Early experiences in adaptation finance:

Lessons from the four multilateral climate change adaptation funds

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Presentation

Dear colleagues,

It is a great pleasure to share this report, Early Experiences in Adaptation Finance, with you. The report, as with its earlier companion document, Creation and Evolution of Adaptation Funds (2011), was researched and written by Climate Focus, a Washington-based company specializing in climate finance.

This study summarizes the experiences of the four main multilateral adaptation funds providing financial resources to support resilience and adaptation measures in vulnerable developing countries. Those funds – the Adaptation Fund (AF), Least Developed Country Fund (LDCF), Special Climate Change Fund (SCCF) and the Pilot Program for Climate Resilience (PPCR) – have used a wide range of programming modalities, resources allocation systems, access arrangements and decision-making processes to support developing countries. The study highlights how those complementary approaches have helped in different ways to strengthen country resilience, increase national capacity and improve country effectiveness in responding to present and future climate-related impacts.

WWF's purpose in commissioning and guiding this research is to share with the broader public important lessons drawn from the experience of multilateral financial institutions over the past 15 years. Our goal is to broaden understanding of these important experiences, to encourage discussion among stakeholders and to provide guidance to new and emerging funding mechanisms, notably the Green Climate Fund (GCF). WWF believes that the analysis and recommendations provided herein can guide the design of operational mechanisms of future adaptation funds and accelerate resilience-building initiatives in vulnerable communities across the developing world.

We hope that you find this report helpful as you engage in future adaptation activities and we warmly welcome further discussion on the issues this report raises.

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Executive Summary

By the middle of the century, US$ 28-100 billion will be required by developing countries each year to adapt to climate change. Should the two degree Celsius target be significantly exceeded, it is estimated that by 2070, annual adaptation costs for Africa alone would exceed US$ 350 billion.[2] In order to begin to meet these targets, there will need to be a significant scaling-up of adaptation finance flowing from developed to developing countries, both to meet the short-term impacts of climate change and build long-term resilience.

Developed countries have committed to mobilizing US$ 100 billion annually by 2020 to tackle climate change in the developing world, a half of which has been earmarked for adaptation. The mechanism(s) through which adaptation finance will be channeled, however, and the design of such a mechanism(s) remain unresolved.

We now have over a decade of collective experience in adaptation finance under the four principle multilateral adaptation funds, namely the Adaptation Fund (AF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF) and the Pilot Program for Climate Resilience (PPCR). Through these funds we have developed rich lessons in what has worked well and what worked less well in international adaptation finance.

This study analyzes the four multilateral adaptation funds according to five main operational modalities: resource allocation; access modalities; financing instruments; programming and approval processes; and results-management frameworks. This paper does not propose ways to generate additional adaptation finance nor does it seek to compare and assess existing adaptation funds. Rather it seeks to learn from these funds to propose options and recommendations for future adaptation financing instruments.

Summary of crosscutting recommendations

- Developing countries have a range of needs and country circumstances. Multilateral adaptation funds should allow for a diversity of approaches to ensure that all eligible countries are able to access adaptation finance.

- Adaptation finance should seek to develop recipient country capacity to ensure that shared accountability can be taken at the national level for the implementation of projects and programs.

[2] UNEP (2013), Africa Adaptation Gap Technical Report :Climate-Change Impacts, Adaptation Challenges And Costs For Africa, Key Messages, available at http://unep.org/pdf/AfricaAdapatationGapreport.pdf

- Coordination at both the national and international level is a key factor for ensuring the overall success of adaptation strategies in a country.

- At this formative stage in international adaptation finance, bilateral and multilateral funds should be willing to take risks. Trying different approaches will be essential to gain experience in what works and what does not work before financial flows are fully scaled-up.

- Future adaptation funds, including the Green Climate Fund (GCF), should avoid the establishment of entirely new mechanisms and processes in the design of their adaptation windows, and seek to build on and improve existing systems for adaptation finance.

Summary of targeted recommendations

RESOURCE ALLOCATION	• The allocation of adaptation resources should be country-driven and based on recipient country strategies and priorities. • Funds should set a minimum cap and an optional ceiling on adaptation finance per country. • Both programmatic and project-based approaches should be encouraged based on in-country capacities.
ACCESS MODALITIES	• Direct access should be scaled up to ensure country ownership of adaptation actions. • A range of access modalities will be needed to match differing country capacities and needs. • Government institutions should be accredited as national entities while ensuring full participation of civil society. • A clear relationship should be established between national implementing entities and designated authorities. • Adaptation funds should work with the same national entities and designated authorities in each country.
FINANCING INSTRUMENTS	• Both grant based and concessional loans should be made available for adaptation activities. • Increased coordination of international public funds is needed to improve efficiency of adaptation projects and programs. • Co-financing efforts should focus on leveraging private sector finance and in certain cases recipient country budgets.
PROGRAMMING AND APPROVAL PROCESS	• Enhanced direct access should be piloted for more advanced developing countries to improve country ownership and reduce management costs and processing times. • The risks from delaying disbursement of adaptation finance are potentially as great as the risks from fund misallocation. Greater emphasis should be placed on timely disbursement of adaptation finance. • Investments should be delivered according to periodically updated country-driven programmatic documents.
RESULTS-MANAGEMENT FRAMEWORK	• Results-management frameworks should inform the future management and decision-making within adaptation funding. • Results-management frameworks should strike a balance between overly precise indicators on the one hand and vague, catch-all indicators on the other.

List of Acronyms

AR5	Fifth assessment report of the IPCC
CAF	Cancun Adaptation Framework
CBA	Community-Based Adaptation
CDM	Clean Development Mechanism
CERs	Certified Emission Reductions
CIF	Climate Investment Fund
CO2	Carbon dioxide
COP	Conference of the Parties
DA	Designated Authority
DRM	Disaster Risk Management
EE	Executing Entity
IE	Implementing Entity
FAO	Food and Agriculture Organization of the United Nations
GCF	Green Climate Fund
GEF	Global Environment Facility
GRIF	Guyana REDD+ Investment Fund
IPCC	Intergovernmental Panel on Climate Change
LDCF	Least Developed Countries Fund
LDCs	Least Developed Countries
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MIE	Multilateral Implementing Entity
NAPAs	National Adaptation Programs of Action
NAPs	National Adaptation Plans
NDA	National Designated Authority
NIE	National Implementing Entity
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
PIF	Program Identification Form
PPCR	Pilot Program for Climate Resilience
SIDS	Small Island Developing States
SCCF-A	Special Climate Change Fund (Adaptation window)
SCF	Standing Committee on Finance
SPCR	Strategic Program for Climate Resilience
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
WWF	World Wildlife Fund

1. Introduction

Mechanisms for channeling funds to developing countries to help them adapt to the impacts of climate change have generated valuable lessons that should be used to improve the delivery of future adaptation finance and inform the design of the Green Climate Fund.

Developing countries are facing enormous challenges in coping with the immediate near-term and long-term impact of climate change on their economies and societies. As the global community considers a new agreement to address the climate change challenge, provision of financing to developing countries to support their climate change mitigation and adaptation actions has become a central consideration, with the new Green Climate Fund (GCF) expected to play a pivotal role.

The design of future adaptation finance should be shaped by the decade of experience of adaptation finance under the four multilateral adaptation funds: the Adaptation Fund (AF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF) and the Pilot Program for Climate Resilience (PPCR). Each of the four funds has unique structures, decision-making arrangements, financing modalities, partnership arrangements and implementing partners.

1.1 Report objective

The purpose of this study is to draw lessons from the four principal adaptation funds to inform the operational design of the adaptation window of the GCF and other adaptation funds in the future. This study is not intended to assess in a comparative way one fund relative to the others. Rather, its purpose is to capture the experience of the funds, to identify the strengths and weaknesses of the approaches embedded in each fund's operational design and to draw out relevant lessons for the GCF as it now moves to shape its operational arrangements.

While there are multiple areas of research that are relevant in achieving the effective implementation of adaptation finance, including revenue generation strategies and governance of adaptation funds, this study will prioritize lessons learned in the delivery of adaptation finance, specifically focusing on the operational aspects of multilateral adaptation funds.

