP) invested time and resources in doing more in-depth analysis on the linkages between climate change risk, adaptation, and food security, replicating its project design experience with the Adaptation Fund within its wider portfolio (which was of US\$4.4 billion in 2013).<sup>30</sup>

## 2.2. Coherence with national priorities for adaptation

51. A core dimension of the relevance of the Adaptation Fund relates to how well its projects support national level priorities for adaptation, and the relevance of its working modalities and expressed priorities in this regard. This coherence with national adaptation priorities is contingent on the extent to which countries have already identified climate change priorities and institutionalized a multi-sectoral adaptation strategy.

52. The systems established to facilitate Adaptation Fund engagement with countries seek to facilitate coherence with national and sub-national priorities in the projects it supports. The Designated Authority (DA) within a developing country is tasked with oversight of the Adaptation Funds' activities within that country, and with ensuring the coherence of the Adaptation Fund's operations in country. As representatives of the recipient government, DAs are asked to endorse the projects proposed by the IEs and assure the proposal's contribution to national priorities. Most developing countries have assigned the role of DA to their ministries of environment or equivalents. A smaller number of countries have chosen ministries of finance (e.g. Belize, Mauritius) or foreign affairs (e.g. Cook Islands, Samoa), or hydro-meteorological institutes (e.g. Uzbekistan). The operational guidelines of the Adaptation Fund require that proposals justify how the project is consistent with national or sub-national sustainable development strategies, including poverty reduction strategies, sectoral plans, and specific adaptation policy instruments. Our review of 7 randomly selected proposals from the 41 approved projects (Annex 6) shows that in most cases, the policies and initiatives referenced relate to environment and natural resource

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28 UNDP. 2011. Project Proposal: Enhancing resilience of coastal communities of Samoa to climate change. Washington, D.C.: Adaptation Fund.

29 UNEP. 2011. Project Proposal: Implementation of concrete adaptation measures to reduce vulnerability of livelihoods and economy of coastal communities of Tanzania. Washington, D.C.: Adaptation Fund.

30 WFP. 2014. Annual Report: The World Food Programme's Achievements in 2013. Accessed on May 21, 2015.

management issues, suggesting coherence with environmental priorities. Consistency with broader economic and development strategies, and other sectorial priorities is, however, not as clearly assessed or demonstrated.

53. The scope of adaptation activities supported by the Adaptation Fund goes beyond the sphere of ministries of environment, and requires cooperative interaction with other policy leaders including authorities in agriculture, water, disaster risk management, and development planning. The analysis shows that the issue of consistency across policy and economic spheres has been interpreted and addressed differently by each country. The IET finds that one key explanatory variable for this is the level of development of domestic policies on adaptation in recipient countries. Another is the extent to which national counterparts have invested in collaborating with other line ministries and stakeholders in identifying proposals for which funding is sought. This draws into question the extent to which the programming priorities expressed in Adaptation Fund-supported projects can shape understandings of climate risk and adaptation need beyond the key ministries directly involved in project implementation and execution.

54. A review of the literature indicates some promising examples of coherence with national priorities that started with the implementation of AF-funded projects. Particularly in cases where adaptation policy development is in initial stages, projects have demonstrated potential to create a space for a deeper and more coordinated policy and implementation response for climate change. In Honduras, the initial integration of adaptation to climate change in national development and water policy began through the Adaptation Fund supported project, which included the development of a 'Guide to mainstream Climate Change Adaptation and Disaster Risk Management into development planning'. In South Africa, the NIE organized a multi-sectoral and comprehensive consultative process that promoted a greater and integrated thinking and planning around adaptation in country.

### 2.3. Adaptation Fund contribution to the finance gap

55. The Adaptation Fund's contribution to closing the adaptation finance gap has been small but important, given the very low baseline. Since the creation of the Adaptation Fund, the LDCF, and the SCCF in 2001, funding for adaptation through UNFCCC linked mechanisms increased from a near zero baseline to around US\$1.5 billion in 2013, of which the Adaptation Fund represented about 27%.<sup>31</sup> However, a more recent estimation of public spending for adaptation from a wider range of reported sources (including Bilateral contributions, Multilateral Development Bank (MDB) funding and others) was calculated as approximately US\$14 billion in 2010/2011 and around US\$22 billion in 2011/2012, which indicates a relatively small contribution by the Adaptation Fund.<sup>32, 33</sup>

56. Compared to the other nine funds that support adaptation within the international dedicated climate funds today,<sup>34</sup> the Adaptation Fund is relatively small. By pledge size, the

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31 The Pledges for the LDCF and SCCF were US\$781.5 million and 332.5 million, respectively as of the 30th of September 2013, and the total capital of the AF was US\$409.96 million including CER sales, donations and pledges as of 31st of December 2013.

32 Mitigation accounts for approximately 95% of the global total climate finance captured.

33 UNFCCC Standing Committee on Finance. 2015. Agenda item 8: Institutional linkages and relations between the Adaptation Fund and other institutions under the Convention. Available at: [http://customers.metafusion.com/wcm/150310\\_5036\\_UNFCCC\\_SCF09\\_Bonn/download/Item8-11-03-2015.pdf](http://customers.metafusion.com/wcm/150310_5036_UNFCCC_SCF09_Bonn/download/Item8-11-03-2015.pdf). (Accessed from March 2015).

34 Climate dedicated funds for Adaptation monitored by Climate Funds Update: Adaptation for Smallholder Agriculture Program (ASAP), Adaptation Fund (AF), Germany's International Climate Initiative, Global Climate Change Alliance (GCCA), Least Developed Country Fund

Adaptation Fund is in 4th place, preceded by the LDCF (US\$914 million), the Pilot Program for Climate Resilience (US\$1.1 billion), and the GCF.<sup>35, 36</sup>

57. From a country-level perspective, the size of the Adaptation Fund affects its contribution to meeting recipient needs for adaptation financing. As a result of the limited financial resources available to the Adaptation Fund, the AFB limited the funds that could be allocated per country to US\$10 million.

58. The Adaptation Fund has also made a contribution to scaling up adaptation finance and is mandated to fully fund adaptation costs and not require co-financing.<sup>37</sup> The Adaptation Fund's contribution to adaptation finance from dedicated climate funds at the national level varies from country to country, from 4% in Cambodia to 100% in several countries (see Figure 2).<sup>38</sup> In a context where grant finance is scarce, though low cost and market rate debt for adaptation activities is increasingly available, the Adaptation Fund's contribution of flexible funding is valuable. However, further work is needed to assess whether the flexibility of this finance has been fully maximized in the domestic context.<sup>39</sup>

59. Despite funding limitations, the AF has allowed countries to advance important measures at national and sub-national levels with links to national policy making.<sup>40</sup> As shown in Figure 2, in some countries, particularly in the Latin American and Caribbean region, projects supported by the Adaptation Fund are the largest single adaptation projects ever funded. Interview findings indicate an expectation that such projects may provide a basis for scaling up programs through both international and international funding sources. There is already some evidence to demonstrate that Adaptation Fund resources are being used alongside substantial domestically mobilized resources. An Adaptation Fund-supported project in Egypt on food security systems includes a scaling-up mechanism through the Government's 'Thousand villages initiative,' a program to develop the 1,000 poorest villages in the country, active since 2006; and through programs implemented by the Ministry of Agriculture.<sup>41</sup> In South Africa, the Adaptation Fund is supporting implementation of a Small Grant Facility for Community Based and Non-governmental Organizations in Mopani and Namakwa districts; this facility is expected to inform the creation of a long term small grant facility for supporting climate change adaptation in other districts.<sup>42</sup>

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(LDCF), MDG Achievement Fund, Pilot Program for Climate and Resilience (PPCR), SCCF, and the Strategic Priority on Adaptation (SPA) (from GEF4)

35 It is expected that 50% of the GCF is going towards adaptation activities.

36 Climate Funds Update (CFU). 2015. About Climate Funds: Pilot Program for Climate Resilience.

37 Decision 5/CMP.2 paragraph 1(d)

38 As a percentage of the 9 dedicated climate funds monitored on CFU.

39 CPI. 2014. 2014. Global Landscape of Climate Finance 2014. November 2014.

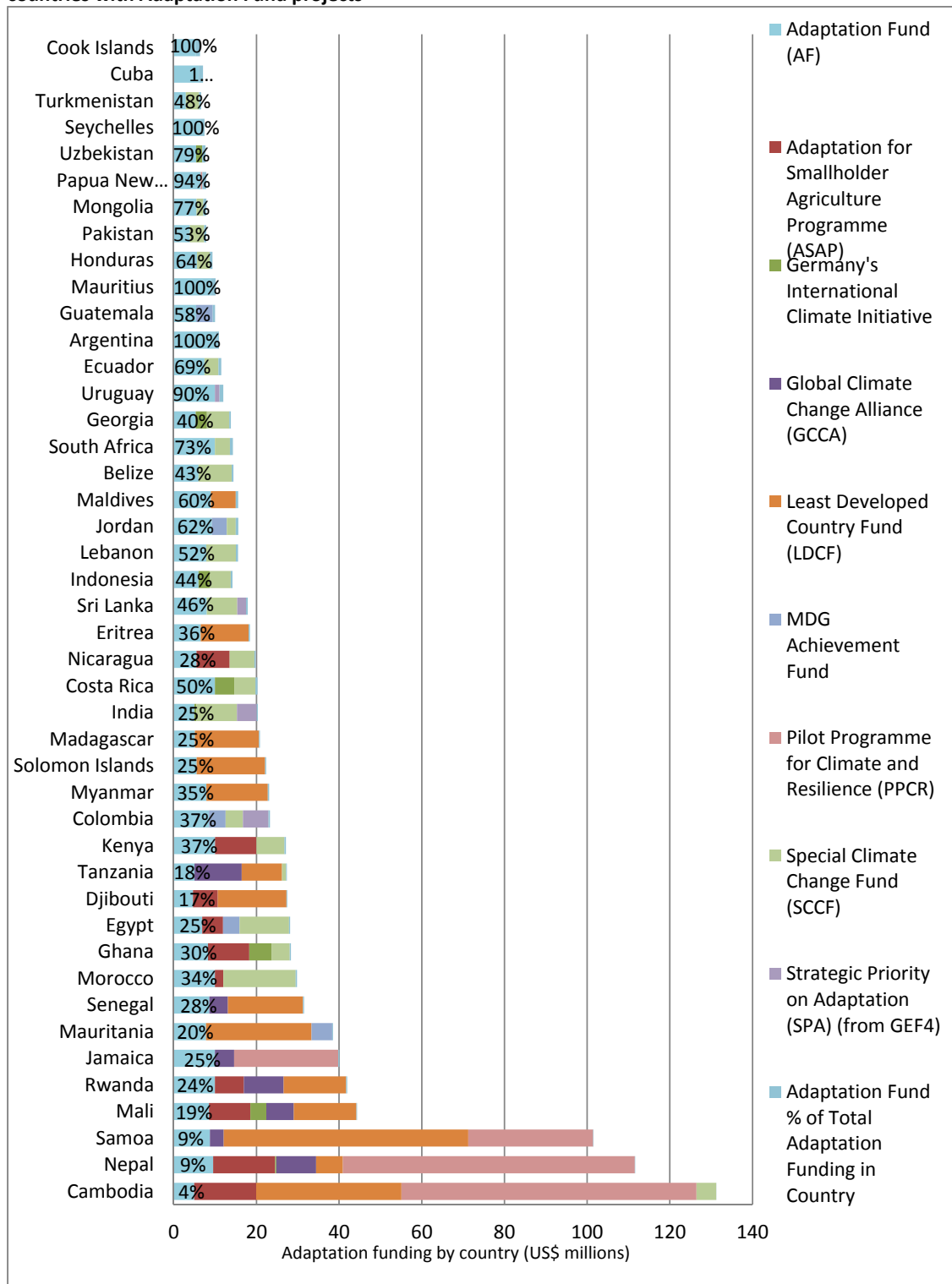
40 Canales Trujillo, N., and S. Nakhooda. 2013. The effectiveness of climate finance: a review of the Adaptation Fund. Working paper 373. ODI.

41 During the first year of implementation of the project (March 2013-March 2014) the Ministry of Agriculture has expressed its willingness to adopt the interventions of the project in its programs (WFP, 2014).

42 AF. 2014. Taking adaptation to the ground: A Small Grants Facility for enabling local level responses to climate change. <https://www.adaptation-fund.org/node/4073>



**Figure 2: Adaptation Fund funding proportion of total adaptation funding by country (2010-2015) in countries with Adaptation Fund projects** <sup>43</sup>



Source: Climate Funds Update website, June 2015

<sup>43</sup> Total projects since the inception of the Fund. Countries are presented in order of total funding. With Cook Islands having the smallest adaptation funding portfolio (US\$5 million) and Cambodia the largest (US\$132 million).

## 2.4. Appropriateness of Fund key design features: resource mobilization

60. In 2001, when the Conference of the Parties (COP) established the Adaptation Fund, it also decided that the Adaptation Fund ‘shall be financed from the share of proceeds on the Clean Development Mechanism (CDM) project activities.’<sup>44</sup>

61. One of the goals of this resource mobilization strategy was to free it from dependence on voluntary contributions from developed countries. The Adaptation Fund was supposed to be capitalized mainly through a 2% share of proceeds from Certified Emissions Reductions (CERs) issued under the CDM. This new source of funding was intended to empower developing countries in the negotiations on the Adaptation Fund, as CERs were in effect produced by developing countries. It was appropriate because it provided, for the first time within climate finance global architecture, a real example on how adaptation could be funded through levies on carbon emissions.<sup>45</sup> However, the CDM was a risky source of capitalization as it was market based and, therefore, far outside the Adaptation Fund’s control. In August 2008, CER prices were US\$20 a ton and dropped to less than US\$0.31 by December 2012.<sup>46</sup> With the global carbon market collapse, the Adaptation Fund’s financial resources declined sharply. This required a diversification of its resource mobilization strategy (See Section 3.1 *Resource Mobilization*).

62. Though the Adaptation Fund’s initial resource mobilization strategy appropriately reflected Parties’ aspirations at the time of its creation, the strategy did not anticipate the inherent risks with its funding strategy. Specifically, it lacked a contingency plan should the CDM – which was still largely untested – operate other than expected.

## 2.5. Appropriateness of Fund key design features: addressing vulnerability

63. The mandate of the Adaptation Fund is to give priority to particularly vulnerable countries and communities. The IET considered how the Adaptation Fund identified levels of vulnerability in both global and national levels in order to prioritize the provision of financial support. The IET finds that guidance on addressing vulnerable communities has improved over time through improvement in the guidance documentation provided to potential applicants, but a systematic approach for targeting vulnerability within recipient countries is lacking.

64. How to assess “vulnerability” has proven to be a contentious and political issue. Technically, the only agreement around measuring vulnerability is that there is no objective single definition of vulnerability.<sup>47</sup> Adding complexity, guidance from the Convention text is vague, listing geographic characteristics that could potentially be found in all countries. The Adaptation Fund further expands on this guidance by indicating that particularly vulnerable countries include ‘low-lying and other small island countries, countries with low-lying coastal, arid, and semi-arid areas or areas liable to floods, drought, and desertification, and developing countries with fragile mountainous ecosystems’. Under this extremely broad and inclusive definition, it would seem that any developing country Party to the Kyoto Protocol (152 countries) could be deemed “particularly vulnerable.”

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44 FCCC/CP/2001/13/Add.1, Decision 10/CP.7

45 This model could be replicated at a national level.

46 Prices dropped in response to the Eurozone debt crisis (which reduced industrial activity) and the over-allocation of emission allowances under the European Union Emissions Trading Scheme.

47 Klein, R. J. 2010. “Which countries are particularly vulnerable? Science doesn't have the answer!” Stockholm: Stockholm Environment Institute (SEI).

65. At the national level, the Adaptation Fund aims to support vulnerable communities in developing countries to strengthen resilience and adaptation to climate change. Vulnerable communities are explicitly considered a strategic priority. This is a feature that is missing in other funds such as the LDCF and PPCR. Guidance from the Board on how to address this includes specific questions in the evaluation framework on ‘achieving vulnerability reduction or increased adaptive capacity in particular the most vulnerable communities’. Since March 2012, the Adaptation Fund also offers guidance to project proponents on how to target, and prioritize, most vulnerable communities and vulnerable groups within communities, including gender considerations (discussed in Chapter 3, *Effectiveness*).<sup>48</sup>

66. In practice, the Adaptation Fund has prioritized those countries that were most “ready” or prepared to bring viable projects to the Adaptation Fund for consideration through an accredited implementing entity.<sup>49</sup> Other funds have addressed vulnerability more explicitly, though this has limited the number of countries eligible to access their resources. In the case of the LDCF, for example, country income has been used as a proxy for vulnerability and has only been available to countries considered as Least Developed. In the case of the PPCR, an Expert Panel was appointed to suggest regions and specific hazards to target, alongside income levels, as a basis for selecting pilot countries and pilot regions where its funds would be spent. As a pilot program, the PPCR works in just 17 countries selected from amongst those who expressed interest in accessing the facility.

## 2.6. Appropriateness of Fund key design features: Direct Access Modality

67. The access modality refers to the relationship between the funder and recipient. Project proponents access the Adaptation Fund’s financial resources through accredited implementing entities. Accreditation is based on compliance to a set of fiduciary standards (including environmental and social risks<sup>50</sup>). The Adaptation Fund pioneered implementation of the Direct Access Modality for international climate finance, through which accreditation is open to domestic organizations. This enables eligible countries to receive funds without intermediaries. Direct access was established on the premise that working with domestic institutions would support implementation capacity in country and guarantee alignment with national priorities.

“International cooperation on adaptation doesn’t build in-country capacity. MIEs design/develop the project and oversee it, [and] then [local] staff are told what to implement. Most local staff don’t really understand the project other than day to day responsibilities.”

- Interviewee

68. The IET finds that the Direct Access Modality is appropriate to achieve this goal and has had a demonstration effect across the climate finance architecture. It has further provided a clear signal of the willingness of the Adaptation Fund to work in direct partnership with developing country-based institutions.<sup>51</sup> Interview findings indicate that the accreditation process can be challenging for countries with institutional capacity gaps.

48 AFB. 2014. Guidance Document for Project and Programme Proponents to Better Prepare a Request for Funding. 1 March, 2012. AFB/PPRC.8/4.

49 Though the decision to set aside 50% of finance for projects implemented by NIEs has ensured that funding is available to those countries who are able to get a national institution accredited to the Fund

50 AFB.2013. Environmental and Social Policy Operationalization: Options for the Accreditation Process. 23 October 2013. AFB/B.22/5/Add.2.

51 Canales Trujillo, N., and S. Nakhoda. 2013.

However, there is clear recognition among eligible countries of the wider benefit that direct access has on strengthening their internal processes and systems in line with international standards. The recent development that Adaptation Fund-accredited entities may be eligible for fast track accreditation with the GCF creates an additional advantage for countries to engage with the Direct Access Modality.

69. The decision to receive funding through direct access or an MIE is left to each eligible country on a project-by-project basis. In the early stage of the Direct Access Modality, a large number of the national entities that applied did not meet accreditation standards.<sup>52</sup> To address this, the Adaptation Fund invested in developing improved guidance on the accreditation process for NIEs, including wider dissemination of information on the working modalities of the Adaptation Fund. For example, the UNFCCC Secretariat organized three regional workshops (Africa, Latin America and the Caribbean, Asia and Eastern Europe) and one sub-regional workshop (the Pacific) to provide information on fiduciary standards and the accreditation process, contributing to the dissemination efforts on direct access of the Adaptation Fund.<sup>53</sup>

70. If country income levels are used as a proxy for vulnerability, direct access was relatively slow in reaching the most vulnerable. Whereas Senegal and Rwanda are LDCs and were among the first projects approved, direct access has been used mainly by middle-income countries; with access in low-income countries mainly through MIEs. To date, 71% of projects with a total value of US\$187 million have been awarded to MIEs. These MIEs started their engagement in the early stages of the Adaptation Fund operation and are particularly concentrated in lower-middle income countries. Of a total of 63 applications received from NIEs by May 2015, 37 were reviewed, 19 were approved (only 3 from low-income countries<sup>54</sup>), and 12 are currently under review.<sup>55</sup> Of the accredited NIEs, only 11 were successful in getting proposals funded so far (Figure 3). It can take more than a year for an accredited NIE to bring projects to the Adaptation Fund for consideration. This lag between accreditation and being able to submit successful project proposals is normally explained by the fact that the set of capacities required for complying with the financial and environmental standards (institutional capacities) are different from those required for developing bankable project proposals (technical capacities related to adaptation). In some cases, however, NIEs have made a deliberate choice to engage widely with stakeholders prior to proposing projects and programs.<sup>56</sup>

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52 Bird, N., Billet, S., and Colon, C. 2011. Direct Access to Climate Finance: Experiences and Lessons Learned. UNDP - Environment and Energy Discussion Paper.

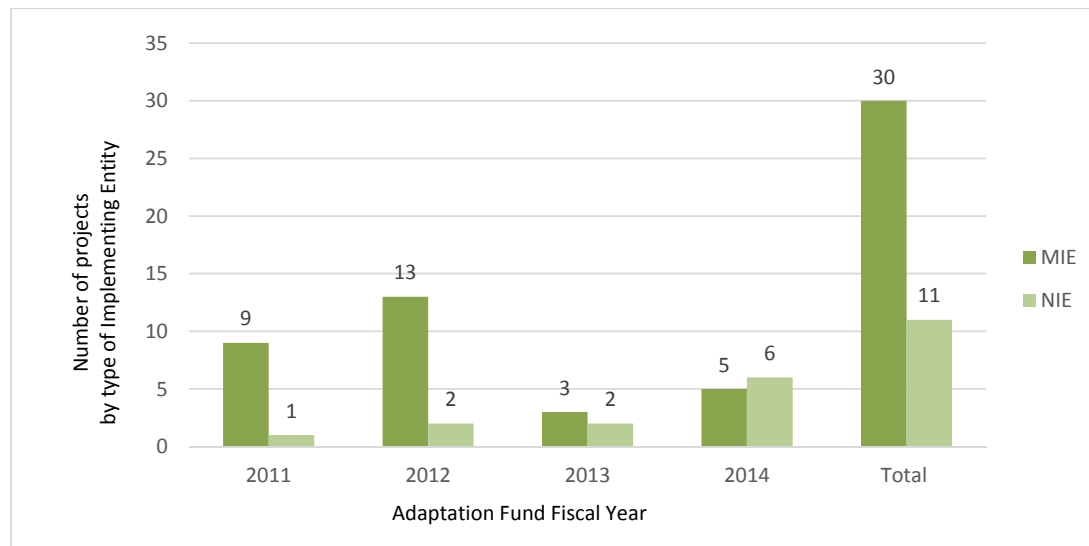
53 Adaptation Fund. 2012. Report on the workshops on the process and requirements for the accreditation of national implementing entities for direct access under the Adaptation Fund to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. FCCC/KP/CMP/2012/10. Doha: United Nations Framework Convention on Climate Change.

54 Low income economies with an NIE are Benin, Kenya, and Rwanda.

55 Adaptation Fund Secretariat. 2015, email communication with the IET

56 This is the explanation in the case of South Africa's SANBI for example

**Figure 3: Number of projects by Implementing Entity**



Source: Project information from Adaptation Fund website, March 2015

71. The Adaptation Fund has taken steps to further encourage use of the Direct Access Modality such as implementing funding caps, launching the Readiness Programme, and encouraging South-South cooperation (i.e., mentorship of NIE applicants by accredited NIEs) (see Chapter 3 for more detail). Combined, these measures have contributed to an increase in the number of projects implemented by accredited national organizations. Further technical capacity building is needed to maximize the use of direct access (i.e., project proposal development by low-income countries).

### 2.7. Appropriateness of changes in design

72. The Adaptation Fund's core design elements have remained constant but there have been a number of substantial changes to its main processes. The IET finds that these changes were appropriate. The most significant of these are:

- A shift from a predominantly market-based to contributory resource mobilization model;
- The adoption of initial guidance on the identification and targeting of vulnerable social groups;
- Improvements in the communication of the accreditation process;
- Development of a Readiness Programme for Climate Finance to support Direct Access;
- Adoption of social and environmental standards.

73. The first of these changes was forced on the Adaptation Fund by circumstances beyond its control. Though unsatisfactory from a resources mobilization point of view, it arguably makes the best of a difficult situation. Each of the other major changes significantly enhances the Adaptation Fund's ability to achieve its objectives. This indicates that the Adaptation Fund is a learning organization – able to acknowledge weaknesses, identify solutions, and act on them.

### 3. Effectiveness of the Adaptation Fund's main processes

74. This chapter assesses the Adaptation Fund's "effectiveness;" that is, the extent to which it has attained or is likely to attain its objectives. Analysis focuses on effectiveness of the Adaptation Fund's main processes, and the major factors enabling or hindering the Adaptation Fund's achievements.

#### 3.1. Resource mobilization

75. The Adaptation Fund's resource mobilization strategy, as initially designed, and subsequent efforts to secure voluntary contributions have not been effective in producing adequate, predictable, and reliable funding.

76. CERs were expected to provide the Adaptation Fund with US\$160 to US\$950 million by 2012.<sup>57</sup> By the end of 2014, though, depressed market values had delivered less than US\$200 million in CER proceeds to the Fund. The AFB demonstrated a high degree of flexibility and resourcefulness in quickly establishing new systems<sup>58</sup> and relationships to diversify the Fund's sources of income (e.g. with the UN Foundation<sup>59</sup>) while assessing further options (e.g. philanthropists, charitable foundations, and the private sector). The AFB decided in 2012 to seek voluntary contributions from Annex 1 countries.<sup>60</sup>

77. In total, the Adaptation Fund has mobilized US\$471.63 million in support of its activities, including US\$190.8 million from the sale of CERs, US\$277.26 million in voluntary contributions, and US\$3.57 million in investment income earned on trust fund balances.<sup>61</sup> While this total is not insignificant, it remains below what is needed for the Adaptation Fund to fulfill its objectives.

78. In 2012, Parties agreed to augment the Adaptation Fund's income during the second commitment period of the Kyoto Protocol through proceeds from Assigned Amount Units (AAUs) and Emission Reduction Units (ERUs),<sup>62</sup> and the CMP has adopted an updated agreement with the World Bank as the Trustee to include the sale of AAUs and ERUs.<sup>63</sup> These are steps in the right direction, though unlikely to meet the Adaptation Fund's needs, especially because AAUs/ERUs are unlikely to create "meaningful income ...in the short to medium term."<sup>64</sup> Fundraising will, therefore, continue to play an important role in the Adaptation Fund's resource mobilization strategy.

79. To date, fundraising efforts have had mixed success. The initial fundraising target of US\$100 million (2012-2013) was nominally exceeded, with US\$104.3 million pledged by the close of CMP 9 (see Annex 7). Based on this success, the Board established a task force in February 2013 to coordinate outreach, strategy, and other efforts to achieve future

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57 Müller, B. and C. Hepburn. 2006. IATAL ' an outline proposal for an International Air Travel Adaptation Levy. Oxford: Oxford Institute for Energy Studies.

58 AF. 2009. Guidelines for Accepting Unsolicited Donations to the Adaptation Fund Trust Fund. 18 November 2009. AFB/B.8/11/Rev.1.

59 UNFCCC. 2012. The Eighteenth Session of the Conference of the Parties. (26 November 2012 to 7 December 2012). Doha, Qatar.

60 AFB. 2012. Report of the Seventeenth Meeting of the Adaptation Fund Board. 16 April 2012. AFB/B.17/6

61 Adaptation Fund Board (AFB). 2015. Adaptation Fund Trust Fund: Financial Report Prepared by the Trustee (as at 31 December 2014). 11 February 2015. AFB/EFC.16/4

62 Decision 1/CMP.8; paragraph 21.

63 UNFCCC. 2015. Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its tenth session, held in Lima from 1 to 14 December 2014. 2 February 2015. FCCC/KP/CMP/2014/9/Add.1.; see Decision 1/CMP.10

64 AFB/B.23/7; paragraph 154

fundraising targets,<sup>65</sup> and hired a consultant in May 2013 to develop materials to promote AF achievements to donors and others.<sup>66</sup> In March 2014, the AFB extended the Adaptation Fundraising task force's mandate and set a new target of US\$80 million per year for 2014 and 2015.<sup>67</sup> By November 2014, however, US\$10.4 million of the previous contributions pledged in the previous year (2013) were still outstanding and no new pledges had been made toward the current 2014 goal.<sup>68, 69, 70</sup> Crisis was narrowly averted with a pledge of EUR50 million from Germany in December 2014. Despite this rescue, the Adaptation Fund still ended the year almost US\$18 million short of its fundraising goal.<sup>71</sup> Moreover, based on past precedent, pledged contributions may not be received by the Adaptation Fund in a timely or predictable timeframe.

80. These measures, despite the noteworthy efforts of AFB members, the AFB Secretariat, civil society, and Parties to the Kyoto Protocol, were necessary but remain insufficient in light of (1) the overarching need for adaptation finance, (2) the Adaptation Fund's stated objectives, and (3) the level of resources allocated to other climate finance mechanisms. Accordingly, the Adaptation Fund must be deemed "under-resourced." Equally important, the unpredictability of funding undermines the ability of the AFB and AFB Secretariat to plan and, according to several interviewed stakeholders, discourages potential project/program proponents. Moreover, the Adaptation Fund has not been able to (1) provide timely support to all qualifying project proposals or (2) fully staff the Secretariat or finance all the activities committed to in its various work plans/programs.

### 3.2. Decision-making processes

81. The Adaptation Fund has established increasingly effective decision-making processes for the AFB, committees, and the Accreditation Panel (discussed below in 3.4.2. *Access to Funding*). The AFB quickly established a "constructive working atmosphere."<sup>72</sup> Rules of Procedure guiding the AFB were approved in 2008<sup>73</sup> and subsequently amended in 2009.<sup>74</sup> Initially, a lack of clear procedures and protocols hampered the effectiveness of Board decision-making processes (e.g. attempts by some AFB members to overturn decisions). However, interview data and desk reviews confirm that procedures and protocols have been steadily elaborated and improved upon over time. Decisions are posted on the Adaptation Fund's public website, and civil society has several avenues available to inform and participate in shaping decisions by the Board. The protocol for inter-sessional working groups and decisions<sup>75</sup> has allowed the AFB sufficient flexibility to address urgent issues between meetings. Further revisions will certainly be made, as much in response to changing circumstances and personalities as objective lessons learnt or evolving standards/best practices.

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65 AFB. 2013. Report of the Nineteenth Meeting of the Adaptation Fund Board. 12 February 2013. AFB/B.19/6/Rev. 1; see Decision B.19/29.

66 AFB/B.21/8/Rev.1; paragraph 15.

67 AFB. 2014. Report of the Twenty-Third Meeting of the Adaptation Fund Board. 6 May 2014. AFB/B.23/7; see Decision B.23/25.

68 UNFCCC. 2014. Report of the Adaptation Fund Board. 12 November 2014. FCCC/KP/CMP/2014/6; paragraph 48.

69 AFB. 2014. Resource Mobilization Strategy. October 2014.

70 UNFCCC. 2014. Report of the Adaptation Fund Board. 12 November 2014. FCCC/KP/CMP/2014/6; paragraph 48.

71 AF. 2015. The Adaptation Fund Clears Proposal 'Pipeline,' Welcomes Contribution from Government of Flanders. Press Release January 14, 2015. Accessed 30 March 2015.

72 IIED. 2009. "The Adaptation Fund: a model for the future?" Briefing. August 2009.

73 FCCC/KP/CMP/2008/11; see Decision 1/CMP.4.

74 Decision B.7/6 of AFB

75 Decision AFB/B.2/1.

82. The highly political context in which the Adaptation Fund functions has influenced Fund decision-making. Both the AFB and its Secretariat are aware that some of their decisions have been unpopular, either with developed or developing country Parties. For example, the Direct Access Modality was initially unpopular amongst developed country Parties. Its success has since enhanced the AFB's credibility and created more space for taking risks. Still, Board members and Secretariat staff report an overarching sense of "political vulnerability" which has led them to err on the side of caution and could impede the flow of adaptation finance to especially needy countries.