1.2 Report structure

In order to achieve this goal, our report is structured into five chapters. In Section 2 we explore the history and evolution of adaptation finance, and the role of the four main multilateral adaptation funds. Section 3 provides an overview of the current status of adaptation finance both in terms of the scale of current financing as well as the types of activities that have been funded by these funds. Section 4 introduces an analytical framework to determine how effectiveness in adaptation finance can be measured and achieved. Using this framework, Section 5 provides an analysis of the four adaptation funds and we conclude in Section 6 with recommendations for the Green Climate Fund and other adaptation financing mechanisms. The Annexes to this document summarize more detailed information about the four current adaptation funds.

1.3 Methodology

This study's findings are based on a mixture of desk review and expert interviews with secretariat staff, members of the governing bodies of these mechanisms, representatives of accessing agencies and others, as appropriate. The study was undertaken in four phases:

- **Inception phase:** A comprehensive literature review was undertaken encompassing both the history of adaptation finance generally, and existing evaluations of the multilateral funds. From this review, an analytical framework for assessing the operational modalities of the four adaptation funds was developed. This framework covers resource allocation, access modalities, financing instruments, the programming and approval process, and results-management frameworks. It was felt that these five areas taken together provide a comprehensive picture of fund operations.

- **Data collection phase:** Interviews were conducted with fund officials, recipient country focal points, representatives of implementing entities and independent experts. Participation in the interviews was voluntary and confidential. Interview questions were structured according to the analytical framework. In addition to interviews, desk review on the financial status and progress of the four adaptation funds was conducted, with data collected from financial and progress reports of each fund, dating from fund inception to the latest available documents.

- **Data analysis and reporting phase:** The interviewees' responses were combined with fund-specific literature reviews, fund design documents and analysis of the financial data to complete the assessment of each fund. The funds were then analyzed alongside one another and conclusions drawn as to their respective approaches. This analysis formed the basis of higher level and cross-cutting conclusions about the delivery of adaptation finance.

- **Peer review phase:** Drafts of report were sent to WWF for peer review, and then a final draft was concluded.

2. History and Evolution of Adaptation

Adaptation to the impacts of climate change is complex and multi-faceted, and our understanding of needs and approaches is developing continuously. Initial adaptation efforts were focused on addressing immediate impacts and on achieving *incremental change*. In recent years there has been increasing realization of the need to move toward more *'transformational approaches'* to adequately address climate change impacts.

This chapter examines the history and evolution of adaptation, both conceptually, and concretely as an activity being implemented through the four adaptation funds. It explains the creation and evolution of adaptation funding and provides a brief overview of the key issues that adaptation funds aim to address.

2.1 Defining adaptation

Adaptation is defined by the IPCC in its fifth assessment report (AR5) as:

"… the process of adjustment to actual or expected climate and its effects. In human systems, adaptation seeks to moderate harm or exploit beneficial opportunities. In natural systems, human intervention may facilitate adjustment to expected climate and its effects."[2]

As noted by the IPCC, this definition introduces an element of purposefulness, thus excluding actions that are not purposefully undertaken in response to observed or anticipated climate change; sometimes called unplanned actions or 'autonomous adaptation'.

Initially adaptation measures have focused on developing *incremental change*[3] to climate responses and addressing the immediate impacts of

[2] IPCC (2014), Fifth Assessment Report [Hereinafter IPCC AR5), Working Group II, Chapter 14.

[3] Incremental adaptation refers to "actions where the central aim is to maintain the essence and integrity of the existing technological, institutional, governance, and value systems, such as through adjustments to cropping systems via new varieties, changing planting times, or using more efficient irrigation". *Id.*

Transformational adaptation seeks to change the fundamental attributes of systems in response to actual or expected climate variability and change and its effects, often at a scale and ambition greater than incremental activities

climate change. This approach is exemplified through the concept of NAPAs, which seek to address 'urgent and immediate' adaptation needs, though it should be noted that actions to address urgent and immediate needs are not necessarily incremental, even though an incremental approach tends to favor short-term solutions over building long-term resilience. The IPCC, in its Fifth Assessment Report (AR5), however, notes the limits of incremental approaches, and highlights the need to move toward *transformational adaptation*[4], which it defines as:

"adaptation that changes the fundamental attributes of a system in response to climate and its effects, often at a scale and ambition greater than incremental activities."[5]

This shift can also be seen in the UNFCCC's approach to adaptation and in the objectives of the four adaptation funds described in more detail below.

Adaptation is often considered separately from disaster risk management (DRM)[6] though there has been an increased convergence between them in recent years. Despite this convergence and their similar objectives and challenges, they are frequently still addressed by separate government agencies, and there have been calls for better coordination and integration.[7] Similarly, adaptation is often distinguished from loss and damage associated with impacts of climate change, including both extreme events and slow onset events. This report follows these distinctions and does not directly address DRM or loss and damage, though these topics may be considered indirectly.

The remainder of this chapter will outline the various needs that have been identified for adaptation finance and the measures that can be used to address these needs.

2.2 Adaptation needs

The implementation of adaptation actions responds to the specific needs of countries. Since needs tend to be highly country-specific, adaptation needs assessments are frequently required in order to adequately determine the needs of each country. Assessments in developing and developed countries have often taken a hazard-based approach that focuses directly on immediate impacts such as floods or landslides; however, more recently, the focus has been on tackling the underlying causes of vulnerability, for example informational and capacity needs.[8] The IPCC has identified five categories of adaptation needs:[9]

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[4] Several other terms are used interchangeably to indicate this same goal including transformative action, transformational adaptation and a paradigm shift. For simplicity, throughout this report we will use the terms transformational impact and transformational adaptation to refer to this collective ambition.

[5] IPCC AR5, Glossary.

[6] Disaster Risk Management is defined by the IPCC as "Processes for designing, implementing, and evaluating strategies, policies, and measures to improve the understanding of disaster risk, foster disaster risk reduction and transfer, and promote continuous improvement in disaster preparedness, response, and recovery practices, with the explicit purpose of increasing human security, well-being, quality of life, and sustainable development." Id.

[7] IPCC AR5 Ch. 14.

[8] *Id.*

[9] *Id.*

1. **Biophysical and environmental needs:** These refer to ecosystem services that need to be maintained, including provisioning services such as food, fibre and potable water supply; regulating services such as climate regulation, pollination, disease control and flood control; and supporting services such as primary production and nutrient cycling;

2. **Social needs:** Vulnerability varies as a consequence of the capacity of groups and individuals to reduce and manage the impacts of climate change. Gender, age, health, social status, ethnicity, and class are key determinants of vulnerability, while persistent poverty and inequality are among the most important conditions shaping climate vulnerability.

3. **Institutional needs:** These refer to the need for both formal and informal institutions that can provide the enabling environment for implementing adaptation actions, including the provision of guides, incentives, or constraints that shape the distribution of climate risks, establish incentive structures to promote adaptation, foster the development of adaptive capacity, and establish protocols for both making and acting on decisions.

4. **Need for engagement of the private sector:** This refers to the need to engage the full range of private sector actors that are at risk from climate change and are essential to adaptation actions.

5. **Information, capacity and resource needs:** These needs include vulnerability and impact assessments with greater continuity, country-specific socio-economic scenarios, and greater knowledge on costs and benefits of different adaptation measures. Information will often have to be tailored or translated to the individual context, and scientific knowledge should be combined with indigenous knowledge

2.3 Adaptation measures

The range and types of adaptation measures are deeply heterogeneous, reflecting at once the diversity of adaptation needs and widely different contexts in which adaptation takes place. The IPCC has defined the following broad categories of adaptation measures.[10]

1. **Structural and physical:** This refers to discrete adaptation options that have clear outputs and outcomes that are well defined in scope, space and time, or what are also sometimes referred to as "concrete activities".

2. **Social:** This category has some cross-over with 'service options', but refers more broadly to options that target the specific vulnerability of disadvantaged groups, including targeting vulnerability reduction and social inequities. This includes strategies such as Community-Based Adaptation (CBA) that help communities develop their own locally-appropriate adaptation strategies. It also places a high emphasis on education, outreach and awareness-raising, as well as information systems. These provide communities with the information they need to make key adaptation decisions and can also positively influence behavioral patterns that affect vulnerability.

[10] IPCC AR5, Ch.14.

3. **Institutional options:** This refers to a range of regulatory, institutional and economic measures that can foster adaptation. Regulatory measures may be used to improve safety in vulnerable areas, such as zoning measures and building regulation. Economic instruments such as disaster funds or insurance schemes can help reduce adaptation risks and provide safety nets. Meanwhile, improving governance and decision-making processes in relevant institutions enables those institutions to better prepare and implement adaptation plans and strategies.