83. Some Board Members expressed concern that Board Alternates are allowed to speak during meetings, thereby increasing the number of voices at the table and prolonging discussions. However, more e-survey respondents agreed or strongly agreed (47%) than disagreed (23%) that protocols should allow lengthy discussions and participation by Board members and alternates in order to make the most informed decisions. Assuming that more voices at the table allows for more information, experience, and perspectives to be shared, it would be prudent to continue with the Board's more inclusive protocols. Interviewees and survey respondents were divided regarding adopting Executive Board rules.<sup>76</sup>

84. Civil society actors have substantially contributed to the Adaptation Fund's effectiveness. A large majority of survey respondents agreed or strongly agreed that civil society actors engage in and meaningfully influence the Adaptation Fund main processes (74%) and enhance effectiveness (70%). Some AFB members initially expected civil society engagement, primarily channeled through the independently organized and financed Adaptation Fund NGO Network, to be "oppositional." The AFB, therefore, limited opportunities for civil society participation. Over time, Board Members and the Secretariat saw the Network's value demonstrated in a variety of ways including resource mobilization, real-time updates on and assessments of supported projects, input from the Adaptation Fund's intended beneficiaries, and knowledge management.

85. In response to these concrete contributions, AFB decision-making processes have become progressively open to civil society. Current practices, which, since 2011, include formal opportunities for civil society to speak at the beginning and end of every Board meeting, as well as informal opportunities to inform debate and influence decisions, are reasonably effective in terms of transparency and even accountability to civil society organizations.

86. Nonetheless, the IET finds there is still need for improvement. For example, Transparency International rated the AF below average for civil society actors' limited level of participation in AFB meetings and suggested that it improve transparency by having a "more consistent and less discretionary approach to closed meetings."<sup>77</sup> The GCF allows two active observers from civil society organizations and two from the private sector, chosen through a self-selection process, to participate, in open segments of GCF Board meetings, upon invitation by the Co-Chair.<sup>78</sup> Active observers may attend committee and workgroup

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<sup>76</sup> One interviewee stated that Executive Board meeting rules are too narrow and will limit effectiveness; another said Executive board meeting rules make meetings more efficient by limiting discussion from non-members. Survey results indicate support for long discussions but also formal rules that would shorten discussions. Respondents include people who are not Board members, though, which may skew results.

<sup>77</sup> Transparency International. 2014. Protecting Climate Finance: An Anti-corruption Assessment of the Adaptation Fund. 28 February 2014; page 2.

<sup>78</sup> GCF. 2015. Active Observers. <http://www.gcfund.org/observers/active-observers.html> Accessed July 31, 2015.



meetings only under special circumstances; term limits and rules and responsibilities, including confidentiality, are posted online. The Climate Investment Fund (CIF) has seventeen observers from indigenous peoples and civil society organizations, chosen through an independently facilitated voting process. CIF observers participate in committee and sub-committee meetings, with “no limit to their interventions at governing body meetings.”<sup>79</sup>

### 3.2.1. Decision-making processes in committees

87. The AFB has been assisted in resolving complex issues by its working groups, the Ethics and Finance Committee (EFC), Project and Programme Review Committee (PPRC), and Secretariat, which have drafted policies and guidelines, legal arrangements, and fiduciary standards. Terms of Reference for the two committees were approved for the PPRC and the EFC in 2009.<sup>80</sup> Per interviews, the EFC has effectively facilitated Board decision-making on complex issues with far reaching implications (e.g., allegations of corruption against a potential NIE) and was crucial in developing the Adaptation Fund’s Environmental and Social Policy (ESP).

### 3.3. Resource-allocation

88. The AFB has developed, implemented, and updated criteria to guide its resource-allocation decisions,<sup>81</sup> though funding is distributed on a first come, first served basis (discussed in Ch. 2, *Relevance*).<sup>82</sup> Resource allocation decisions are guided by paragraphs 9 and 10 of the *Strategic Priorities, Policies, and Guidelines of the Adaptation Fund*, approved by the CMP in 2008.<sup>83</sup> The AFB established *Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*, including fiduciary standards (i.e., Financial Integrity and Management; Institutional Capacity; and Transparency and Self-investigative powers) were approved in 2009.<sup>84</sup> In 2010, the AFB approved *An Approach to Implementing Results-Based Management (RBM)*, which includes a *Strategic Results Framework for the Adaptation Fund* and the *Adaptation Fund Level Effectiveness and Efficiency Results Framework*.<sup>85</sup> Operational policies (i.e., project review criteria including gender consideration and stakeholder consultation) were updated in 2011<sup>86</sup> and fiduciary standards were updated in 2013.<sup>87</sup>

89. The policies adopted by the Adaptation Fund have created a solid foundation for operational success, but there are some significant policy gaps (especially with regards to gender), some need for improvement (especially with regards to knowledge management), and a need for regular updates.

90. *Environmental and Social Policy*: The AFB approved an *ESP* in 2013,<sup>88</sup> which brings Fund practices generally into line with those of other leading finance institutions active in environment and development financing. The *ESP* requires project proposals to identify,

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79 Climate Investment Funds. 2015. <http://www.climateinvestmentfunds.org/cif/node/12531> Accessed July 31, 2015.

80 AFB. 2009. Report of the Sixth Meeting of the Adaptation Fund Board. 18 June 2009. AFB/B.6/14. Annex IV; see Decision B.6/3 of AFB

81 AF. *Strategic Priorities, Policies and Guidelines of the Adaptation Fund Strategic Priorities*

82 Canales Trujillo, N. and S. Nakhooda. 2013.

83 FCCC/KP/CMP/2008/11/Add.2 Annex IV.

84 AFB/B.7/13

85 AFB. 2010. *An Approach to Implementing Results Based Management – RBM*. Annex 1 and Annex 2.

86 AFB. 2011. Report of the Fifteenth Meeting of the Adaptation Fund Board. AFB/B.15/8; see Decision B.15/29

87 AFB. 2013. Report of the Twenty-Second Meeting of the Adaptation Fund Board. 23 December 2013. AFB/B.22/7; see Decision B.22/23.

88 AFB/B.22/7; see Decision B.22/23.

avoid, minimize, or mitigate environmental or social harms that might result from funded projects (e.g., impacts to marginalized and vulnerable groups, human rights, gender equality and women’s empowerment, indigenous people, biological diversity).<sup>89</sup> The policy, which built upon the Adaptation Fund’s pre-existing policies, operating procedures, and project cycle, represents a crucial improvement in the accreditation process. It is too early to assess the effectiveness of this policy, which relies not only on the demonstrated capacity, but also the commitment of IEs and executing entities to address environmental and social risks.

91. While the Adaptation Fund’s ESP establishes a structured process for identifying and mitigating relevant risks, it lacks sufficient specificity vis-à-vis roles, responsibilities, and definitions (e.g. “reductions in biodiversity”).<sup>90</sup> Larsen and Terpstra (2013) recommended further elaboration, including clarification of the ESP’s role in the accreditation process, to facilitate adherence.<sup>91</sup> The AF has recently published ESP guidance.<sup>92</sup>

92. *Gender equality*: Vulnerability to climate change is determined in large part by people’s adaptive capacity. A particular climate hazard, such as a drought, does not equally affect all people within a community or even the same household. Indeed, the inequitable distribution of rights, resources and power – as well as repressive cultural rules and norms – constrains many people’s ability to take action on climate change, especially women. Therefore, gender equality is a critical factor in addressing vulnerability to climate change.

93. The Adaptation Fund has taken steps toward addressing the special vulnerability of women and girls by requiring that projects/program proposals<sup>93</sup> and evaluations<sup>94</sup> consider gender equality and women’s empowerment. This is a step in the right direction but does not go far enough to address the challenge. The AFB has recently begun work to develop a gender policy fund, requesting the AFB Secretariat to “prepare a compilation and analysis of any of the Fund’s gender-related policies and procedures.”<sup>95</sup>

94. Though the GEF *Policy on Gender Mainstreaming*<sup>96</sup> could provide helpful guidance, the GCF’s Gender Policy and Action Plan provide a cleaner fit-to-purpose for the Adaptation Fund. The GCF’s *Gender Policy and Action Plan* aims “to provide the [GCF] and all implementation partners...with the tools and processes to achieve gender sensitivity in all areas within the [GCF’s] mandate. It will also provide the Board with the necessary information to exercise its oversight responsibility for the [GCF’s] Gender Policy.” The Action Plan specifically commits the GCF to: (1) integrating gender into its own operational guidelines and project/program guidelines as a pre-requisite for accountability, (2) providing appropriate and adequate training to GCF Board and Secretariat staff, as well as DAs, IEs, and EEs through the GCF readiness and preparatory work program or through partnerships with other organizations, (3) integrating gender into outputs, outcomes and impacts indicators for monitoring, evaluation and reporting purposes, (4) informing resource

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89 AFB/B.22/7; see Decision B.22/23.

90 Larsen G and P. Terpstra. 2013. “2 Ways to Ensure the Adaptation Fund’s New Safeguard Policy Protects People and Planet.” Worlds Resources Institute. October 24, 2013.

91 Larsen G and P. Terpstra. 2013. 2 Ways to Ensure the Adaptation Fund’s New Safeguard Policy Protects People and Planet. Worlds Resources Institute. October 24, 2013.

92 AF. Guidance document for Implementing Entities on compliance with the Adaptation Fund Environmental and Social Policy. [https://www.adaptation-fund.org/wp-content/uploads/2015/06/ESP-Guidance-document\\_0.pdf](https://www.adaptation-fund.org/wp-content/uploads/2015/06/ESP-Guidance-document_0.pdf) Accessed July 31, 2015.

93 AFB. 2013. Report of the Twenty-First Meeting Of the Adaptation Fund Board. 11 October 2013. AFB/B.21/8/Rev.1.

94 AFB. 2011. Guidelines for project and programme final evaluations.

95 AFB. 2015. Decisions of the Twenty-Fifth Meeting of the Adaptation Fund Board 10 April 2015. AFB/B.25/7, Decision B.25/21.

96 GEF. N.D. GEF Policy on Gender Mainstreaming.

allocation and budgeting decisions, and (5) documenting the experience and knowledge it will acquire from the implementation of its Gender Policy and Action Plan. In particular, the GCF will seek to identify good practices from implementation partners.

95. Of note, the GCF *Gender Policy and Action Plan* assigns specific responsibilities to its Board, Secretariat, and DAs, as well as implementing and executing agencies. The AFB Secretariat acknowledges this need but has not been given the mandate or resources to do so.

96. *Vulnerability*: The Adaptation Fund has provided discussion of vulnerability. The *Strategic Priorities, Policies, And Guidelines of the Adaptation Fund Adopted by the CMP* states that “special attention shall be given by eligible Parties to the particular needs of the most vulnerable communities.”<sup>97</sup> This directive is mainstreamed across project/program processes as expressed, for example, in the Adaptation Fund’s *ESP* and in *Methodologies for Reporting Adaptation Fund Core Impact Indicators*.<sup>98</sup> Some Parties suggest that “level of vulnerability” criteria should be applied to sectors as well as (or potentially instead of) social groups.<sup>99</sup> The Secretariat compiled data at an early stage in 2011, showing that project/program proposals most frequently focus on flood and drought related risks,<sup>100</sup> but resource-allocation decisions are not made on this basis. Detailed guidance including examples, best practices, and suggested tools to identify and target the most vulnerable social groups in project areas is lacking.

97. Resource allocation criteria were modified to balance funding between MIEs and NIEs through funding caps. Funding caps have helped reserve funding for NIEs and distribute funds among developing country Parties.<sup>101</sup> Although MIEs have the technical capacity to implement projects quickly and thereby improve more vulnerable countries’ access to the Adaptation Fund, balancing funding between NIEs and MIEs ensures a strong role for national institutions and capacity building thereof. In response to an imbalance of applications submitted by MIEs and NIEs in 2010 (15 by MIEs; 0 by NIEs), the AFB implemented a funding cap that mandated a forward-looking 50/50 funding split between projects implemented by MIEs vs. NIEs.<sup>102</sup> As of June 2015, the AFB had approved almost US\$220 million for 34 projects put forward by MIEs and over US\$98 million for 14 projects by NIEs.<sup>103</sup> Comments submitted through the evaluation survey indicate that the 50/50 cap has been “absolutely necessary” and has contributed to the success of the Direct Access Modality.

98. A temporary cap of US\$10 million per country was set in 2011 to distribute funds evenly among countries.<sup>104</sup> The average Adaptation Fund project budget is US\$6.6 million.<sup>105</sup> Survey respondents and interviewees submitted mixed comments regarding the US\$10 million per country cap. Multiple respondents described the cap as necessary due to

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97 AF. 2014. Operational Policies and Guidelines. Amended 2014. Annex 1: Strategic Priorities, Policies, And Guidelines of the Adaptation Fund Adopted by the CMP.

98 AF. 2014. Methodologies for Reporting Adaptation Fund Core Impact Indicators. March 2014.

99 FCCC/TP/2014/7

100 AF. 2011. The Adaptation Fund Project Review Process: Lessons Learned. November 2011. AFB/PPRC.7/3.

101 AF. 2015. Interactive Map of Projects and Programmes. [https://www.adaptation-fund.org/funded\\_projects/interactive](https://www.adaptation-fund.org/funded_projects/interactive) Accessed June 10, 2015.

102 AFB. 2010. Report of the Twelfth Meeting of the Adaptation Fund Board. 15 December 2010. AFB/B.12/6; see Decision B.12/9.

103 AF. 2015. Interactive Map of Projects and Programmes.

104 AFB. 2011. Report of the Thirteenth Meeting of the Adaptation Fund Board. 18 April 2011. AFB/B.13/6; see Decision B.13/23

105 AF. 2015. Interactive Map of Projects and Programmes.

limited funds. Others suggested that the cap should be reconsidered as countries successfully complete AF-funded projects and are ready to implement new projects. Given the emergence of the GCF, though, countries completing AF-funded projects will likely be eligible for GCF funding, and the IET finds that the US\$10 million per country cap remains relevant.

99. Criteria distinguishing multilateral development banks as either RIEs or MIEs are still unclear,<sup>106</sup> which may slow the rate at which MDBs submit project proposals. If MDBs are considered RIEs, approved funding would not be subject to the MIE funding cap, and funding (if available) could be disbursed more quickly than funding for MIEs, which has at times been backlogged in the pipeline.

### **3.4. Access to funding**

#### **3.4.1. Access modalities**

100. The Adaptation Fund has effectively piloted and progressively improved upon its Direct Access Modality. The principle of Direct Access reflects decades of learning gleaned from development aid. It manifests Parties' conviction that country-level leadership and accountability are the only ways to ensure the long-term effectiveness of climate finance. The Adaptation Fund is now piloting an Enhanced Direct Access Modality in South Africa. Though the IET cannot assess its effectiveness, Enhanced Direct Access has the potential to play a decisive role in the effective delivery of large-scale adaptation finance.

101. According to MIE and NIE interviewees, the Adaptation Fund's accreditation guidance documents are clear and easy to follow (e.g., Accreditation Toolkit, online information). Stakeholder consultations and resource flows<sup>107</sup> indicate that the Direct Access Modality is distributing adaptation finance to NIEs and MIEs.

102. DAs occupy a gatekeeper role when determining which institutions may apply to become NIEs. Given the linkages between AF and GCF accreditation processes, the stakes are high. As noted by several observers, this could foment corruption. Guidance in this area is lacking.

#### **3.4.2. Accreditation process**

103. The Adaptation Fund has developed thorough and reasonable accreditation requirements and continues to improve its processes. One MIE interviewee stated that the Adaptation Fund's accreditation requirements are very stringent and may represent a barrier to countries, particularly more vulnerable ones. However, all of the NIEs consulted during the course of this Independent Evaluation disagreed. Although several countries struggled to meet the Adaptation Fund's accreditation requirements, NIE interviewees concluded that the demanding process was both reasonable and worthwhile. National and international civil society interviewees suggest that the levels of transparency and accountability required by the Adaptation Fund's accreditation process are directly and indirectly contributing to improved governance in countries that are highly vulnerable to the impacts of climate change.

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<sup>106</sup> AF. 2014. AFB/B.24/7 ANNEX VII: Report of the Dialogue with Civil Society, 9 October 2014, Bonn, Germany; paragraph 75.

<sup>107</sup> AF. 2015. Interactive Map of Projects and Programmes.

“Accreditation drove us to do very different things than what we had done in the past. This was good for our organisational evolution. For example, most of our policies and rules to avoid fraud or other types of corruption were not formalised. We had them, but they were informal – not always written down in clear terms or not formally adopted. When we went through the Adaptation Fund’s accreditation process, we had to formalise all these policies and rules. In so doing, we came to see all of the gaps that existed. Because of going through this process, [we are] no longer the same in terms of institutional architecture. Our procedures have improved – specifically in terms of financial management, procurement, etc. Everything is now up-to-date in terms of best practices.”

- Interviewee

104. The Accreditation Panel (AP) has taken steps to establish fiduciary standards, improve procedures, and help applicants through the accreditation process where possible. Very small ministries, agencies, and institutions common to Small Island Developing States (SIDS) and other especially vulnerable countries have struggled to meet accreditation requirements. In response, the AFB decided to implement a streamlined process developed by the AP for small entities, which focuses on mitigating key fiduciary risks.<sup>108</sup> This initiative is crucial to realizing the Adaptation Fund’s overarching objective and maintaining its credibility while also acknowledging different levels of fiduciary risk. Moreover, the small entity window allows NIEs to develop capacity by implementing small scale projects (i.e., learn by doing) and create projects and policies specific to local conditions.

105. Further steps taken include increased interaction with applicants. Though the AP is not mandated to provide capacity strengthening support, interview data indicates that field visits and ongoing informal dialogue (through emails and teleconferences) between applicants and AP technical experts have, in several cases, been decisive in building sufficient capacity for accreditation.

106. The Adaptation Fund’s formal Readiness Programme for Climate Finance (hereafter “Readiness Programme”) aims to strengthen national and regional entities’ capacity to develop high quality proposals, manage direct access climate financing, and to manage environmental and social risks while countering changing climate conditions.<sup>109</sup> The program includes (a) regional workshops and (b) grants to support South-South mentoring of applicants by entities that have successfully navigated the accreditation process.

107. The Readiness Programme has helped entities understand, become comfortable with, and embark upon the accreditation process. The number of regional applications has consistently jumped following workshops. While correlation is not causation, this pattern suggests that the workshops play an indispensable role in encouraging and enabling potential NIEs to begin the accreditation process.

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<sup>108</sup> Decision B.25/17

<sup>109</sup> AF. 2014. Readiness Programme for Climate Finance - an Adaptation Fund initiative <https://adaptation-fund.org/node/3944>

108. South-South mentoring is a particularly valuable tool to helping countries progress through the accreditation process. South-South counterparts voice questions and concerns with each other that they might feel uncomfortable mentioning to the Adaptation Fund Secretariat or its accreditation experts. Mentors, operating in contexts similar to those of their mentees, are often able to provide practical advice based on concrete experience.

109. Though valuable, and perhaps vital in some cases, South-South mentoring cannot replace clear, timely communication between accreditation applicants and the AFB Secretariat or its expert consultants. Secretariat understaffing (in addition to other factors discussed in Chapter 4) was creating a bottleneck in the accreditation process, a problem which should be alleviated by recently approved new staff positions to support accreditation and other roles.<sup>110, 111</sup>

“Engaging with the Fund forces national stakeholders to get organized, plan and learn together. There is now a much better understanding amongst stakeholders in [our country] about what an ‘adaptation project’ is and how it differs and relates to development projects.”

- Interviewee

110. This evaluation finds that the accreditation process has resulted in continued progress in key areas (e.g., strengthened coordination mechanisms, improved planning processes, and enhanced national governance and transparency in AF-funded projects) that were identified by a 2013 study.<sup>112</sup> In addition, this evaluation finds increased harmonization between funds, which has increased applicants’ eligibility for funding from other sources.

### 3.5. Project/program cycle

111. **Project/program level KM (monitoring and evaluation):** The Adaptation Fund has developed a sound framework of responsibilities and roles for project-level KM that could prove effective when fully implemented and appropriately supported by the AFB Secretariat. Project/program-level Knowledge Management (KM) processes are intended to capture and systematize knowledge that can improve the project as well as future interventions, processes, projects and policies. AF-supported projects are required to include a KM component that sets the long-term direction, scope, and objectives of their KM activities. Projects are also required to identify learning objectives in Project/Programme Performance Reports (PPRs) and Project/Programme Terminal Evaluations. PPRs contain project indicators and lessons learnt about adaptation.<sup>113</sup>

112. The AFB Secretariat has planned to help project proponents develop their KM strategies by providing an online resource list of existing adaptation strategies, providing a KM toolkit for projects,<sup>114</sup> and ensuring that each project has a page on the Adaptation Fund’s website. To that end, the AFB Secretariat has contributed to the World Bank online resource list of adaptation projects; and the Adaptation Fund’s new website (currently under pre-launch review) will include project pages capable of hosting multi-media knowledge outputs. However, the Secretariat has been insufficiently staffed to assist countries in developing KM strategies in line with the Adaptation Fund’s Project Level

110AFB. 2015. Board and Secretariat, and Trustee Administrative Budget for Fiscal Year 2016. AFB/EFC.16/6, para. 5.

111 AFB. 2015. Decisions of the Twenty-Fifth Meeting of the Adaptation Fund Board 10 April 2015. AFB/B.25/7.

112 Canales Trujillo, N., and S. Nakhouda. 2013.

113 Available from: <https://www.adaptation-fund.org/page/project-performance-and-reporting>

114 AF. 2011. Results Framework and Baseline Guidance - Project Level.

Results Framework and Baseline Guidance Document, provide a KM toolkit for projects, or work with NIEs and EEs to capitalize on opportunities or trouble-shoot challenges (both institutional and operational) in implementing KM strategies. The recently approved AFB Secretariat staff positions<sup>115, 116</sup> will, per interview data, lead KM and be responsible for other duties. Although having one person leading KM with others pitching in where possible is an improvement, designating KM as one-third of the lead person's duties is insufficient.

### 3.6. Knowledge management processes

113. Knowledge Management is critical to any organization and especially for the Adaptation Fund because (1) adaptation projects and programs are still relatively new and (2) the Adaptation Fund is piloting innovative access modalities. The experiences gained from the Adaptation Fund must, therefore, be systematically tracked and regularly analyzed in order to enrich global knowledge on climate change adaptation and access modalities.

114. A *Knowledge Management Strategy and Work Programme* was also approved in 2011, consisting of six actions: (1) identifying project-level learning objectives; (2) providing guidance to countries carrying out KM activities; (3) collecting, organizing and analyzing project data, information and knowledge; (4) promoting collaboration and knowledge-sharing on adaptation issues; (5) systematizing and sharing the Adaptation Fund's activities; and (6) creating a database of AFB decisions and documents.<sup>117</sup> While necessary, these actions are insufficient.<sup>118</sup> Stakeholders consulted during the course of this Independent Evaluation suggested that the KM Strategy, developed for the AFB by GEF staff, could be better tailored to particularities of the Adaptation Fund. Specific suggestions for improvement stressed the need for (1) synthesized lessons from different projects as well as disparate accreditation and accreditation readiness experiences, (2) greater investment in the communication of synthesized lessons, and (3) greater collaboration with other adaptation-related funds to undertake and communicate cross-learning.

“When Knowledge Management is everyone's responsibility, it becomes no one's responsibility.... There is no coordinated effort, no point person on Knowledge Management”

- Interviewee

115. The AFB Secretariat has carried out or made substantial progress on actions 1, 5, and 6 in its current KM Strategy and Work Program. Less progress was made against actions 2, 3, and 4. This may be explained partially by the fact that most Fund-supported projects are in early stages of implementation. Despite the central role of KM in the Adaptation Fund's Theory of Change, inclusion in the Adaptation Fund's RBM framework, and Board approval of a Knowledge Management Strategy and Work Programme in 2011, to date, KM has not received the staff or budgetary resources it requires.<sup>119, 120</sup> As a result, valuable opportunities to advance global learning about vulnerability, adaptation, direct access, and other innovations are being missed. Inadequate allocation of resources to KM undermines the Adaptation Fund's short-term effectiveness and long-term significance.

115 AFB. 2015. Board and Secretariat, and Trustee Administrative Budget for Fiscal Year 2016. AFB/EFC.16/6, para. 5.

116 AFB. 2015. Decisions of the Twenty-Fifth Meeting of the Adaptation Fund Board 10 April 2015. AFB/B.25/7.

117 AFB/B.15/8; See Decision B.15/22

118 AFB/B.15/8

119 AFB/B.15/8; paragraph 87, Decision B.15/22

120 AFB. 2011. Knowledge Management Strategy and Work Programme. 7 September 2011. AFB/EFC.6/3



## 4. Efficiency of the Adaptation Fund's institutions and main processes

116. Highly efficient organizations accomplish necessary tasks quickly, at low cost, and with little to no waste of resources. This chapter assesses the Adaptation Fund's "efficiency," or its qualitative and quantitative outputs relative to inputs (e.g. money, time and effort),<sup>121</sup>

117. The evaluation assesses first, the efficiency of the Adaptation Fund's overall design; second, the efficiency of the main processes (i.e., resource mobilization, decision making, resource allocation, access to funding, project/program cycle, and knowledge management); third, efficiency of the institutional arrangements; fourth, the major factors enabling or hindering efficiency; and finally, how efficiency is affected by AF cooperation with stakeholders. Note, an in-depth analysis or audit of individual line item expenses is beyond the scope of this evaluation. Rather, we provide a general assessment to highlight areas where the Adaptation Fund has achieved efficiency and suggest areas for further consideration by the AFB and its Secretariat.

### 4.1. Efficiency of overall design

118. Key design features of the Adaptation Fund (e.g. the Direct Access Modality) and ambitious objectives (e.g. learning) have required it to take a far more hands-on approach than some other climate funds. The climate funds vary in important ways such as unique mandates, length of time since operationalization, governance structure, and amount and type of finances managed (see Annex 8). These differences make comparisons difficult. Moreover, the Secretariat and Trustee have different roles in the various funds. The AFB Secretariat is responsible for more tasks under the Adaptation Fund than the Secretariat for LDCF, SCCF, or CIF.<sup>122</sup> The CIF relies on MDBs for project-level supervision, quality control, fiduciary control, safeguards and accountability with relatively few management responsibilities assigned to an administrative unit. In contrast, the AFB Secretariat undertakes all of these responsibilities and more. The AF Trustee provides CER monetization services to the Adaptation Fund but not to other funds. Therefore, a direct comparison against running costs of other climate change funds would be meaningless and likely misleading.

119. The Adaptation Fund's main processes thus incur costs that are different from other funds. To assess the overall efficiency of the Adaptation Fund, we examine the outputs of the processes and costs of the institutional arrangements.

### 4.2. Resource mobilization

120. In 2012, the AFB established a resource mobilization task force consisting of AFB members and Secretariat staff.<sup>123</sup> Though the Adaptation Fund has assessed and compiled resource mobilization options over the years,<sup>124, 125, 126, 127</sup> fundraising has not been a major

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121 OECD DAC. 2015. DAC Criteria for Evaluating Development Assistance.

122 UNFCCC. 2012. Compilation and synthesis of additional disaggregated information on the administrative costs of the Adaptation Fund Board. 22 November 2012. FCCC/SBI/2012/INF.8/Rev.1.

123 Decision B.19/29

124 AFB. 2014. Resource Mobilization Strategy

125 AFB. 2013. Strategic Prospects for the Adaptation Fund. 25 March 2013. AFB/B.20/5.

126 AF. 2012. Options for a Fundraising Campaign and Strategy. June 2012. AFB/EFC.9/5

127 AF. 2012. Options for a Fundraising Campaign and Strategy. 2 March 2012. AFB/EFC.8/6



focus of the AFB, as evidenced by the task force planning to “meet in the margins” of the 20th AFB meeting.<sup>128</sup> Interview data further indicates that recent fundraising discussions have made up only five to ten minutes of AFB meetings. In this respect, the Adaptation Fund has been able to attract donations using relatively little resources and could be considered efficient. However, given competition from other funds, this strategy may not be sustainable (discussed further in chapter 5).

#### 4.3. Decision-making processes

121. AF decision-making is relatively efficient and has been aided by the Secretariat and the committees. Interviews indicate a source of inefficiency is the lack of institutional memory, due to term limits on committees and on the Board and the time needed to learn how things work. Interview findings also suggest that lack of EFC decision-making authority can lead to lengthy discussion of EFC recommendations at Board meetings and decreased efficiency.

#### 4.4. Resource allocation

122. Interviews indicate that as the Adaptation Fund clarified its resource allocation criteria, project proponents had an easier time understanding what projects would be funded and were thus able to more efficiently develop proposals.

123. According to interview data, the emergence of the GCF, the desire to harmonize processes with the GCF, and increased attention to AF processes and outcomes have resulted in the AP taking a more cautious approach and requiring more information from applicants, thus slowing the accreditation process.

#### 4.5. Access to funding

124. The Direct Access Modality entails trade-offs between rapid implementation of projects and long-term-impacts. MIEs have at times been chosen to implement projects because they were able to complete accreditation and project development more quickly than NIEs.<sup>129</sup> Absent the 50/50 cap and, ultimately, lack of funding, MIEs would have been able to implement additional adaptation projects. In January 2015, four MIE projects had been in the pipeline for 9-20 months (i.e., since approval by AFB) due to lack of funds and the 50/50 cap.<sup>130, 131</sup> The pipeline was cleared in January after the Adaptation Fund received pledged contributions.<sup>132</sup> One factor that reduces cost-effectiveness of MIE implementation is that, as of September 2014, MIEs had higher project management fees (about 8.4%) compared to NIE fees, (around 7.2%), a gap that has narrowed over time.<sup>133</sup>

125. Per interview data, although some NIEs have submitted high quality applications, others have required substantial assistance from the Secretariat, resulting in an increased workload and cost to the Adaptation Fund. The time and effort needed to build NIE capacity, however, is warranted, as the Direct Access Modality has been credited with providing significant benefits, beyond AF-funding, to recipient countries: increased institutional capacities, improved collaboration with stakeholders, enhanced country

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128 AFB. 2013. Strategic Prospects for the Adaptation Fund.

129 Schäfer, et al. 2014.

130 AF. 2014. Joint Report by the Secretariat and the Trustee on the Status of the Pipeline. September 2014. AFB/EFC.15/Inf.1

131 AF. 2015. The Adaptation Fund Clears Proposal ‘Pipeline,’ Welcomes Contribution from Government of Flanders. Accessed May 2015.

132 AF. 2015. The Adaptation Fund Clears Proposal ‘Pipeline,’ Welcomes Contribution from Government of Flanders. Accessed May 2015.

133 UNFCCC/TP/2014/7

ownership, increased access to other funding, increased South-South cooperation, and efficiency gains regarding entity fees.<sup>134</sup>

126. Interview data and email communication indicate that the accreditation process has recently become more standardized but has been taking longer and poses a large financial cost to applicants and the Adaptation Fund. Interviewees attribute delays to (1) increased support needed by applicants and (2) increased requirements by the AP. Earlier applicants were better prepared, hence their ability to apply quickly. Recent applications have had more complications, as indicated by the higher percentage (33%) of applications requiring a field visit in 2014, compared to 8-20% in previous years.<sup>135</sup> Field visits, conducted by an AP expert and a member of the Secretariat, are expensive but according to interviewees, an efficient way to gather a lot of information quickly.

127. The accreditation process, while necessarily robust, may be an area for increased cost-effectiveness. Between fiscal year 2011 and the first half of fiscal year 2015, accreditation experts and related travel cost almost US\$1.4 million (Table 1).<sup>136</sup> The cost of each initial assessment and analysis is about US\$30-40,000 per application, which doubles in the process of gaining full accreditation, up to US\$80,000 per NIE, excluding staff time.

128. Based on interview responses, codifying the process and hiring one or more lower-level auditors to undertake initial screening could provide significant cost savings and accelerate the review process.

Table 1: Accreditation cost FY10-15

	FY11	FY12	FY13	FY14	FY15 mid-year	TOTAL FY11-15
Accreditation expert fees	\$155,060	\$237,937	\$217,048	\$260,280	\$83,088	\$953,43
Accreditation travels	\$90,095	\$129,420	\$79,455	\$113,297	\$16,963	\$429,230
Total	\$245,155	\$367,357	\$296,503	\$373,577	\$100,051	\$1,382,643

Source: Email communication from AFB Secretariat to the Evaluation Team. February 2015.