An associated concern is the need to prevent and remove **maladaptive practices**, where intervention in one location or sector increases the vulnerability of another location or sector, or increases the vulnerability of the target group to future climate change. This is not a separate category of adaptation options *per se,* but rather refers to the need to integrate assessment of potential effects of policies or measures across all sectors, whether adaptation-focused or not.

2.4 Adaptation planning and selecting options

Given the complex nature of adaptation, there is no one size fits all approach to adaptation planning, and a combination of both 'top-down' and 'bottom-up' approaches will often be necessary

Selection and prioritization of adaptation options is important due to the frequent constraints on resources, capacities, and authority. Moreover, selecting the right adaptation option is key, as choosing one option can foreclose another, with potential maladaptive consequences. A variety of systematic techniques have been developed for selecting options, including integrated needs assessments aimed at systemic understanding of the complexity of human-environment interactions. Given the complex, diverse and context-dependent nature of adaptation to climate change no single approach to adaptation planning is the correct one, and combinations of both 'top-down' (based on high-level scenario analysis) and 'bottom-up' (based on local coping strategies, capacities, institutions etc.) approaches will often be necessary. More broadly, while such tools can be valuable tools for prioritizing adaptation actions, they also have limitations, including failing to account for a range of critical factors such as leadership, institutions, resources, and barriers.

Lessons from emerging adaptation experiences indicate that of the categories of adaptation action, capacity building, management and planning and changing practices or behavior (e.g. in land management techniques) are the most commonly funded.[11] There is growing experience of the value of ecosystem-based, institutional, and social measures, as well as recognition of the need for investments in 'soft infrastructure' such as watershed management, land use planning and information, and stakeholder engagement.[12] At the same time, engineered and technological adaptation options remain key to reducing vulnerability to climate and weather related events.

Adaptation options will often not be designed to address climate risks or opportunities alone, and increasing attention is being paid to mainstreaming climate change into wider government policy and private sector activities.

[11] Biagini, B., et al., A typology of adaptation actions: A global look at climate adaptation actions financed through the Global Environment Facility. Global Environ. Change (2014).

[12] IPCC AR5, Chs. 14 & 15.

The most effective adaptation approaches for developing countries appear to be those that address a range of environmental stresses and factors and are coordinated with efforts to address poverty alleviation, enhance food security and water availability, combat land degradation and reduce biodiversity and ecosystem services loss.[13] While integration is frequently challenging, it streamlines the adaptation planning and decision-making process and embeds climate sensitive thinking in existing and new institutions and organizations, enabling consistency with the objectives of development planning, facilitating the blending of multiple funding streams and reducing the potential for maladaptive actions.[14]

2.5 Adaptation under the UNFCCC

Adaptation under the UNFCCC is multi-faceted, falling under a variety of work programs, frameworks, institutions and funds. The following provides a brief overview of these various components.

In 2001, the Conference of the Parties (COP) took the first significant step toward addressing adaptation through the adoption of the **Least Developed Countries (LDCs) Work Programme**.[15] The LDC Work Programme established the LDC Expert Group (LEG) and the LDC Fund (LDCF), as well as putting in place a number of broader processes to support LDCs that are relevant to adaptation, including institutional strengthening, technology transfer and capacity building. Particularly relevant was the adoption of a framework for the preparation of **National Adaptation Programmes of Action (NAPAs)**. NAPAs provide a process for the LDCs to identify priority activities that respond to their urgent and immediate adaptation needs. These are assessed based on existing information, building on local knowledge and coping strategies at the grassroots level. They should be action-oriented, country-driven and presented in a simple format. Support is provided for their preparation, and once a country's NAPA has been submitted to the UNFCCC it becomes eligible to apply for funding for implementation of projects or programs that have been identified under the LDCF. To date, 50 of the 51 LDCs which have received funding for NAPA completion having submitted their NAPAs to the UNFCCC.[16]

The next major process for addressing adaptation under the UNFCCC was adopted in 2005 in the form of the **Nairobi Work Programme on impacts, vulnerability and adaptation to climate change**.[17] This is an information sharing platform that brings together Parties, intergovernmental and non-governmental organizations, the private sector, communities and other stakeholders with the objective of improving understanding and assessment of impacts, vulnerability and adaptation and facilitating decisions on adaptation actions and measures. Its activities include organizing meetings, workshops and forums; maintaining databases and preparing technical

[13] UNFCCC, Climate Change: Impacts, Vulnerabilities and Adaptation in Developing Countries (2007).

[14] IPCC AR5, Ch. 14.

[15] UNFCCC, Decision 5/CP.7, para.11

[16] NAPAs are posted on the UNFCCC website available at http://unfccc.int/adaptation/workstreams/national_adaptation_programmes_of_action/items/4585.php

[17] U.N. Doc. FCCC/SBSTA/2006/11.

papers and other publications on adaptation practices and lessons learned; and making calls for action and action pledges. In 2013, COP 19 agreed to continue the Nairobi Work Programme and enhance its relevance through, among other things, enhancing linkages with other adaptation processes and integrating gender issues and indigenous knowledge.[18]

Perhaps the most significant step to scaling-up adaptation under the UNFCCC was taken in 2010 through the **Cancun Adaptation Framework (CAF)**.[19] The CAF puts adaptation on an equal footing with mitigation under the UNFCCC process through affirming that the two issues must be addressed with the same level of priority, and provides a framework for international cooperation and enhanced action on adaptation. It promotes a comprehensive approach to addressing adaptation that includes the development of national and regional adaptation plans, building resilience of ecological and socio-economic systems, strengthening institutions and further developing research and information systems at national and international levels.

Among the most significant aspects of the CAF is the process it put in place for developing **National Adaptation Plans (NAPs)**. NAPs build on the NAPA process by identifying and adopting measures to address medium to long-term adaptation needs and vulnerabilities. As with NAPAs they should be country-driven, gender-sensitive and participatory, but unlike NAPAs they move beyond immediate and urgent needs to address adaptation in a more integrated and comprehensive fashion.[20]

Under the CAF a set of guidelines were elaborated at COP 17 in 2011 for the development of NAPs, setting out indicative activities under four elements: laying the groundwork and addressing gaps; preparatory elements; implementation strategies; and reporting, monitoring and review.[21] A process was established for LDCs to formulate and implement NAPs through a range of means including technical support, workshops and training. Non-LDC developing countries are invited to also apply the NAP guidelines, though they are not eligible to receive support for NAP preparation.

The CAF also put in place a work program on loss and damage and in 2013 the COP adopted the **Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts**.[22] The Warsaw Mechanism is focused on enhancing knowledge and understanding on loss and damage, strengthening dialogue and enhancing action and support. It is to include the provision of recommendations and guidance by the COP and will facilitate the provision of technical support and finance, though Parties did not agree in Warsaw on any concrete measures for the provision of finance through the Mechanism. The Warsaw Mechanism will remain under the CAF until 2016, when Parties will consider whether it should be moved under a separate track.

[18] Decision17/CP.19, U.N. Doc FCCC/CP/2013/10/Add.2.

[19] UNFCCC Decision 1/CP.16, paras 11-35.

[20] Decision 5/CP.17.

[21] Decision 5/CP.17, Annex I, U.N. Doc FCCC/CP/2011/9/Add.1.

[22] UNFCCC, Decision 2/CMP.19.

2.6 Adaptation funds and development finance

In addition to the guidance provided by the UNFCCC, adaptation funds have been guided by principles developed within the broader development agenda that aim to improve the effectiveness of aid in general. In this regard, several key processes and decisions have been important in the delivery of aid that can inform the evolution of adaptation finance. These principles have in large part been impelled by an international consensus driven process beginning in March 2002, at the International Conference on Financing Development in Monterrey, Mexico.[23] This was quickly followed, in February 2003, by the Rome Declaration on Harmonization.[24] The process was extended in 2005, with the Paris Declaration on Aid Effectiveness[25], and the Accra Agenda for Action[26] in late 2008. In 2011, the Busan Partnership for Effective Development Cooperation was formed, incorporating for the first time the role of NGOs and the private sector.

Country ownership has been a central principle of sustainable development for over 20 years to improve the way aid was organized and delivered at the country level. In Rome, Parties made a commitment to improved coordination and streamlining of finance that recognized the central role of *"a country-based approach that emphasizes country ownership and government leadership"*.