129. The AFB has recently decided to “request the secretariat, in collaboration with the Panel, to develop a proposal on enhancing the efficiency and effectiveness of the accreditation process.”<sup>137</sup> Moreover, the AFB amended the accreditation process to match the size of the project budget (i.e., a small grant window)<sup>138</sup> and per interviews, will consider splitting accreditation into two phases to identify obstacles early in the process, thereby saving applicants and AFB time and money. These actions highlight the extent to which the Adaptation Fund is generating valuable experience/lessons around adaptation, and, more generally, climate finance and funding modalities.

134 FCCC/TP/2014/7: September 2014, MIEs have higher project management fees (about 8.4%) compared to NIE fees, (around 7.2%), but that gap has narrowed over time.

135 AFB/EFC.15/3

136 Email communication from AFB Secretariat staff to the Evaluation Team regarding cost of accreditation over time from 2010-2015. February 2015.

137 Decision B.25/5

138 Decision B.25/17

The Readiness Programme is costly, exceeding US\$86,000 in fiscal 2014 with almost US\$434,000 approved for fiscal 2015.<sup>139</sup> Building capacity is not in the Adaptation Fund's mandate and is not a priority given limited resources.<sup>140</sup> However, recipient counties have acknowledged the usefulness of the program, and the Adaptation Fund has partnered, to a limited extent with other organizations. The Adaptation Fund recently partnered with the Climate and Development Knowledge Network (CDKN) to set up a website, which supports KM and readiness goals,<sup>141</sup> and provides an example of the Adaptation Fund leveraging partner staff, resources, and audience. The Adaptation Fund has also partnered with Heinrich Böll Foundation (HBF). HBF co-hosted two readiness workshops (Kenya and Namibia) and will co-host a third event in Nigeria in the fall (2015).<sup>142, 143</sup>

#### 4.6. Project/program cycle

##### 4.6.1. Review and approval processes

130. The AFB Secretariat and PPRC have developed a project/program proposal review process that, as of June 2015, has approved 48 projects.<sup>144</sup> Overall, the project/program cycle reached its RBM efficiency targets for four out of five indicators in FY2014.<sup>145</sup> The one goal AF did not reach in FY 2014 was the average time from first cash transfer to project start MIEs, in which AF averaged 9.1 months, exceeding the six month target. However, between FY 2011-14, the Secretariat met its goal of reviewing project/program proposals and responding within two months.<sup>146</sup> Further, the AFB approved one intersessional project/program review cycle annually in order to reduce potentially long wait times related to the reduced AFB meeting schedule and to maintain or improve project review efficiency.<sup>147</sup>

131. As established by the Operational Policies and Guidelines (OPG) of the Adaptation Fund, all proposals are submitted through the Secretariat, where they are screened and technically reviewed based on AFB-approved criteria. The Secretariat contacts applicants, as needed, for further information and to advise project proponents how to improve their applications. Once the proposal meets AF criteria, the Secretariat forwards the proposal and review conclusions to the PPRC for consideration. The PPRC then evaluates the proposals at a strategic level and consults technical experts if needed. This process is similar to that of the GEF Council.

132. The PPRC has taken steps to improve the review process. The Secretariat and PPRC compiled lessons learned in 2011 to help identify areas for improvement (e.g., more specific guidelines). PPRC members are intended to give professional input, but interviewee data indicates that few PPRC members read the proposals thoroughly and that comments are rarely substantive. Nor, according to several past and present PPRC members, is substantive

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139 AFB. 2014. Reconciliation of the Administrative Budgets of the Board and the Secretariat, and the Trustee. August 2014. AFB/EFC.15/7.

140 FCCC/TP/2014/7

141 Available from: <http://climatefinanceready.org/>

142 AF. 2015. News and Seminars. <https://www.adaptation-fund.org/readiness-programme/news-seminars/> Accessed July 28, 2015.

143 Email communication with the AF Secretariat, July 28, 2015.

144 Adaptation Fund. 2014. <https://www.adaptation-fund.org/national-implementing-entities> Accessed April June 10, 2015

145 AFB/EFC.15/3: (1) average response time to review submissions, (2 and 3) time from first submission to approval for one- and two-stop projects, and (4) time from first cash transfer to project start (NIEs)

146 AF. 2014. AFB/EFC.15/3 October 2014.

147 AFB. 2014. Report of the Secretariat on Initial Screening/Technical Review of Project/Programme Proposals. 4 June 2014. AFB/PPRC.14-15/1; Decision B.23/15.

commentary needed, since the AFB Secretariat ensures that proposals meet all OPG requirements.

133. The process is not efficient because stakeholder interviews suggest that, while the PPRC added clear value at earlier stages in the Adaptation Fund's development, the Secretariat now has the required experience, and the value added by the PPRC in its current form is unclear.

134. Representatives from civil society recently reported that their organizations lack qualified people to comment on projects,<sup>148</sup> which underscores the need for AF to formalize access to technical experts. A paid panel of external, on-call subject experts would cost more but could provide more rigorous evaluation. Interview data suggests that the GEF Scientific and Technical Advisory Panel (STAP) would not be appropriate for this role; a flexible arrangement to consult GEF cross support or an external group of experts as needed may be more appropriate.

135. The limited availability of Fund documents in non-English UN languages and the requirement that all communications and materials (e.g. accreditation documents and project proposals) be submitted in English presents a serious burden to many NIEs. Though the Adaptation Fund's major guidelines and policies have been translated into several UN languages, the website and many of the most important accreditation and project proposal related documents are only available in English. Moreover, all documents submitted to the AFB (e.g., reports, supporting evidence for accreditation, and emails) must be in English. Per interview data and a 2014 Germanwatch report, this represents a substantial challenge to many potential NIEs.<sup>149</sup> For at least one NIE, for example, all official documents are in French. Certified translations are expensive, time-consuming, and prone to error unless senior staff are highly involved since local translators rarely have strong command of legal or other technical terms.

#### **4.6.2. Project/program cycle funding windows**

136. Separating proposals by type of application (i.e., concept note, fully developed project/program proposal) has enabled the Adaptation Fund to streamline the approval process, while ensuring that approved projects/programs meet resource-allocation criteria.<sup>150</sup> A small sized project (<US\$1 million) undergoes a one-step process wherein proponents submit a fully project proposal.<sup>151</sup> Proposals in excess of US\$1 million undergo either a one-step (full proposal) or a two-step process in which proponents first submit a brief concept note, which is reviewed by the Secretariat and then the PPRC and is endorsed, not endorsed, or rejected by the Board.<sup>152</sup> In the second step, the fully developed project/program document is reviewed by the Secretariat and then the PPRC and approved, not approved, or rejected by the Board.

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148 AFB. 2014. Report of the Twenty-Fourth Meeting of the Adaptation Fund Board. 12 December 2014. AFB/B.24/7; Annex VII: Report of the Dialogue with Civil Society, 9 October 2014, Bonn, Germany.

149 Schäfer, et al. 2014. Learning from Direct Access Modalities in Africa. Germanwatch Research Report. November 2014.

150 AF. N.D. Accessing Resources from the Adaptation Fund: The Handbook, Bonn: Adaptation Fund. Version 2.

151 AF. N.D. Accessing Resources from the Adaptation Fund: The Handbook. Version 2.

152 AF. 2011. The Adaptation Fund Project Review Process: Lessons Learned. AFB/PPRC.7/3, paragraph 2.

#### 4.7. Knowledge management

137. In 2011, the AFB approved an *Evaluation Framework*, entrusting the evaluation, advisory, and oversight functions to the GEF Independent Evaluation Office (GEF IEO) for an interim three-year period.<sup>153, 154</sup> The IEO had conducted a joint evaluation of the LDCF in 2009, a program evaluation of the SCCF (2011 - 2012),<sup>155</sup> and annual evaluations of LDCF and SCCF in 2013 and 2014<sup>156</sup> and was thus well-positioned to build on its experience and conduct evaluation services for the Adaptation Fund. However, the AFB had allocated a very small budget to the IEO and had postponed evaluation until AF-funded projects reached completion. In March 2014, the GEF IEO withdrew as the evaluation function of the Adaptation Fund.<sup>157</sup> This represents a missed opportunity to strengthen the AF's evaluation approach using GEF's in-house expertise, which may have been more cost-effective than external consultants.

138. The Adaptation Fund's partnership with the CDKN to create an online platform fostering dialogue and collaboration in climate finance readiness is an excellent response to limited in-house resources ([www.climatefinanceready.org](http://www.climatefinanceready.org)). However, the Adaptation Fund will not be able to make the most of this or other potential partnerships or carry out its existing KM Work Program – much less an expanded version – without additional, dedicated human and financial resources in core planning and budget allocation decisions.

#### 4.8. Cost-efficiency of Fund institutional arrangements

139. The costs involved in running the Adaptation Fund include expenses for the Adaptation Fund Board, its dedicated AFB Secretariat with cross-support from the GEF Secretariat, and the Trustee. We discuss the costs of each of these entities in relation to outputs.

140. Administrative costs and trustee fees were high at the outset relative to project approvals, but during that time, the Adaptation Fund established protocols and guidelines. Overall, administrative costs have been fairly steady over time and have decreased in some areas. As of December 2014, AF cumulative operational costs comprised 9% of the approved funding decisions budget, where AFB and AFB Secretariat costs comprised 6.3% of the budget,<sup>158</sup> Trustee fees accounted for 2.4%, and Administrative Trust Fund reimbursements<sup>159</sup> (reimbursement of donations during the Adaptation Fund startup phase, pre-2009) made up 0.2% of the budget.<sup>160</sup>

##### 4.8.1. AF Board

141. Costs specific to the AFB are (1) travel for Board members to AFB meetings (i.e., Daily Subsistence Allowance (DSA), transportation) and (2) support for the Chair (e.g., communications and travel to meetings on behalf of AF). AFB members follow UN travel

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153 AFB/B.15/8; see Decision B.15/23.

154 *Evaluation Framework* was amended in 2012, per Decision B.17/21.

155 GEF IEO. 2012. Evaluation of the Special Climate Change Fund (SCCF) October 11, 2011. GEF/LDCF.SCCF.11/ME/02 <https://www.thegef.org/gef/sites/thegef.org/files/documents/Evaluation%20for%20SCCF.pdf> Accessed August 10, 2015.

156 GEF IEO. 2013. LDCF/SCCF Documents. [https://www.thegef.org/gef/geo\\_LDCF-SCCF\\_documents](https://www.thegef.org/gef/geo_LDCF-SCCF_documents) Accessed August 10, 2015.

157 AFB. 2014. Report of the Twenty-Third Meeting of the Adaptation Fund Board. 6 May 2014. AFB/B.23/7

158 Does not include DSA.

159 Reimbursable contributions from UNEP and Australia to the Administrative Trust Fund during the AF startup phase, pre-2009.

160 AFB/EFC.16/4

policy<sup>161, 162</sup> and interview data indicates that more than half the Board members have their travel expenses paid by AF. UN travel rules stipulate that individuals travel economy class for flights less than nine hours and business class for flights exceeding nine hours. Other climate funds (i.e., CIF, LDCF, and SCCF) follow World Bank, not UN, travel policies and fly economy class.<sup>163, 164</sup>

142. Although the GCF is considering a travel policy similar to AF's,<sup>165</sup> the travel policy may be an area to consider for increased cost-effectiveness and to bring the Board in line with the practice of other funds and demonstrate strong credibility as a steward of "voluntary contributions." DSA is not included in AF administrative budgets because the Secretariat is housed within the GEF, which follows World Bank rules and thus has no framework to enforce UN rules. DSAs are therefore processed by a third-party UN organization, often UNCCD, and are not included in annual administrative budgets, which may make assessment of administrative costs more difficult. This evaluation includes it here to reflect the cost of travel associated with AFB meetings.

AFB travel and DSA costs have declined over time (

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161 AFB. 2008. Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund. 19 May, 2008. AFB/B.2/8.

162 UNFCCC. 2009. Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its fourth session, held in Poznan from 1 to 12 December 2008. Add. Decision 1/CMP.4. 19 March 2009. FCCC/KP/CMP/2008/11/Add.2; paragraph 41, 42 approved the AF Rules of Procedure (incl. travel policy). 2009.

163 Climate Investment Funds (CIF). 2014. Travel Guidelines. Updated 14 March 2014. Airfare: lowest cost available, economy class travel; business class provided only for "government Ministers, or representatives of equivalent status, to participate in the Partnership Forum."

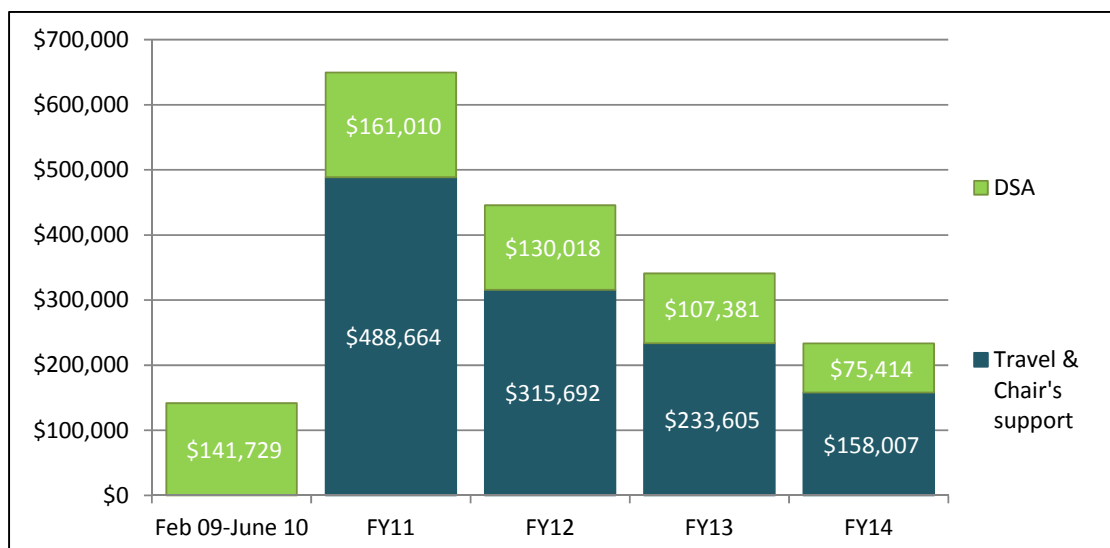
164 Global Environmental Facility Council. 2008. Guidelines for Travel and Subsistence Allowances to Be Provided To Council Members and Alternates from Recipient Countries Attending GEF Council Meetings. October 2008.

165 Green Climate fund (GCF). Travel Policy. 3 October 2014. GCF/B.08/30.

**Figure 4: AFB expenses over time**

143. ) as the Board has reduced the number of meetings per year. The abbreviated schedule may make it more difficult for the Board to complete all of its work in the allotted meeting time, reducing effectiveness. Several interviewees noted strain from the decreased number of meetings, as summed up by one interviewee, “Meeting twice a year in response to financial resource constraints is unreasonable – [we] just can’t cover the amount of business required.”

**Figure 4: AFB expenses over time**



144. *Translation:* AFB members report that the Adaptation Fund may be able to reduce costs by cutting unneeded translation during AFB meetings. The AFB provided guidance by the third meeting that translation at meetings would be provided for all UN languages,<sup>166</sup> but interview data indicates that translators are sometimes provided for Board members who do not need the service, resulting in unnecessary expense. Reflecting efforts to reduce costs, interview data and AFB documents indicate that the Secretariat decided in 2012 to provide simultaneous translation by request only,<sup>167, 168</sup> and when possible, the Secretariat hires local translators to reduce travel expenses.

#### 4.7.2. Secretariat

145. AF administrative expenses include the cost for seven AF-dedicated staff, GEF staff cross-support (e.g., CEO, HR and IT support, project review, evaluation), consultants, travel for field missions, and operational expenses (Table 2). Per interview data, initial budgets for GEF cross-support services were high, based on projected versus actual services used. In the third year, cross-support staff (excluding the CEO of GEF) began tracking the amount of time spent providing AF services. GEF cross-support costs have decreased and now more closely reflect the actual

*“The Secretariat is one of the best bangs-for-the-buck that I have ever encountered. You can count on the team to give you the best possible advice...”*  
- Interviewee

166 AFB. 2008. Report of the Third Meeting of the Adaptation Fund Board. 24 September 2008. AFB/B.3/15; ANNEX IV: Draft Rules of Procedure of the Adaptation Fund Board. Section XVII. Languages, paragraph 98.” ...Simultaneous interpretation shall be provided during the meeting in all of the UN official languages that correspond to the actual language requirements of the Members and Alternates present at that meeting.”