The Paris declaration articulated the principle of country ownership as a commitment by recipient countries to *"exercise leadership in developing and implementing their national development strategies through broad consultative processes"*. In Accra, Parties resolved to strengthen country ownership by calling on governments to broaden country-level policy dialogue, strengthen the capacity of developing countries to lead and manage national planning processes, and strengthen and use developing country systems to the maximum extent possible.

Alignment is another core principle of aid effectiveness. The alignment of aid can help to ensure that countries do not develop fragmented processes and institutions based on donor requirements but instead use countries' own institutions and systems and build the relevant capacity in countries to access international finance and aid. The Paris declaration encourages donors to align their overall support with recipient countries' national development strategies, institutions and procedures. This includes linking funding to indicators derived from the national development strategy; the use of country public financial management systems; the use of country procurement systems; and avoiding the creation of multiple parallel implementation structures.

Harmonization of aid aims to ensure that Donor countries coordinate, simplify procedures and share information to avoid duplication in the delivery of

[23] Monterrey Consensus of the International Conference on Financing for Development. (2002). Paper presented at the International Conference on Financing for Development, Monterrey, Mexico

[24] Rome Declaration on Harmonization. (2003). Paper presented at the High Level Forum on Harmonisation, Rome, Italy

[25] Paris Declaration on Aid Effectiveness. (2005). Paper presented at the Paris High Level Forum on Aid Effectiveness, Paris, France

[26] Accra Agenda for Action. (2008). Paper presented at the The Accra High Level Forum on Aid Effectiveness, Accra, Ghana.

international aid. The Monterrey conference called on multilateral and bilateral financial development institutions to *"harmonize their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible"*. In Paris, donors further committed to implement common arrangements to reduce the burden on recipient countries when accessing aid.

Finally, **managing for results** can help to ensure that the implementation of aid is done in a way that focuses on the desired results and uses information to improve decision-making. This includes establishing results-oriented reporting and assessment frameworks in developing countries that monitor progress against key indicators. Donors equally need to harmonize their monitoring and reporting requirements through, for example, the creation of joint formats for periodic reporting.

These principles, while they have been embedded within the international aid discourse, are still some way from being implemented effectively. A recent review of aid effectiveness coordinated by the Organization for Economic Cooperation and Development (OECD)[27] found that progress in 2010 was still lagging on the majority of the Paris Declaration commitments. The evaluation notes the challenges in the Paris Declaration and that the initial timeframes for meeting these changes were overly optimistic. At the same time, the evaluation concludes that the timeframe for the goals have so far remained relevant. A continued and sustained effort will be needed to meet the implementation of the goals and principles of aid effectiveness.

[27] Talaat Abdel-Malek and Bert Koenders. 2011. Progress Towards More Effective Aid: What Does the Evidence Show?

3. Current Status of Adaptation Funds

Since 2006, US$ 3 billion has been mobilized by the four adaptation funds, two thirds of which has been approved for specific adaptation activities. This amount is significantly lower than the estimated US$ 28-100 billion needed per year for adaptation in developing countries by 2050.

Assessments of the costs of adaptation to climate change in developing countries vary widely, with estimates ranging from US$ 28-67 billion[28] to US$ 70-100 billion[29] per year by the middle of the century. Adaptation needs, however, are dynamic and depend on future climate scenarios that are themselves far from certain. Cost assessments are crucial elements of adaptation planning strategies. In this context, there is a marked move from the use of simple cost-benefit analyses and "best economic" adaptations to the use of multi-metric evaluations that include risk and uncertainty dimensions in decision-making on adaptation.[30]

3.1 The four multilateral adaptation funds

The **Adaptation Fund** was formally established at the Marrakesh COP 7 in 2001, pursuant to a provision of the Kyoto Protocol calling on developed countries to ensure that a share of the proceeds of the Clean Development Mechanism were used to "assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation".[31] Accordingly, the Adaptation Fund was established with the central aim of financing "concrete adaptation projects and programs in developing country Parties that are Parties to the [Kyoto] Protocol".[32] The Parties at COP 7 agreed that the Adaptation Fund would be operated and managed by an entity entrusted with the operation of the financial mechanism of the Convention and that it would be under the guidance of the COP on an

[28] UNFCCC (2007) Investment and Financial Flows to Address Climate Change, Executive Summary, available at http://unfccc.int/resource/docs/publications/financial_flows.pdf

[29] World Bank (2010) Economics of Adaptation to Climate Change, Synthesis Report, p.3, available at http://siteresources.worldbank.org/EXTCC/Resources/EACC_FinalSynthesisReport0803_2010.pdf

[30] IPCC AR5, Ch 17.

[31] Kyoto Protocol to the United Nations Framework Convention on Climate Change, Dec. 10, 1997, U.N. Doc. FCCC/CP/1997/7/Add.1, art. 12, para. 8.

[32] Decision 10/CP.7 para. 1. U.N. Doc. FCCC/CP/2001/13/Add.1.

interim basis until the Kyoto Protocol. The first AF projects were approved in September 2010.[33]

The **Least Developed Country Fund (LDCF)** was also launched in 2001 at COP 7.[34] It is designed to address the urgent and immediate adaptation needs of least developed countries (LDCs), to support the United Nations Framework Convention on Climate Change (UNFCCC) work program for least developed countries (LDCs) and to help the world's LDCs prepare and implement National Adaptation Programmes of Action (NAPAs). The LDCF is operated by the Global Environment Facility (GEF) and is under the guidance of the COP.

Also founded in 2001, the **Special Climate Change Fund (SCCF)** is designed to finance and implement activities, programs and measures relating to climate change in non-Annex I countries, complementary to those funded by the GEF or other bilateral and multilateral funds.[35] The SCCF is meant to serve as a catalyst to leverage and maximize complementary resources from bilateral and other multilateral sources.[36] The SCCF's priority is funding adaptation activities to address the adverse impacts of climate change (SCCF-A window). Projects on technology transfer and its associated capacity-building activities also receive funding (SCCF-B window). Other activities eligible for SCCF funding relate to energy, transport, industry, agriculture, forestry, waste management (SCCF-C window) and economic diversification of fossil fuel dependent countries (SCCF-D window).[37] To date, only the adaptation and technology transfer windows are active.

The **Pilot Program for Climate Resilience (PPCR)** is the only adaptation fund operating outside of the UNFCCC process, established as part of the Strategic Climate Fund (SCF), one of two multi-donor trust funds within the Climate Investment Funds (CIFs). The PPCR was the CIFs' first program and gained the SCF Trust Fund Committee's approval in November 2008. It has been designed as a pilot program, covering a range of diverse countries and climate risks to provide lessons that can be taken up by countries and regions, the development community, and a future climate change regime.

The stated objective of the PPCR is "to pilot and demonstrate ways to integrate climate risk and resilience into core development planning, while complementing other ongoing activities."[38]

3.2 Current status of the four multilateral funds

Current financial flows for climate change adaptation in developing countries is significantly lower than even the lowest estimates outlined above. To date,

[33] See Adaptation Fund website, The Adaptation Fund Board Approves Financing for Projects, Operationalizes the Direct Access Modality, Sept. 20, 2010, available at https://www.adaptation-fund.org/content/794-adaptation-fund-board-approves-financing-projects-operationalizes-direct-access-modality

[34] Decision 7/CP.7 para.6, U.N. Doc. FCCC/CP/2001/13/Add.1.

[35] *Id.* para. 2,

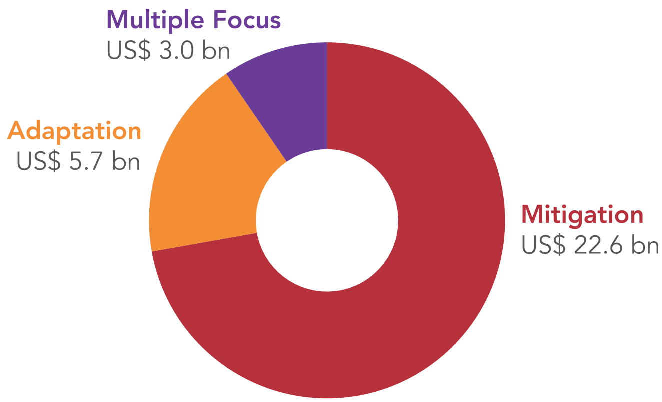
[36] Decision 5/CP.9 para. 1a, U.N. Doc. FCCC/CP/2003/6/Add.1

[37] Decision 7/CP.7 para. 2.

[38] Climate Investment Funds, The Pilot Program For Climate Resilience Fund Under The Strategic Climate Fund [hereinafter PPCR Design Document], para. 3, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_design_Document_final.pdf

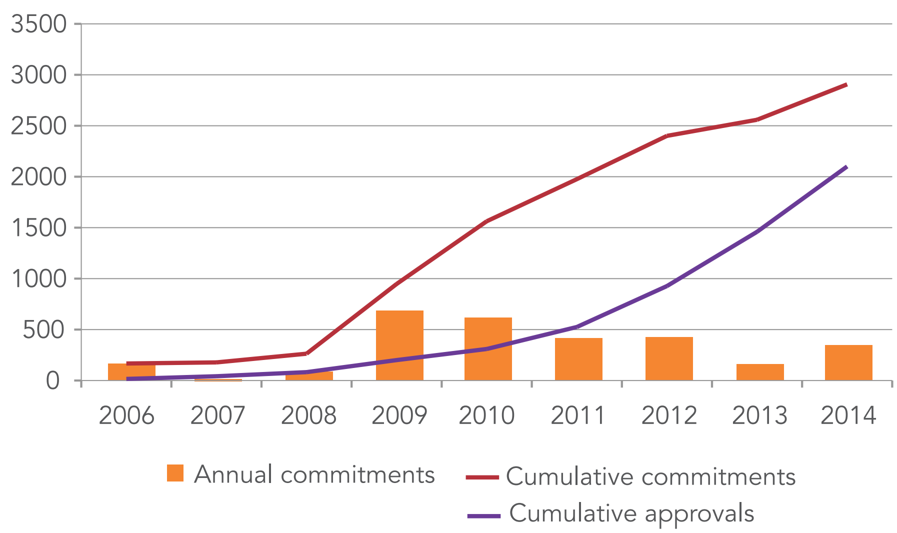
developed countries have reported contributions totaling US$ 5.7 billion[39] to climate change adaptation under their fast start finance commitments, with roughly a half of this (US$ 3 billion) going to the four multilateral adaptation funds.[40] By way of comparison, US$ 22.6 billion has been committed to climate change mitigation projects, and US$ 3 billion to mixed focus projects during the same period (see Figure 1).[41]

Figure 1: Donor countries' contributions to mitigation and adaptation activities under Fast Start Finance.



An estimated $ 2 billion is required for NAPA implementation under the LDCF alone (which has contributions closer to US$ 850 million).

Figure 2: Commitments to the four adaptation funds and project/program approvals (in US$ million).



Commitments to the four funds have risen steadily since 2008, though with a slight downward trend in the amounts received by the funds each year (Figure 2[42]). The rate of fund approvals for project/programs began slowly but has increased year-on-year. This reflects both the time taken by countries to create programmatic documents (for example the Strategic Program for

[39] Smita Nakhooda et al., Mobilizing International Climate Finance, Lessons from the Fast-Start Finance Period, Executive Summary (2013), available at http://www.wri.org/sites/default/files/mobilising_international_climate_finance.pdf

[40] The bulk of the remainder is being channeled through Japan, the UK, and Germany's bilateral funds.

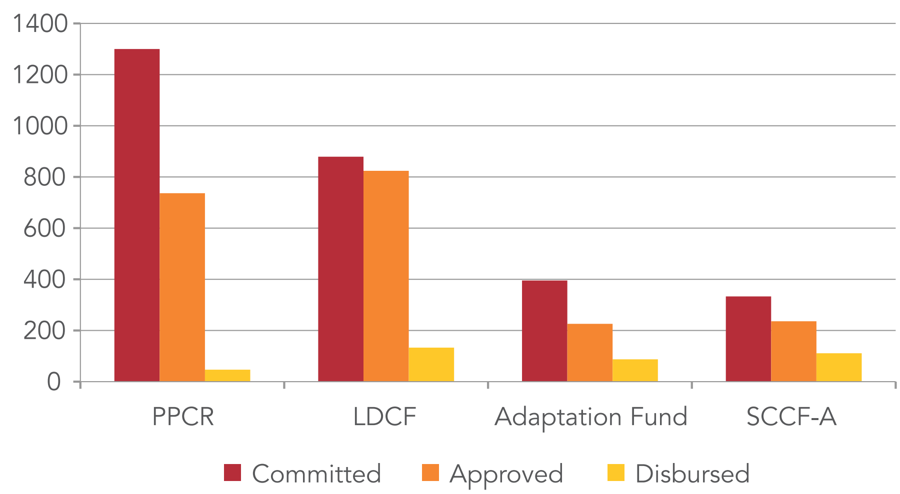
[41] Nakhooda et al. (2013).

[42] Figures generated with data taken from financial reports of the four multilateral adaptation funds. See the annexes for a more detailed breakdown of each fund.

Climate Resilience (SPCR) for the PPCR) before the project application stage, and that initial, lengthy processing times for fund applications have begun to shorten.[43] It should be noted that the gap between fund commitments and fund approvals has decreased from almost US$ 1.5 billion in 2010 to US$ 0.8 billion in 2014. This is due in part to the fact that by 2010, the PPCR had received significant donor contributions but had yet to approve any project/program spending.

The PPCR is the largest of the four funds, with commitments of over US$ 1.3 billion.[44] As indicated by Figure 3, as of March 2014, 57 percent of these funds have been approved on project/program spending. This is the same percentage as the Adaptation Fund.[45] The LDCF, despite having less overall commitments than the PPCR, has approved more funds for projects with 94 percent of the US$ 880 million approved.[46] Similarly, SCCF-A has approved more funding than the Adaptation Fund due to a higher approval rate (71 percent).[47] Disbursement levels also vary between the funds. US$ 46.8 million of PPCR funds have been disbursed (4 percent of fund commitments), compared to US$ 111 million for the SCCF-A (33 percent of fund commitments). In general, though, disbursed funds are far below required levels of funding, with less than $ 400 million disbursed globally through multilateral adaptation funds since 2006.

Figure 3: Commitments, approvals, and disbursements of the four adaptation funds (in US$ million).



[43] See chapter 5.3.

[44] See Report On The Financial Status Of The SCF, Oct. 2, 2013, CTF-SCF/TFC.11/Inf.5, available at https://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_SCF_TFC.11_Inf.5_Report_on%20_the_financial_status_of_the_SCF.pdf

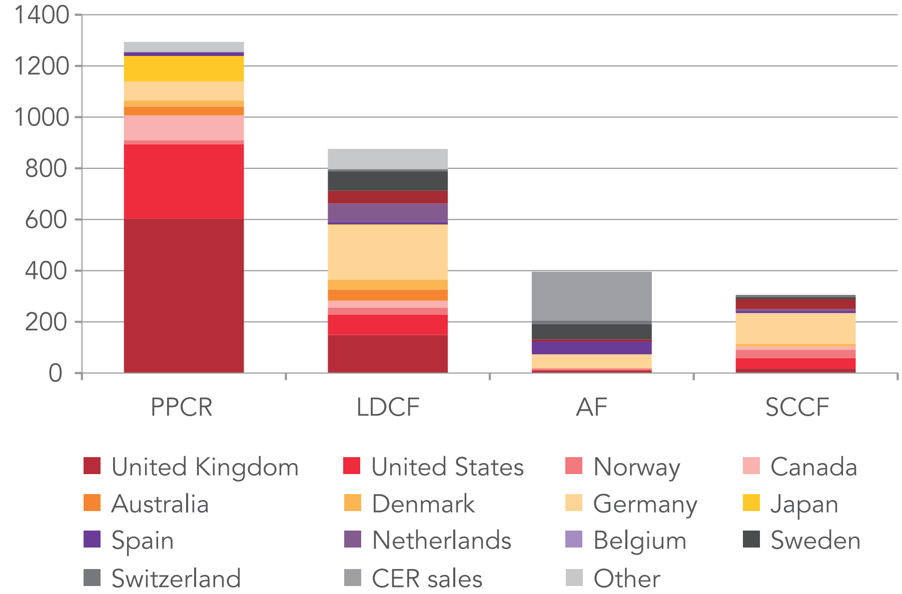
[45] See Adaptation Fund Trust Fund: Financial Report Prepared By The Trustee, 12 Feb. 2014, AFB/EFC.14/7 available at https://www.adaptation-fund.org/sites/default/files/AFB.EFC_.14.7%20AF%20Trustee%20Report%20at%20December%2031,%202013%20(w%20cover%20page).pdf

[46] See GEF, Progress Report On The Least Developed Countries Fund And The Special Climate Change Fund, May 1, 2014, GEF/LDCF.SCCF.16/04, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.LDCF_.SCCF_.16.04%2C%20Progress%20Report%20on%20the%20LDCF%20and%20the%20SCCF%2C%2004-30-14.pdf

[47] For the purposes of this section the term 'approved' refers to different stages in the planning and approval processes of each fund, so it is not straightforward to compare approval rates across funds. In the context of the Adaptation Fund 'approved' is taken to mean a project/program endorsed by the Adaptation Fund Board. For the LDCF and SCCF, approved refers to PIF approval by the LDCF/SCCF Council. For PPCR, approved means endorsement of the SPCR. Approval of a project/program under the Adaptation Fund is essentially approval of a fully developed project document ready for contracting, whereas the PIF and SPCR are essentially programmatic documents.