167 AFB. 2013. Report of the Nineteenth Meeting of the Adaptation Fund Board. 12 February 2013. AFB/B.19/6/Rev. 1; see Decision B.19/26.

168 AFB/B.19/6/Rev. 1



time spent supporting the Adaptation Fund.<sup>169</sup> In 2014, the Board requested the Head of the Adaptation Fund Board Secretariat (i.e., CEO of GEF) to reduce the amount of her time charged to the Adaptation Fund budget from 15% to 10% in FY14,<sup>170</sup> to which she agreed.<sup>171</sup> The Head of the AFB, appointed by the CMP, is not required to track actual time spent on AF work, which leaves room for inaccurate cost accounting. What the AF pays for the GEF CEO is akin to overhead that ensures that the AF Secretariat, in particular the Manager, has unrestrained access to the GEF CEO whenever necessary. Tracking time may therefore be counterproductive and inefficient.

146. All parties consulted during the course of this Independent Evaluation concur that the small, dedicated Secretariat within the Global Environment Facility (GEF) provides good quality work that is mission-driven and conducive to collaboration and dynamic results. Per interview data, the Manager of the AFB Secretariat has established a flat organizational structure and a working environment that encourages the free-flow of ideas, thinking outside the box, and collaborative versus competitive efforts. This – alongside the team’s passion to reduce people’s vulnerability to climate change – is a key reason it has achieved so much on such a small and unpredictable budget.

147. However, staff motivation is a fragile commodity that can easily be lost to burnout, which is currently a major threat. As summarized by one staff member, “Expectations [on the Secretariat] are rising and are increasingly out of sync with staffing levels. We simply need more staff to do our jobs right.”

148. At the time of this evaluation, the Secretariat was in the process of updating job descriptions to reflect its increasingly specialized responsibilities and improve alignment between staff skill-sets, interests, and administrative needs. In April 2015, two new staff positions were approved but do address the need for additional staff with specialized skills to meet the highest priority needs (i.e., resource mobilization and knowledge management).<sup>172</sup>

Table 2: AF Board and Secretariat costs

Year	Costs (US\$)
(6 months) FY2008	739,142
FY2009	1,909,082
FY2010	2,288,933
FY2011	2,521,301
FY2012	2,920,737
FY2013	2,204,206
FY2014	2,463,268
FY2015	3,410,658

Note: estimated, proposed, and approved amounts were used in years when reconciliation reports were unavailable and may be higher than actual expenditures (Sources: FY2008, AFB/B.6/9/Rev.1., FY2009 Estimated, AFB/B.6/9/Rev.1, FY2010 Proposed, AFB/B.6/9/Rev.1, FY2011, AFB/EFC.6/Inf.1/Rev.1, FY2012, AFB/EFC.10/Inf.1, FY2013 AFB/EFC.13/6, FY2014 AFB/EFC.15/7, FY2015 approved AFB/EFC.15/7)

169 GEF. N.D. Progress Report on the Services Provided by the GEF Secretariat To The Adaptation Fund Fiscal Year 2013 (July 1, 2012 To June 30, 2013). GEF/C.46/Inf.07.

170 AFB. 2013. Report of the Twentieth Meeting of the Adaptation Fund Board. 2 May 2013. AFB/B.20/7: (c) Request the Board Chair to communicate with the Head of the secretariat to discuss the percentage of her time charged to the Adaptation Fund budget, with a view to reducing it by at least five percentage points.

171 AFB. 2013. Amendments to the Administrative Budget of the Board and Secretariat for the Fiscal Year 2014. 20 June 2013. AFB/EFC.12/9.

172 AFB. 2015. Decisions of the Twenty-Fifth Meeting of the Adaptation Fund Board 10 April 2015. AFB/B.25/7.

### 4.7.3. Trustee

149. The World Bank, acting as Interim Trustee, has fulfilled its responsibilities, as reported in interviews, the e-survey, and previous reviews. Most survey respondents agree that the World Bank, acting as interim Trustee, has performed its core functions in a transparent and efficient manner, taking steps to limit financial risks.<sup>173</sup> The Trustee has sold CERs, and provided analysis of the state and trends of global carbon market,<sup>174</sup> and developed *Amended and Restated CER Monetization Guidelines*,<sup>175</sup> and more recently, *Guidelines for the Monetization of Carbon Assets*.<sup>176</sup> The World Bank has provided expert financial advice with regards to developing and mobilizing alternative resource options (i.e., donations, AAUs, ERUs). Moreover, interview data indicates that the Trustee has long-standing, fiduciary relationships and a high level of trust from key stakeholders (including donors) that have facilitated faster start-up and resource flows to the Adaptation Fund. For these reasons, in addition to the World Bank's internal skills and experience sets, the World Bank has been a key partner and has offered good value for money.

150. The Adaptation Fund has also benefitted from the World Bank's low fees. Trustee fees were initially high relative to AF income (\$1.33 million in 2009) but have declined. The first review found the Trustee effective but recommended that one person, rather than four, travel to AFB meetings.<sup>177</sup> The World Bank has since reduced spending on travel from US\$117,000 in FY2009<sup>178</sup> to US\$35,000 in FY2014 and FY2015.<sup>179</sup> Trustee fees have remained fairly low and stable (1-3% of AF annual income in five out of six years), and the Trustee only charges the Adaptation Fund for staff time and expenses, averaging US\$0.98 million annually (see Figure 3). If the Adaptation Fund paid the 5% fee paid by other funds, the Adaptation Fund would have paid over US\$4 million in fees on income received in FY2014 (US\$80.59 million).

151. Per interview data, the World Bank charges the AF a low fee so that it can learn about new funding strategies (e.g. CER monetization) and direct access modalities. The Bank is, however, considering moving to a fee-based approach with AF, and if the Adaptation Fund does not grow and carbon markets do not recover, it is unclear if the Bank will continue to be the most effective and efficient Trustee. This has never been tested through an open and competitive process. CMP has requested that the AFB assess options for permanent institutional arrangements, including an open and competitive bidding process (discussed further in Sustainability).<sup>180</sup>

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173 Seventy-five percent of respondents agree or strongly agree. Of the remaining respondents, 10 people selected either "don't know" or "neither agree or disagree," and only 1 person selected "strongly disagree" See complete results in Annex.

174 AFB. 2012. Report of the Eighteenth Meeting of the Adaptation Fund Board. Bonn, Germany. AFB/B.18/6. 16 August 2012

175 AFB/B.21/8/Rev.1 , Decision B.21/21

176 AFB. 2015. New Guidelines for the Monetization of Carbon Assets. AFB/EFC.16/3

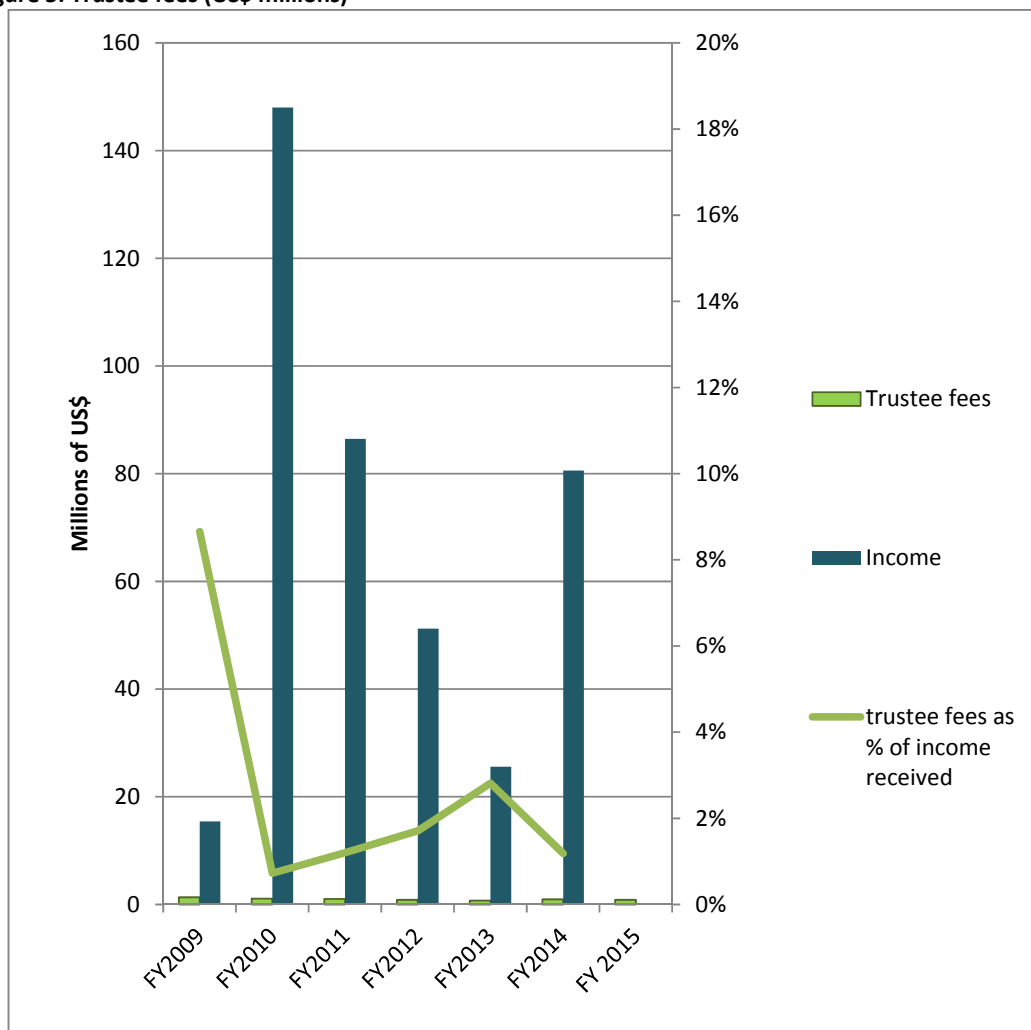
177 Rouchdy 2011.

178 AFB. 2009. Reconciliation of Budget for the Trustee Services. 9 September 2009. AFB/B.7/Inf.6 Table 1.

179 AFB. 2014. Board and Secretariat, and Trustee Administrative Budget for Fiscal Year 2015. 11 March 2014. AFB/EFC.14/9. Amounts are the revised costs (FY14) and estimated budget (FY15).

180 UNFCCC. 2014. Report of the Adaptation Fund Board. 11 December 2014. FCCC/KP/CMP/2014/L.5. (Decision 1/CMP.10)

Figure 5: Trustee fees (US\$ millions)



Note: Per conversation with Trustee, Trustee fees shown here are from annual budget reconciliation reports. Annual income comprises CERs and donations received.

#### 4.8. Cooperation

152. This section assesses the extent to which the Adaptation Fund has cooperated with stakeholders and the resulting effects on efficiency of the Adaptation Fund.

153. **Cooperation with Kyoto Protocol Parties:** Interactions between the Adaptation Fund and Parties are generally efficient, although English-language only documents and AFB meetings may reduce efficiency in communication with some Parties (discussed in paragraph 135). Early on, the Adaptation Fund received critical support from Annex I and non-Annex I Parties. Germany and Barbados showed their support to the Adaptation Fund by offering to host the Adaptation Fund, and choosing to base the Adaptation Fund in Bonn helped increase efficiency by being closer to the UNFCCC Secretariat and UNFCCC

sessions.<sup>181</sup> AF fosters efficient communication with eligible Party governments and entities through DAs, the focal points between the Adaptation Fund and national government.

**154. Cooperation with multilateral entities, bilateral entities, national entities, and civil society observers:** The Adaptation Fund has had mixed levels of cooperation with multilateral, bilateral, and national entities and civil society observers in the process of establishing and supporting the Adaptation Fund. Other organizations such as Intergovernmental Panel on Climate Change (IPCC), United Nations Environment Programme (UNEP),<sup>182</sup> United Nations International Strategy for Disaster Reduction,<sup>183</sup> and United Nations Development Program (UNDP)<sup>184, 185</sup> have presented at AFB meetings to share information and/or building linkages.<sup>186</sup> NIEs have communicated their difficulties and encouraged AF to provide capacity building and clarify guidelines, to which the AFB responded by clarifying criteria and implementing the Readiness Programme (described above).

155. The Adaptation Fund NGO Network plays a “bridging role” between the AFB and civil society organizations, which helps the AFB efficiently exchange information and link with partners. The Adaptation Fund NGO Network includes local partners that are going through the accreditation and project development processes as well as local partners that help monitor NIEs and EEs and provide updates on active projects.<sup>187</sup> The Adaptation Fund NGO Network partners talk directly with the “beneficiaries” and communicate their views, which is highly valued by the AFB and provides lessons to other climate funds, especially GCF, about civil society engagement. The Adaptation Fund NGO Network has efficiently presented synthesized comments to AF from NGOs and organized a one-day Adaptation Fund NGO Network/Germanwatch conference in July 2013, the “*Adaptation to climate change for the most vulnerable: Lessons learnt from the Adaptation Fund and beyond*”.<sup>188</sup>

**156. Cooperation with other multilateral climate finance mechanisms:** When AF was in development, it had no similar model to follow, so collaboration with other funds came later. From the first AFB meeting, though, the AFB was solicited to help with design and governance of other funds (e.g., PPCR).<sup>189</sup> The AFB reports that it has recently collaborated with other climate funds (i.e., GEF, GCF, CIF), the private sector, and regional level financing institutions.<sup>190</sup> According to one interviewee, the AFB’s sharing of best practices has helped inform the GCF’s “approach to direct access, allowing quicker start-up, and greater compatibility between accreditation processes[, which] will ultimately reduce financial and other transaction costs associated with the accessing the GCF and AF.” Other interviewees, however, indicate that engagement between the Adaptation Fund and other climate funds hosted by the GEF has been limited to informal sharing of information and ideas and that climate funds could improve how they work together at country level for greater efficiency. Moreover, the AFB has a formal seat on the PPCR governing body but, per interview data,

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181 International Institute for Environment and Development (IIED). 2009. “The Adaptation Fund: a model for the future?”

182 AFB. 2010. Report of the Tenth Meeting of the Adaptation Fund Board. 11 August 2010. AFB/B.10/7/Rev.1

183 AFB. 2010. Report of the Eleventh Meeting of the Adaptation Fund Board. 5 November, 2010. AFB/B.11/9

184 AFB. 2010. Report of the Eleventh Meeting of the Adaptation Fund Board

185 AFB. 2010. Report of the Twelfth Meeting of the Adaptation Fund Board. 15 December 2010. AFB/B.12/6

186 AFB meeting minutes

187 Adaptation Fund NGO Network. N.d., How It Works. <http://af-network.org/How%20it%20works> Accessed July 31, 2015.

188 AFB. 2013. Report of the Twenty-First Meeting Of the Adaptation Fund Board. 11 October 2013. AFB/B.21/8/Rev.1

189 AFB. 2008. Report of the First Meeting of the Adaptation Fund Board. 19 June 2008. AFB/B.1/13; paragraph 30.

190 UNFCCC. 2014. Report of the Adaptation Fund Board. 12 November 2014. FCCC/KP/CMP/2014/6. Annex VI; Views of the Adaptation Fund Board on the matters included in the terms of reference for the second review of the Adaptation Fund

AFB representatives have rarely attended or contributed to discussions, representing a missed opportunity to enhance cooperation, coordination, and the sharing of lessons learnt. An AF Secretariat representative has attended and commented in PPCR meetings.

## 5. Sustainability

157. A sustainable institution “has the strength to survive and develop to fulfil its functions on a permanent basis with decreasing levels of external support.”<sup>191</sup> Further, a sustainable institution must “...be able to secure necessary inputs and support ... [and] provide, efficiently and effectively, a continuing stream of activities and outputs that are valued by its stakeholders (members, clients, and/or superiors) for as long as the institution is needed.”<sup>192</sup>

158. This chapter analyzes the Adaptation Fund’s progress toward financial, institutional, and technical sustainability. For each of these topics, the IET discusses risks (external and internal) and opportunities to enhance sustainability.