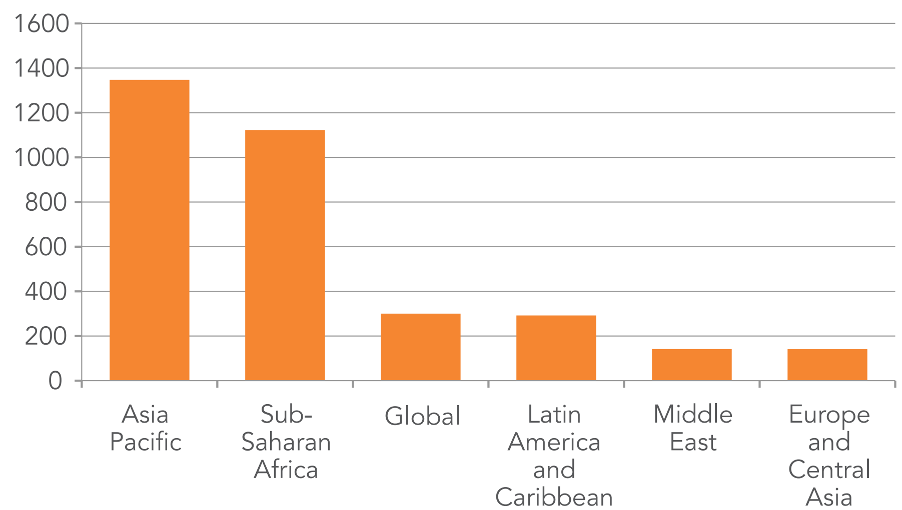
Ninety-three percent of adaptation fund commitments are from developed country contributions counted as overseas development assistance (ODA). Only the Adaptation Fund has taken an innovative approach to sourcing finance through a levy on Clean Development Mechanism (CDM) credits; an approach, though, which has run into trouble following the collapse of the carbon market. As illustrated by Figure 4, donor countries' funding priorities are reflected in their varying contributions to each fund. The UK has provided 46 percent of PPCR contributions, compared to 6 percent of SCCF contributions. Germany has contributed 36 percent to the SCCF, compared to 6 percent of PPCR contributions.

Figure 4: Donor country contributions to the four adaptation funds (in US$ million).



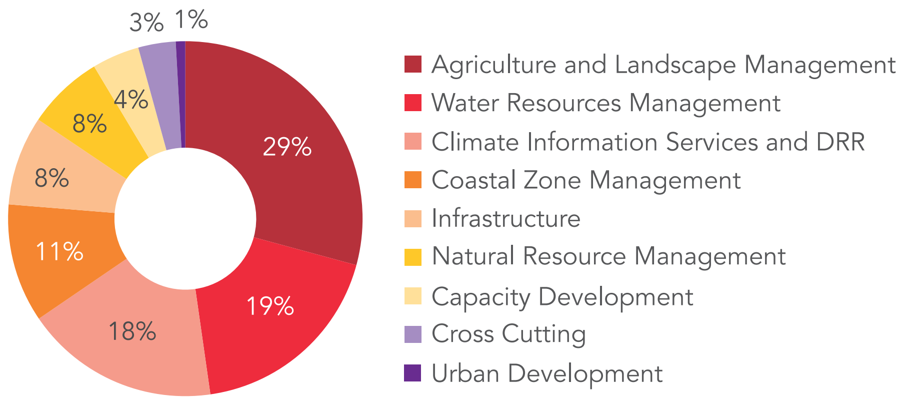
In terms of regional allocation, most adaptation finance has gone to projects/programs in Asia Pacific and Sub-Saharan Africa (Figure 5), where SIDS and LDCs with the greatest adaptation challenges are located, though regional allocation varies between the funds. The Adaptation Fund, which also provides grants to middle-income countries, has allocated resources relatively evenly between global regions, whereas the LDCF, which targets least developed countries exclusively, has focused 69 percent of its resources on Africa.

Figure 5: Regional distribution of adaptation funds (in US$ million).



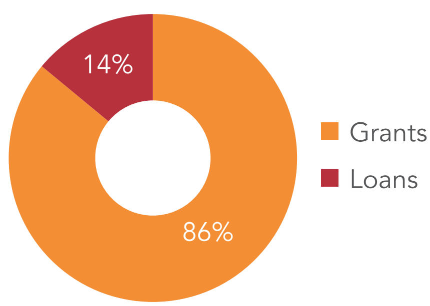
The breakdown of the adaption funds' portfolios by sector (Figure 6) shows that climate resilient agriculture has been a main priority across the four funds. The LDCF, which is designed to address urgent and immediate needs of least developed countries, has allocated a higher proportion of funds (15 percent) to climate information services (climate monitoring and early warning systems), than the SCCF (5 percent), as many SCCF countries have already made basic investments in this area.

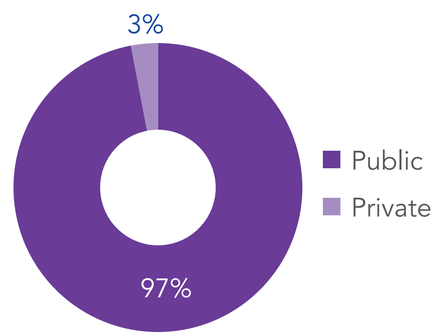
Figure 6: Adaptation funds approved by sector.



Most adaptation finance has been provided by the four funds in the form of grants, with only the PPCR also providing concessional loans. Further, almost all resources have been allocated to public sector projects/programs. Though some LDCF/SCCF projects contain private sector elements, only the PPCR sets aside a portion of funds exclusively for private sector investments.

Figure 7: Proportion of grants to loans and public to private sector recipients in adaptation funds.





As indicated by Figure 8,[48] IBRD and UNDP are the most significant implementing entities for the four adaptation funds (the bodies through which the recipient country access financial resources). UNDP have channeled 55 percent and 51 percent of resource under the Adaptation Fund and LDCF respectively.

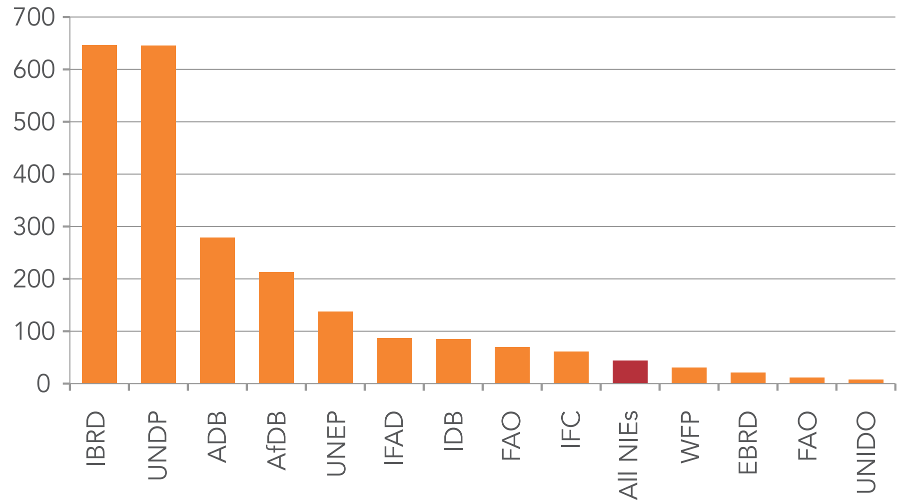
Almost all (98 percent) adaptation finance has been accessed by recipient countries 'indirectly' through multilateral implementing entities. Only the Adaptation Fund has had a direct access facility whereby recipient country based national implementing entities (NIEs)[49] channel finance. However,

[48] IBRD and the IFC are presented separately, though both form part of the World Bank Group.

[49] Though the GEF has recently accredited the South Africa based African Development Bank as a GEF agency.

due to the difficulties faced by many developing country entities in meeting minimum accreditation standards, only a quarter of Adaptation Fund resources have been accessed directly.

Figure 8: Distribution of funds by implementing entity (in US$ millions).



4. Analytical Framework

This report uses an analytical framework to derive lessons learned from the four adaptation funds and to inform thinking about operational modalities of adaptation finance mechanisms such as the Green Climate Fund.

Based on a literature review, expert interviews, and a review of the current adaptation funds, the following chapter outlines the five key operational modalities of adaptation funds (see Figure 9).

Figure 9: Five main operational modalities of multilateral funds.

4.1 Resource allocation

Resource allocation decisions define how funding is prioritized to achieve a fund's outcomes or objectives. Allocation decisions can be determined ex-ante, or on an ongoing basis based on the current objectives of the funding entity. Similarly, prioritization can take the form of strict quantified allocations or allocation based on general guiding principles. The latter leaves more room to tailor funding to country needs and priorities. Funds may also decide not to prioritize at all, and base funding entirely on country priorities and proposals.

Where allocation is undertaken, the following are the key dimensions across which allocation can be considered:

- **Thematic focus:** Prioritization of sectors, needs or categories of adaptation actions may have a profound effect on the use of funding. As described in Section 2.3, the range of adaptation measures is broad and the types of measures available vary substantially in, among others, their complexity, costs and interactions with other adaptation measures or broader development actions. Some types of measures may be more conducive to achieving long-lasting or transformational impact, while others may focus on immediate and/or urgent needs. Meanwhile, readiness activities may be considered important for ensuring effective implementation of adaptation actions, but are only useful to the extent that funding is available for implementation.

- **Country focus:** Adaptation funds may seek to distribute funding in a representative manner across geographical regions or may prioritize funding for countries that are the most vulnerable, where funding can achieve the greatest impact or where the greatest opportunities for replication exist. These decisions can play an important role in determining the impact of funding, but will also need to be sensitive to political factors.

- **Project vs. programmatic focus:** The extent to which an adaptation fund seeks to prioritize funding for projects or for larger-scale initiatives such as programs or strategies influences the scale and depth that is achieved by funding and the potential for integration within national development actions. It may also affect the potential for local-level participation, while decisions may also take into account national and local level capacities.

4.2 Access modalities

Funds vary in the way that recipients can access finance. Access to finance for the public sector can be through national, international or regional implementing entities (IEs). **Direct access** refers to the process whereby funds flow through National Implementing Entities (NIEs), organizations based within the recipient country that design, implement and oversee the execution of adaptation projects/programs. To date, only the Adaptation Fund has included a direct access facility. **International access** refers to the traditional model whereby funds flow through multilateral implementing entities (MIEs) such as UN agencies and international development banks.

Access for **private entities** may flow through national or multilateral implementing entities, though separate modalities are likely to be required. They may also need to be tailored to the specific circumstances of particular transactions, taking into account factors such as the type of private sector entity involved and the desire to provide the minimum finance needed to incentivize private action and avoid crowding out commercial investment.

Direct access is often considered to improve country ownership of projects and programs, since it allows governments greater independence to determine funding proposals in line with national priorities and gives them a greater role in implementation. It may also be linked to capacity strengthening, as national entities gain experience in managing finance and implementing projects and programs. At the same time, the need to ensure that implementing entities meet strong standards can present a challenge for national entities. In some cases, support programs may be provided to help national entities meet standards.

Where funding is channeled through multilateral implementing entities the role of **national focal points** or **national designated authorities** is still important in ensuring national ownership and integration with national strategies, among other factors. Relevant questions in this regard include the roles and responsibilities of the national focal point, its relationship with the implementing entity and its relationship with the adaptation fund apparatus. Access modalities may be designed to enable projects and programs to be implemented by multiple implementing entities working in concert, or to require that each project be implemented or led by a single entity. The former option encourages cooperation and joint programming, while the latter option encourages competition for resources. Such competition may be seen as incentivizing higher quality proposals, but may also risk disincentivising alignment and integration of adaptation initiatives.

4.3 Financing instruments

Donor countries and multilateral institutions use a variety of financing instruments to fund adaptation activities. In determining which instrument is most appropriate a number of factors surrounding the nature of the activity and the recipient are relevant. Table 1 describes the principal financing instruments and some of the relevant considerations for their use.

Adaptation funds may decide to primarily provide only one type of finance or designate different financial instruments for different activities or types of recipients. They may also provide for a combination of financial instruments to be provided in respect of a single activity, with a view to balancing the different considerations associated with each.

Table 1: Financing instruments used in adaptation finance.

FINANCING INSTRUMENT	DESCRIPTION	RELEVANT CONSIDERATIONS
GRANTS	Non-refundable payments tied to a specific purpose and carrying defined conditions, as well as reporting requirements.	Grants are the most common form of adaptation finance. They can be applied to a wide range of activities since they do not require financial returns and are suitable for a wide range of recipients, including those with risk of debt distress. However, they are capital-intensive and are less conducive to ensuring long-term financial sustainability of activities. Funds may therefore seek to limit grant funding to where it is most needed.
CONCESSIONAL LOANS	Refundable payments tied to a specific purpose and usually carrying general and specific conditions. Concessional terms may include low interest rates, longer grace periods, subordination of debt, and waivers of security requirements.	Concessional loans may be suitable for activities with high initial costs and/or high risks, but which aspire to long-term financial sustainability or contribute to overall development. From a donor's perspective they are more sustainable in the longer term, which can help to scale up finance; however, some developing countries object to the repayment of adaptation finance. They are also unsuitable for countries with risk of debt distress.
GUARANTEES AND RISK SHARING	Instruments that help recipients secure loans from third party lenders by lowering lenders' risks. Several options exist, including credit guarantees, (political) risk guarantees and risk sharing.	Similarly to loans, guarantees can be suited for activities with high initial costs and risks but long-term sustainability, and are unlikely to be suitable for countries with debt distress risks. The flexibility offered by guarantees can allow them to be tailored to a range of circumstances, while their ability to leverage additional finance can assist in achieving scale.

BUDGET SUPPORT	Non-refundable finance to support the general government budget or that of a given ministry or sector. Not tied to a specific activity or purpose, though often linked to eligibility criteria, and variable payment tranches are measured against specific indicators.	Of the available financing mechanisms, budget support provides the most independence to national governments, which can help in achieving ownership and facilitate integrating adaptation activities in broader development activities. On the other hand, they may be subject to high political and fiduciary risks, and may be less conducive to fostering financial sustainability and reducing reliance on donor funding. Additionally, some donors are restricted from providing finance for budget support.
RESULTS-BASED FINANCE	Finance based on pre-defined results. In case of adaptation, these may relate to successful implementation of agreed activities, or more generally to indicators based on resilience. Disbursement is often through appraised financial intermediaries.	Results-based finance has thus far not become common in adaptation finance, partially due to the need for upfront finance for many activities, and the difficulty in measuring results for adaptation actions. Nonetheless, there are important benefits from the application of results-management frameworks to adaptation activities and in cases where results are more measureable linking these to finance may increase the effectiveness of finance.

While all types of instruments – with the exception of budget support – may be suitable for either the public or private sector, funds may seek to apply different conditions and financing modalities to public and private recipients, reflecting their different needs and roles.

4.4 Programming and approval process

Programming and approval processes are important in deciding whether and how individual projects and programs are funded. These processes are often driven by the overall principles and criteria of a fund and typically (although not always) tie in with a results management framework to ensure that programs and projects achieve the desired objectives established by the fund and to support continuous improvement of the fund's operational performance.