### 5.1. Financial sustainability

159. “Financial sustainability” refers to adequate and predictable access to financial resources for the operation of the Adaptation Fund. As described in Chapter 2 (*Relevance*), the Adaptation Fund has taken steps to diversify its income but has been unsuccessful at securing adequate and predictable funding, which also threatens institutional and technical sustainability.

160. The main external risks to financial sustainability are uncertainties around the Kyoto Protocol and future value of carbon markets, and competition for voluntary donations. As described previously (see Chapter 3, *Effectiveness*), uncertainties about the Kyoto Protocol and carbon markets have led to the sharply decreased value of CERs, and created concerns about the sustainability, adequacy, and predictability of AF funding.<sup>193</sup> Per interview data, if there is a 2<sup>nd</sup> commitment period of the Kyoto Protocol, then CER prices should stabilize. However, if this does not happen, the financial and institutional sustainability of the Adaptation Fund are threatened. The effort to meet annual fundraising targets through a diversified strategy, which includes soliciting voluntary contributions, has been insufficient and unpredictable.

161. Competition for such contributions is increasing as other climate funds (e.g., GCF) target the same donors.<sup>194</sup> As summarily explained by one stakeholder, “The GCF has sucked up all the oxygen in the system. There just isn’t enough left over to support the Adaptation Fund.”

162. Internal risks to financial sustainability include limited internal capacity for effective fundraising. Interviews indicate that Board members and the Secretariat do not have time for resource mobilization. AFB members are political appointees selected for strong operational skills (e.g., policy implementation, program management) rather than fundraising and networking abilities. The communications consultant, who is responsible for developing fundraising materials, is only on a short-term contract, and recently approved new staff positions did not include staff for resource mobilization.<sup>195,196</sup>

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191 Norwegian Agency for Development Cooperation (NORAD). 2000. Handbook in Assessment of Institutional Sustainability. Oslo. June 2010.

192 Ibid.

193 AFB/B.20/5

194 AFB/B.23/7.

195 AFB. 2015. Board and Secretariat, and Trustee Administrative Budget for Fiscal Year 2016. AFB/EFC.16/6, para. 5.

196 AFB. 2015. Decisions of the Twenty-Fifth Meeting of the Adaptation Fund Board 10 April 2015. AFB/B.25/7.

163. A key opportunity to improve financial sustainability is the renewed interest in and demand for adaptation climate finance. In 2013, the large majority of climate finance was invested in mitigation efforts rather than adaptation (\$302 billion versus US\$25 billion), but adaptation still finance increased from 2012 to 2013.<sup>197</sup> Adaptation is increasingly mainstreamed in development activities, and the GCF, the largest fund to date, will balance its large-scale funding evenly between adaptation and mitigation.<sup>198,199</sup>

164. Numerous resource mobilization options have been considered by the Board, most of which were not expected to provide reliable or sufficient funding and were therefore not implemented.<sup>200</sup> The issuance of adaptation certificates was considered and partially implemented (i.e., individual donations are accepted through UN Foundation website).<sup>201, 202</sup> Promissory notes and adaptation fund bonds were deemed not cost-effective, due to the time and resources required for implementation.<sup>203</sup> Similarly, implementing debt for adaptation swaps, a specialized funding window for disaster risk insurance, or a window on investment guarantees for adaptation would require serious commitment by the Board, were considered beyond the Secretariat's capacity, and were not implemented.<sup>204</sup>

165. The second review recommended consideration of additional revenue streams.<sup>205</sup> Based on interview data, developing country Parties support these additional revenue streams, but the European Union is strongly opposed. Further, per interview data, the CMP had not made a decision about these revenue streams, and, although approval is possible, without strong political support, it is highly unlikely that these options will be implemented.

166. The most recent resource mobilization strategy focuses on developing public and private sources.<sup>206</sup> Thus far, only a handful of countries have pledged or contributed to AF, (i.e., Germany, Sweden, and Spain).<sup>207</sup> Reliance on voluntary contributions from governments leaves AF vulnerable to political and economic fluctuations. Building relationships with private funding sources, especially foundations, can be a lengthy process, which the resource mobilization task force<sup>208</sup> has just begun establishing.<sup>209</sup> Many private donors prefer to give money to projects that meet specific criteria, which could be facilitated through an online mechanism, but the Adaptation Fund would need safeguard against projects being tailored to donor interests rather than national priorities.<sup>210</sup>

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197 Climate Policy Initiative (CPI). 2014. Global Landscape of Climate Finance 2014. November 2014.

198 United Nations Environment Programme (UNEP). 2014 The Adaptation Gap Report – A Preliminary Assessment Report. Nairobi. November 2014.

199 Available from: <http://www.gcfund.org/about/the-fund.html>

200 FCCC/TP/2014/7

201 AFB/EFC.8/6

202 AFB/EFC.9/5

203 AFB/EFC.9/5

204 AFB. 2012. Report of the Seventeenth Meeting of the Adaptation Fund Board. 16 April 2012. AFB/B.17/6; paragraph 88.

205 (1) the application of voluntary levies on developed country Parties, applied to national and regional emission trading schemes such as the European Union Emissions Trading System; (2) the allocation of 10 per cent of the carry-over units; and (3) the consideration of a set of measures to stabilize the price of CERs, including through dealing with the level of ambition through the ratification of the second commitment period of the Kyoto Protocol, and higher emission limitation commitments for developed country Parties under any new agreement under the Convention Source: FCCC/TP/2014/7

206 AFB. 2014. Resource Mobilization Strategy

207 AFB/EFC.16/4

208 Formerly the "Fundraising Task Force". Source: AFB. 2014. Report of the Twenty-Fourth Meeting of the Adaptation Fund Board.

209 AFB. 2014. Resource Mobilization Strategy

210 UNFCCC. 2007. Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its second session, held at Nairobi from 6 to 17 November 2006. 2 March 2007. FCCC/KP/CMP/2006/10/Add.1; see Decision 5/CMP.2.

167. The second review suggests that the Adaptation Fund should improve its estimates of funding needed for projects and programs.<sup>211</sup> More accurate estimates would help create fundraising goals that communicate the degree of need to donors. Specifically, the Adaptation Fund could consider conducting regular estimates of annual needs, according to projects in the pipeline or those expected to be placed in the pipeline and “based on indications from applicant countries, trends, [and] experience from previous years.” The Adaptation Fund could also consider setting up a new mechanism to review the status of projects in the pipeline against funding availability and to assist in addressing the need for annual or biannual resource flows.<sup>212</sup> To create more predictable financial resources, the second review recommends consideration of a “regular replenishment process and a clear burden-sharing process through an assessed scale of contribution from Parties included in Annex B to the Kyoto Protocol.”<sup>213</sup> For example, the GEF Trust Fund has a regular replenishment every four years.<sup>214</sup> A similar system would benefit the Adaptation Fund over the medium term by creating more predictable funding.

168. One option not discussed in the second review or the resource mobilization strategy but is used by other climate funds (e.g., CIFs and GEF) is co-financing (i.e., utilizing multiple funding sources for a project).<sup>215</sup> This is because the Adaptation Fund is mandated to fund the full cost of adaptation projects and programs (per Decision 5/CMP.2).<sup>216</sup> The AFB could consider encouraging co-finance to augment limited funds, but this would require a CMP decision and might jeopardize progress toward helping the most vulnerable countries.

169. The Adaptation Fund is using newly developed marketing materials to capitalize on its strengths and showcase its niche expertise (e.g., managing small scale grants, piloting Direct Access Modality) in ongoing discussions with UNFCCC and stakeholder. However, given internal capacity constraints and the low potential of resource mobilization options, progress toward long-term financial sustainability has been very limited. Considering the already-present complementarity between AF and GCF and the GCF’s large funding scale focused on adaptation, one of the best opportunities for financial sustainability includes linkage with the GCF (discussed below). One interviewee suggested channeling a portion of GCF resources through the Adaptation Fund until 2020 and developing a broader post-2020 resource mobilization strategy incorporating non-conventional sources (as originally conceived). Given the volatility of non-conventional sources to date, post-2020 funding sources would need to be structured differently and feature diversified income streams.

170. Given that linkages with GCF are yet unestablished and considerable time will be needed to overcome legal and other issues if the AFB decides to pursue such linkages,<sup>217</sup> the AF’s financial sustainability remains tenuous.

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211 FCCC/TP/2014/7

212 FCCC/TP/2014/7

213 Ibid.

214 GEF. N.D. GEF Replenishments. <https://www.thegef.org/gef/replenishment>. Accessed May 2015.

215 Other funds use co-financing from MDB contributions (PPCR) and from national governments and other GEF administered funding sources (SCCF). Private sector co-funding was very low: 7%. Seven percent of LDCF projects included private co-finance, and just 1% of SCCF and PPCR funds were from privately co-financed. Source: Parker, C., P. Keenlyside, and D. Conway. 2014. Early experiences in adaptation finance: Lessons from the four multilateral climate change adaptation funds. World Wide Fund. November 2014.

216 FCCC/KP/CMP/2006/10/Add.1; see Decision 5/CMP.2 paragraph 1d.

217 AFB. 2015. Report of the Twenty-Fifth Meeting of the Adaptation Fund Board. 12 June 2015. AFB/B.25/8.



## 5.2. Institutional sustainability

171. Institutional sustainability of the Adaptation Fund (i.e., its ability to fulfil its mandate effectively and efficiently as long as the Adaptation Fund is needed) is affected, internally, by uncertainty of the interim institutional arrangements and externally, by changes in the climate finance architecture.

172. Uncertainty about the continuity of the Adaptation Fund's institutional arrangements constrains the Adaptation Fund's ability to continue and scale up services. A UNFCCC technical paper indicates that an open and competitive bidding process could take years to complete,<sup>218</sup> which could threaten the predictability and efficiency of the Adaptation Fund.<sup>219</sup> In 2014, CMP decided to extend the interim institutional arrangements with the GEF and World Bank through June 2017<sup>220</sup> and requested that the AFB assess:

*"...options for permanent institutional arrangements for the secretariat and the trustee, including via an open and competitive bidding process for the selection of a permanent trustee for the Adaptation Fund ... to ensure there is no discontinuity of the trustee service."*<sup>221</sup>

173. This approach will allow sufficient time to carefully consider options and legal and financial implications.

174. External threats include changes in the climate finance architecture. The current climate finance architecture has been criticized for having too many climate funds with overlapping mandates, separate governance and administrative structures, and disconnected operations,<sup>222</sup> which create unnecessary burdens on recipient countries to comply with differing access modalities.<sup>223</sup> The GCF may provide a platform for the Adaptation Fund to scale up and benefit from the GCF's financial resources. The GCF is viewed as the one-stop shop for donors, while its mandate and structure will allow it to channel climate change funding to a range of actors.

175. The second review outlines options for building institutional linkages with the GCF, other funds, or thematic bodies under the Convention (i.e., Standing Committee on Finance, Adaptation Committee, Technology Executive Committee, and Climate Technology Centre Network Advisory Board). Submissions from Parties further suggest consideration of, first "incorporating the

"The GCF will be a climate finance wholesaler. The AF should aim to be a boutique retailer."

- *Speaker at COP 20, Heinrich-Böll Foundation adaptation finance dinner*

Adaptation Fund into the Financial Mechanism of the Convention and designating it, as an operating entity of the Financial Mechanism of the Convention."<sup>224</sup> Based on interview data, this is an unlikely option because the Adaptation Fund, currently under the Kyoto Protocol, does not have its own funding under the Convention. Broad political support would be

218 UNFCCC. 2013. Steps and time frames to conduct an open and competitive bidding process for selecting host institutions for entities under the Convention. 28 May 2013. FCCC/TP/2013/1.

219 FCCC/TP/2014/7

220 UNFCCC. N.D. Second review of the Adaptation Fund. Advance unedited version. Decision -/CMP.10; paragraph 8.

221 UNFCCC. 2014. Report of the Adaptation Fund Board. 11 December 2014. FCCC/KP/CMP/2014/L.5. (Decision 1/CMP.10)

222 Nakhooda et al. 2014

223 Parker et al., 2014.

224 FCCC/TP/2014/7

needed to enable such a change but does not currently exist, making this option unrealistic at this time. Second, Parties suggested making the Adaptation Fund a specialized Institution that channels adaptation financing (especially from GCF). This is more likely and would require a COP decision.<sup>225</sup> To that end, the Adaptation Fund Secretariat identified and assessed three scenarios, the most advantageous of which is *Scenario 2*, operational linkage between the Adaptation Fund and GCF either through accreditation or a Memorandum of Understanding.<sup>226</sup>

176. Under *Scenario 2*, the AF could retain its governance structure and specialize in funding small adaptation projects/programs. A potential concern is that the Adaptation Fund as the “middle man” would increase administrative costs, but the Secretariat proposes maintaining current costs by not charging for the Secretariat’s core tasks (i.e., project review, monitoring).<sup>227</sup> Further, sharing/dividing administrative tasks under Scenario 2 could lower GCF administrative costs, expedite start-up and disbursement of GCF funds, and help transfer AF best practices to GCF.

177. *Scenario 3* involves varying degrees of institutional integration, including absorption of the Adaptation Fund into the GCF and the loss of the effective AFB and its unique majority representation by developing countries. Such integration is premature given that the GCF has yet to be operationalized and needs to develop its own functions and processes. *Scenario 1*, status quo where the Adaptation Fund and the GCF are functionally independent from one another, is no longer feasible given the Adaptation Fund’s lack of financial sustainability and the institutional convergence taking place in climate finance architecture.

178. Linkages between the Adaptation Fund and GCF are being further assessed. The most recent AFB meeting decided to request the AFB Secretariat to discuss with the GCF secretariat “concrete activities to initiate collaboration” (i.e., joint readiness activities, RBM, accreditation).<sup>228</sup> The Standing Committee on Finance (under COP) is also assessing future linkages and options for elaborating on legal, technical, and financial implications.<sup>229</sup> These ideas, and more from other sources, will inform COP 21 discussions in Paris.

179. Interview data and project documents indicate, however, that linkages with GCF are politically unpopular. Among developing countries, political support for the continuation of the Adaptation Fund in its current form is bolstered by developing countries’ sense of ownership of the Adaptation Fund, interest in direct access and associated benefits (e.g., NIE capacity building, increased focus on national priorities), and the AFB’s majority representation by developing country Parties.<sup>230</sup> According to interviewees, developed countries are waiting to see how GCF works out before taking further action. Given the Adaptation Fund’s lack of reliable funding, though, linkages should be considered, and the AFB should consider building the necessary political support.

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225 AFB/B.24-25/11.

226 AFB/B.24-25/1.

227 AFB/B.24-25/1

228 AFB. 2015. Decisions of the Twenty-Fifth Meeting of the Adaptation Fund Board 10 April 2015. AFB/B.25/7.

See Decision B.25/26

229 UNFCCC Standing Committee on Finance. 2015. Agenda item 8: Institutional linkages and relations between the Adaptation Fund and other institutions under the Convention.

230 AFB. 2015. Potential Linkages Between the Adaptation Fund and the Green Climate Fund. 12 February, 2015. AFB/B.24-25/1.

### 5.3. Technical sustainability

180. Technical sustainability is the ability to make efficient and continued use of the technical resources developed through its processes. Considering that the Adaptation Fund is fully operational and has established policies and procedures with which recipient countries are familiar, other climate funds have benefitted from the Adaptation Fund's experience and resources. AF has effectively developed guidelines and protocols (described in Ch. 3: *Effectiveness*) and has posted AFB meetings documents online, capturing the experience and evolution of the Adaptation Fund. One interviewee reported that AF-funded projects are helping to point the way forward for adaptation in their country, which can create an impact much larger than the project's actual footprint on the ground and can be highly relevant to country needs and create experience in adaptation. However, the Adaptation Fund has not implemented its KM strategy nor fully codified its accreditation process. These factors combined with term limits (e.g., Accreditation Panel, PPRC<sup>231</sup>) may result in loss of institutional memory.<sup>232</sup> Moreover, most AF funded projects have not been completed, which makes it difficult to measure or demonstrate the impact of adaptation finance.<sup>233</sup> Thus, progress toward technical sustainability is limited.

181. As described in Ch. 3: *Effectiveness*, another risk to technical sustainability is the reliance on a "lean" Secretariat for an increasing and changing assortment of tasks. New staff positions have been approved but none focus on KM as a main responsibility; progress toward KM implementation should be monitored and the need for additional staff re-assessed. Implementation of the KM strategy has the potential to increase the impact of AF-funded projects by enabling replication and scaling up of adaptation projects and could help advance knowledge about concrete adaptation projects in a variety of developing countries (including LDCs or SIDS), but the lessons have yet to be compiled.

182. The Adaptation Fund has also contributed to the design of other funds (e.g. the PPCR and GCF). According to e-survey respondents, the Adaptation Fund's most significant short-term outcomes include:

- Accredited institutions have the potential to enhance climate change funding in a country (93% agreed or strongly agreed),
- The Adaptation Fund has generated valuable lessons on adaptation finance globally (91% agreed or strongly agreed), and
- The Adaptation Fund's accreditation process has enhanced the transparency and accountability of National IEs (89% agreed or strongly agreed).

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231 Interviewees report that the PPRC two-year term limits do not allow enough time to learn the project review process.

232 Both Accreditation Panel and PPRC members are term-limited to two consecutive terms. Available at: <https://adaptation-fund.org/about/accreditation-panel>

233 AFB/B.19/6/Rev. 1.

## 6. Conclusions

### 6.1. Relevance

183. *The Direct Access Modality has been a major innovation in climate finance and is appropriate to meeting countries' needs.* The Adaptation Fund has effectively piloted and progressively improved upon its Direct Access Modality. The small entities mechanism represents a crucial evolution in Direct Access. Direct access has led to replication by other funds (i.e. GCF and GEF), partnerships with an increasingly diverse number of international and developing country based institutions (e.g., regional development banks, national ministries, trust funds, NGOs), increased country ownership and technical capacity, and South–South cooperation.<sup>234</sup>

184. *The Adaptation Fund's design and operational processes are largely coherent with UNFCCC guidance and national adaptation priorities.* The Adaptation Fund's design is a relevant component of the current climate finance architecture. Though small in size, the Adaptation Fund has made a meaningful contribution to closing the adaptation finance gap and amplifying financial support to developing countries.

185. *The Adaptation Fund still lacks a systematic approach for targeting vulnerability within recipient countries, despite improvements in Fund guidance.* The mandate of the Adaptation Fund is to give priority to particularly vulnerable countries and communities. In practice, the Adaptation Fund has prioritized those countries that were most “ready” or prepared to bring viable projects to the Adaptation Fund for consideration through an accredited implementing entity.<sup>235</sup>

186. *The Adaptation Fund's contribution to closing the adaptation finance gap has been small but important given the very low baseline.* Compared to the other nine funds that support adaptation within the international dedicated climate funds today, the Adaptation Fund is relatively small. However, despite funding limitations, the AF has allowed countries to advance important measures at national and sub-national levels with links to national policy making.

187. *The Adaptation Fund's resource mobilization strategy to mainly finance the Adaptation Fund from CERs was not appropriate.* One of the goals of this resource mobilization strategy was to free it from dependence on voluntary contributions from developed countries. Though the Adaptation Fund's initial resource mobilization strategy appropriately reflected Parties' aspirations at the time of its creation, the strategy did not anticipate the inherent risks with its funding strategy. Specifically, it lacked a contingency plan should the CDM – which was still largely untested – operate other than expected

188. *In general, the evolution of the Adaptation Fund's operational processes has been appropriate, demonstrating the Adaptation Fund's commitment to continuously improve its operations* (e.g. the shift to voluntary contributions; adoption of initial guidance on the identification and targeting of vulnerable social groups; improved communication in the accreditation process; and development of the Readiness Programme for Climate Finance).

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234 FCCC/TP/2014/7

235 Though the decision to set aside 50% of finance for projects implemented by NIEs has ensured that funding is available to those countries who are able to get a national institution accredited to the Fund

## 6.2. Effectiveness

189. *The Adaptation Fund's resource mobilization strategy, as initially designed, and subsequent efforts to secure voluntary contributions have not been effective in producing adequate, predictable, and reliable funding.* In total, the Adaptation Fund has mobilized US\$471.63 million in support of its activities. While this total is not insignificant, it remains far below what is needed for the Adaptation Fund to fulfill its objectives.

190. *The Adaptation Fund has established increasingly effective decision-making processes for the AFB and its working groups.* Initially, a lack of clear procedures and protocols hampered the effectiveness of Board decision-making processes. However, interview data and desk reviews confirm that procedures and protocols have been steadily elaborated and improved upon over time.

191. *Civil society actors have substantially contributed to the Adaptation Fund's effectiveness.* Civil society engagement – primarily channeled through the independently organized and financed Adaptation Fund NGO Network has demonstrated value in a variety of ways. In response to these concrete contributions, AFB decision-making processes have become progressively open to civil society.

192. *The policies adopted by the Adaptation Fund have created a solid foundation for operational success.* However, there are still some significant policy gaps (especially with regards to gender) and a need for improvement (especially with regards to knowledge management and vulnerability targeting).

193. *Funding caps put in place by the Adaptation Fund have helped address the imbalance of funding between NIEs and MIEs as well as potential imbalances between countries.* Resource allocation criteria were modified to balance funding between MIEs and NIEs through funding caps. Funding caps have helped reserve funding for NIEs and distribute funds among developing country Parties, and have contributed to the success of the Direct Access Modality.

194. *The Adaptation Fund has developed thorough and reasonable accreditation requirements and continues to improve its processes.* The Accreditation Panel has taken steps to establish fiduciary standards, improve procedures, and help applicants through the accreditation process where possible, mainly through its formal Readiness Programme for Climate Finance. South-South mentoring is a particularly valuable tool. Increased contact with applicants and field visits has been crucial to several applicants achieving accreditation.

195. *The Adaptation Fund has developed a sound framework of responsibilities and roles for project-level KM but is insufficiently staffed.* The Secretariat has been insufficiently staffed to assist countries in developing and implementing KM strategies. As a result, valuable opportunities to advance global learning about vulnerability, adaptation, direct access, and other innovations are being missed. Inadequate allocation of resources to KM undermines the Adaptation Fund's short-term effectiveness and long-term significance.

## 6.3. Efficiency

196. *Despite the Adaptation Fund's resource challenges, fundraising is not sufficiently prioritized by the AFB.* In this respect, the Adaptation Fund has been able to attract

additional donations using relatively little resources and could be considered efficient. However, given competition from other funds, this strategy may not be sustainable.

197. *Efficiency of AFB decision-making is improving and has been aided by the Secretariat and the committees.* The AFB has developed increasingly streamlined processes for more cost-effective decision-making. AFB-associated costs have declined in parallel with fewer meetings per year. Intersessional decisions have mitigated delays related to the reduced schedule of AFB meeting. The EFC improves AFB meeting productivity by addressing complex issues outside of AFB meetings and presenting clear recommendations to the Board for its consideration.

198. *The Adaptation Fund resource allocation process is efficient.* The clarification of Adaptation Fund resource allocation criteria help project proponents to better understand what projects can be funded and enables them to more efficiently develop proposals. The Direct Access Modality has required considerable time and resources from the AFB Secretariat but has led to multiple benefits beyond AF funding. The recently approved small grants window is particularly illustrative of the Adaptation Fund's commitment to streamlining resource allocation processes and reducing costs where possible.

199. *The AFB Secretariat and PPRC have developed an efficient project/program proposal review process.* Overall, the project/program cycle reached its RBM efficiency targets for four out of five indicators in FY2014.

200. *The Adaptation Fund knowledge management process is not efficient.* The Adaptation Fund cannot carry out its existing KM Work Program – much less an expanded version – without additional, dedicated human and financial resources in core planning and budget allocation decisions. The withdrawal by the GEF IEO withdrew as the evaluation function of the Adaptation Fund represents a missed opportunity to strengthen the AF's evaluation approach using GEF's in-house expertise, which may have been more cost-effective than external consultants.

201. *The World Bank, acting as interim Trustee, has performed its core functions in a transparent and efficient manner.* The Trustee has sold CERs and provided analysis of the state and trends of global carbon market, and provided expert financial advice with regards to developing and mobilizing alternative resource options. The Adaptation Fund has also benefitted from the World Bank's low fees, which offer good value for money.

202. *Cooperation with stakeholders has contributed to efficiency of Adaptation Fund operations.* The Adaptation Fund fosters efficient communication with eligible Party governments and entities through DAs. The Adaptation Fund NGO Network plays a "bridging role" between the AFB and civil society, which helps the AFB efficiently exchange information and link with partners. The Adaptation Fund engages with other climate financing mechanisms, although mainly through informal channels.

#### 6.4. Sustainability

203. *The Adaptation Fund is currently not financially sustainable and there is limited internal capacity for effective fundraising.* The Adaptation Fund has taken steps to diversify its income but has been unsuccessful at securing adequate and predictable funding. The main external risks to financial sustainability are uncertainties around the Kyoto Protocol and future value of carbon markets, and competition for voluntary donations, especially with the establishment of the GCF. Ambitious post-2020 emissions targets could improve

and stabilize CER prices, but this is uncertain. Additional revenue-streams from the first international transfers of AAUs/ERUs will be helpful but fall short of raising the Adaptation Fund's resource base to appropriate levels.

204. *Institutional sustainability of the Adaptation Fund is affected, externally, by changes in the climate finance architecture.* In addition, uncertainty about the continuity of the Adaptation Fund's institutional arrangements for the Secretariat and the Trustee constrains the Adaptation Fund's ability to continue and scale up services.

205. *Progress towards technical sustainability of the Adaptation Fund to make efficient and continued use of the technical resources developed through its processes is limited.* While other climate funds have benefitted from the Adaptation Fund's experience and resources, the Adaptation Fund has not implemented its KM strategy nor fully codified its accreditation process. These factors combined with term limits may result in loss of institutional memory

### 6.5. Lessons learned with broader relevance for climate finance

206. The Adaptation Fund has generated important lessons with broad relevance for the design and operation of other climate finance mechanisms. Key lessons include:

- **Lesson learned 1:** Though market-based finance mechanisms may play a valuable role in mobilizing resources for adaptation, carbon market-based mechanisms are too unpredictable to provide a foundation for multi-year planning and budgeting.
- **Lesson learned 2:** Inter-institutional coordination is critical to avoiding competition over limited financial resources as well as creating cost-saving synergies (e.g. harmonization of Adaptation Fund and GCF accreditation processes).
- **Lesson learned 3:** Direct Access can be a highly relevant, effective, and efficient means of channeling adaptation finance. However, many NIEs – particularly in LDCs and SIDS – require sustained support to navigate and fully benefit from the accreditation process.
- **Lesson learned 5:** NIEs require capacity building, and all Implementing Entities need clear guidelines and practical suggestions for reaching, understanding, and effectively addressing the needs of especially vulnerable social groups within countries.
- **Lesson learned 4:** Investments in knowledge management represent an important opportunity to generate and accelerate learning about effective adaptation finance. Strategic partnerships with civil society and research institutions can play a useful role in knowledge management but cannot replace the need for dedicated in-house expertise.



## 7. Recommendations

207. This section provides strategic, actionable and reasonable recommendations to the AFB following from the conclusions and lessons learned provided in Chapter 6.

### 7.1. Relevance

208. *Recommendation 1:* Review the experience of other funds to identify good practices to strengthen vulnerability targeting and formulate clear guidance for Adaptation Fund applicants. In particular, the IET recommends exploring the convening of an expert panel to suggest specific criteria for selecting regions, countries and social groups; and to assist the AFB in the region and country selection process. It is not satisfactory to speak only in terms of “vulnerable communities” since climate hazards do not equally affect all people within a community, or even the same household. Indeed, the inequitable distribution of rights, resources, and power constrains many people’s ability to take action on climate change, especially women.

### 7.2. Effectiveness

209. *Recommendation 2:* Recruit additional senior secretariat staff to address the capacity constraints to undertake effective knowledge management and resource mobilization. Short-term consultants should not fill these roles.

210. *Recommendation 3:* Continue to improve the accreditation process, with specific focus on early identification of fiduciary risks. Divide the accreditation process into phases, including an initial screening to catch red flags that would prevent accreditation. This will save substantial time and money. The screening could draw upon readily available materials including, where extant, fiduciary assessments undertaken by bilateral agencies and charitable foundations, and from the due diligence processes of public and private banks.

211. *Recommendation 4:* Strengthen the policy and guidelines for an inclusive and transparent selection of NIEs. This will help the Adaptation Fund to minimize risk of corruption related to Designated Authorities’ decision-making authority to choose which institutions apply to become NIEs. The IET recommends reviewing lessons learned from country-coordinating mechanisms in other funds.

212. *Recommendation 5:* Develop and implement a comprehensive gender policy based on a review of other funds’ gender policies. In particular, the IET recommends GCF’s Gender Policy and Action Plan, which is illustrative of many best practices, including the assignment of specific responsibilities (e.g. to its Board, Secretariat, DAs, as well as implementing and executing agencies).

213. *Recommendation 6:* Review the experience of other funds to identify good practices in organizational performance monitoring. In particular, the IET recommends exploring more established funds beyond climate finance to identify appropriate key performance indicators. At present, the Adaptation Fund only utilizes a results-based framework for monitoring of project/program effectiveness. There is no framework to track effectiveness of the main organizational processes; this contributed to the existence and persistence of the resource and policy gaps identified through this evaluation.

### 7.3. Efficiency



214. *Recommendation 7:* Delegate approval of project/program proposals to the AFB's dedicated Secretariat. Further layers of review add little technical or other value. In addition, the IET recommends reviewing lessons learned by other funds with regards to the delegation of decision-making authority.

215. *Recommendation 8:* Delegate more approval and other decision-making responsibilities to committees and panels, especially the EFC and Accreditation Panel, subject to strategic guidance provided by the AFB.

216. *Recommendation 9:* In light of the Trustee's possible change to a fee-based approach, undertake a study to assess whether the World Bank will continue to provide the best value added or whether another entity could provide the necessary services at a lower cost. The AFB was recently mandated by CMP to consider an open and competitive bidding process for Trustee services.

217. *Recommendation 10:* Adopt a more consistent and less discretionary approach to closed meetings, and revise the rules to select active observers (e.g., allow Adaptation Fund-accredited CSOs to vote on Adaptation Fund-accredited candidates) and allow active observers to comment during AFB meetings and committee meetings (e.g. at the end of each agenda point, upon invitation from the Chair/Co-Chair). The AFB should also develop term limits and rules and responsibilities, especially around conflict of interest and types of information that can and cannot be shared outside of meetings.

#### 7.4. Sustainability

218. *Recommendation 11:* Organize a joint review with the GCF to explore the best modality for the Adaptation Fund to access a reliable stream of funding from the GCF. The AFB will need to continue working to highlight its strengths and experience in funding concrete adaptation projects and lobby stakeholders for support to link with GCF.

219. *Recommendation 13:* Designate the current AFB member seat on the PPCR governing body for the AFB Secretariat. This would be the first step in collaborating more closely with the CIF Secretariat to explore ways to achieve greater functional synergies.

220. *Recommendation 12:* Develop and implement a robust, multi-year resource mobilization strategy that specifies regular trust replenishment periods. This strategy must include best-case scenarios, e.g., strategic relationships with GCF and other climate funds, and a worst-case scenario based on increased competition among climate funds. Development of the strategy goes hand in hand with contracting full-time senior secretariat staff with fundraising experience and expertise.

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## 8. Annexes

(Included in a separate document)

Annex 1: Author disclaimer

Annex 2: Description of main processes

Annex 3: Adaptation Fund Theory of Change

Annex 4: Evaluation matrix

Annex 5: Evaluation limitations and mitigation strategies

Annex 6: Examples of justification of consistency with national and sub-national policy instruments

Annex 7: Adaptation Fund fundraising targets and progress toward meeting fundraising targets

Annex 8: Table describing other Adaptation Fund and other climate funds

Annex 9: List of interviewees

Annex 10: List of stakeholder organizations invited to participate in e-survey regarding the Phase 1 evaluation of the Adaptation Fund

Annex 11: e-survey protocol

Annex 12: e-survey results

Annex 13: List of entities accredited by Adaptation Fund

Annex 14: List of Adaptation Fund approved projects

Annex 15: TOR

Annex 16: References