Programming and approval processes typically include decisions on a range of issues. On the one hand, they operate to translate the fund's principles, priorities and criteria into concrete funding decisions. This may include substantive criteria relating to the content of proposals and procedural criteria relating to the manner in which they were prepared, for example consultation requirements. On the other hand, decisions must be taken on the merits of individual activities or investments. This may require an (often subjective) assessment of the design of the project or program or the capabilities of the executing entity.

Part of the evaluation process involves simply checking funding requests for compatibility with clearly defined criteria; other criteria however may be less clear and require interpretation in light of the content of the application. Some criteria, such as the extent to which a proposed activity is integrated with national development priorities, may be particularly challenging for an outside party to assess. A related question is the flexibility provided to decision-makers in approving funding. Funds may seek to balance the desire to provide clear criteria to guide funding decisions and providing a certain degree of flexibility to allow decision-makers to take activity-specific issues into account in their decisions.

Programming and approval processes may also provide mechanisms to support countries in preparing applications. This can lead to better proposals and contribute to building capacity and ensuring better integration of proposals with other adaptation or broader development activities.

4.5 Results-management framework

Results-management frameworks help adaptation funds keep track of the progress of the fund in achieving its objectives and ensuring the effectiveness of finance provided. The process of defining results, meanwhile, can help to provide direction and focus efforts. Results-management frameworks can be applied both at fund-level and at the level of individual projects and programs, and different metrics and measurement, reporting and verification requirements are often appropriate for each level.

How knowledge and lessons generated through results-management frameworks are integrated in a fund's policies, strategies and procedures is important in ensuring continuous improvement in the fund's effectiveness. Funds may choose to institute a formal knowledge management and incorporation system to ensure knowledge is systematically integrated or may designate particular persons or bodies for assessing information and making periodic recommendations. They may also adopt mechanisms for sharing lessons on implementation of projects or programs among recipients, for example through information sharing platforms or distributing documentation on lessons learned among recipients.

5. Analysis of the Funds

Sufficient evidence is now available to learn from the four adaptation funds with respect to both factors of success and shortcomings in meeting their stated objectives. While recognizing that the four funds were designed with different objectives in mind, this analysis provides lessons on how adaptation finance should be made available in the future.

This chapter analyses the four adaptation funds according to the five operational modalities set out in Chapter 4, namely: resource allocation; access modalities; programming and approval processes; financial instruments; and results management frameworks. Analysis is informed by interviews and desk review. Based on this analysis, brief recommendations are provided for each operational modality. Additional information on the composition, objectives and operational modalities of the four adaptation funds and recent decisions under the Green Climate Fund can be found in the accompanying annexes to this document.

5.1 Resource allocation

Thematic Focus

Of the four adaptation funds, none specify priority sectors for fund allocation and none have shifted from funding one type of adaptation activity to another between funding phases. Only the SCCF has set out very broad categories of action (e.g. adaptation activities in land management, agriculture, health and so on) to guide projects seeking funding.[50] Generally speaking, a lack of specification of priority sectors is not a problem, as project selection should be driven by programmatic documents (for example the NAPA for LDCF projects, or SPCR for PPCR projects), which should in turn be country driven, and tailored according to the specific adaptation challenges different countries face. To predetermine priority sectors for funding would undermine country ownership and more importantly, risk channeling resources away from those areas where funding is most needed.

[50] GEF, Programming To Implement The Guidance For The Special Climate Change Fund Adopted By The Conference Of The Parties To The United Nations Framework Convention On Climate Change At Its Ninth Session, para. 44, Oct. 15, 2004, GEF/C.24/12, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf

GCF Status

The GCF Board have adopted 14 broad result areas for its first funding phase, (e.g. 'agriculture and related land use management' and 'design and planning of cities to support mitigation and adaptation')[51] within which recipient countries will have the space to set their own priority areas according to national planning strategies. A number of initial performance indicators relating specifically to adaptation have also been adopted by the GCF Board. [52]

Country Focus

The number of potential recipient countries varies greatly between the four adaptation funds. The Adaptation Fund and SCCF have the broadest eligibility criteria (under the AF, developing county Parties to the Kyoto Protocol,[53] under the SCCF, developing county Parties to the UNFCCC[54]), with preference given in both funds to the 'most vulnerable' countries.[55] One consequence of this is that demand for access to these funds, which have the lowest overall commitments of the four, has remained consistently high. Access to the LDCF meanwhile is limited to Least Developed Countries, of which there are currently 48.

The PPCR is theoretically accessible to a large number of countries, including all ODA eligible countries with an MDB lending program/policy dialogue.[56] However, eligible countries cannot approach the fund for resources, but must first be invited by the governing body (on the recommendation of an expert group), then preselected by the fund (on the advice of an expert group), and finally invited to submit an expression of interest.[57] To date, nine pilot countries and two regional programs (including nine additional countries) have been selected, with total fund availability in the region of US$ 1.3 billion (an average of US$ 70 million per country). This contrasts with the SCCF, where projects in 66 countries have been approved with total fund availability in the region of US$ 330 million (equivalent to US$ 5 million per country). Under the PPCR, highly vulnerable least developed countries (LDCs) and small island developing states (SIDS) are given priority, though pilot countries from neither category have been selected, for example Bolivia and Tajikistan.

Due to limited resources, the Adaptation Fund and LDCF have capped the funds available to each country at US$ 10 million and US$ 30 million respectively (though these ceilings are adjustable according to fund

[51] Green Climate Fund, Decisions of the Board, Fifth Meeting of the Board, 8–10 October 2013, Decision B.05/03(e).

[52] *Id.* Decision B.05/03(f).

[53] Adaptation Fund, Operational Policies And Guidelines For Parties To Access Resources From The Adaptation Fund [Hereinafter AF Operational Policies], Amended Nov. 2013, para. 24.

[54] GEF/C.24/12 para. 22.

[55] *Id.*

[56] PPCR Design Document, para. 19.

[57] Id. para. 21.

availability).[58] The introduction of a cap, whilst necessarily affecting the scale of impact, has been essential to ensure equitable fund distribution, and preventing resource capture by those countries best able to satisfy fund criteria. On the other hand, placing a cap on countries that have invested resources in building capacity to handle funds can be seen as counter-productive, as it encourages the development of in-country systems only to withhold access to resources that those systems have been built to manage. In addition, caps have the perverse incentive of providing a target to which countries can aim, not necessarily reflecting countries' needs.

In general, a first-come-first-serve approach, without minimum allocations for target countries is not recommended, as it can lead to a rush for resources and overreliance on external capacity to develop proposals, instead of relying on countries' own capacity to develop coherent domestic policies and programs. One possible solution is for multilateral funds to guarantee a minimum funding allocation for each eligible country, whilst retaining the discretion to fund high quality proposals without imposing a maximum cap. Of course, this would require sufficient availability of resources for the minimum boundary to be set at a meaningful level.

A further observation is that clarity of vocabulary is required when setting out the terms for country eligibility. The Adaptation Fund and SCCF both refer to 'developing countries', yet the UNFCCC does not provide a definitive list of developing countries.[59] For the purposes of the SCCF, the GEF have interpreted 'developing country' to be synonymous with non-Annex I parties to the UNFCCC, yet it is not clear that the wealthier non-Annex I countries (for example, Saudi Arabia, Israel or the Republic of Korea) would be appropriate beneficiaries of adaptation finance.

GCF Status

The GCF's Governing Instrument confers eligibility on 'developing country parties' to the UNFCCC.[60]

None of the four funds require resources to be distributed in a way that achieves regional balance, and as Figure 10 illustrates, regional distribution varies between the funds, with Adaptation Fund resources split fairly evenly between Africa, Asia and LAC countries, the LDCF concentrating resources in Africa (given the large number of LDCs), and the PPCR allocating 43 percent of resources to Asia. At the fund level, donors and MDBs often have targeted interests that govern where they would like adaptation finance to flow. To the extent that country allocation is donor-driven, there is a risk that funds will not be distributed according to country needs.

[58] For Adaptation Fund, see AFB/B.13/6 para. 67.a. For LDCF, see GEF, Programming Paper For Funding The Implementation Of NAPAs Under The LDC Trust Fund, May 12, 2006, GEF/C.28/18.

[59] UN Stat provide a list of developed and developing regions, but note that there is no established convention for the designation of "developed" and "developing" countries in the United Nations system. The IMF also provide an annually updated list of developing economies in their World Economic Outlook.

[60] Green Climate Fund, Governing instrument for the Green Climate Fund, para. 35, available at http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf

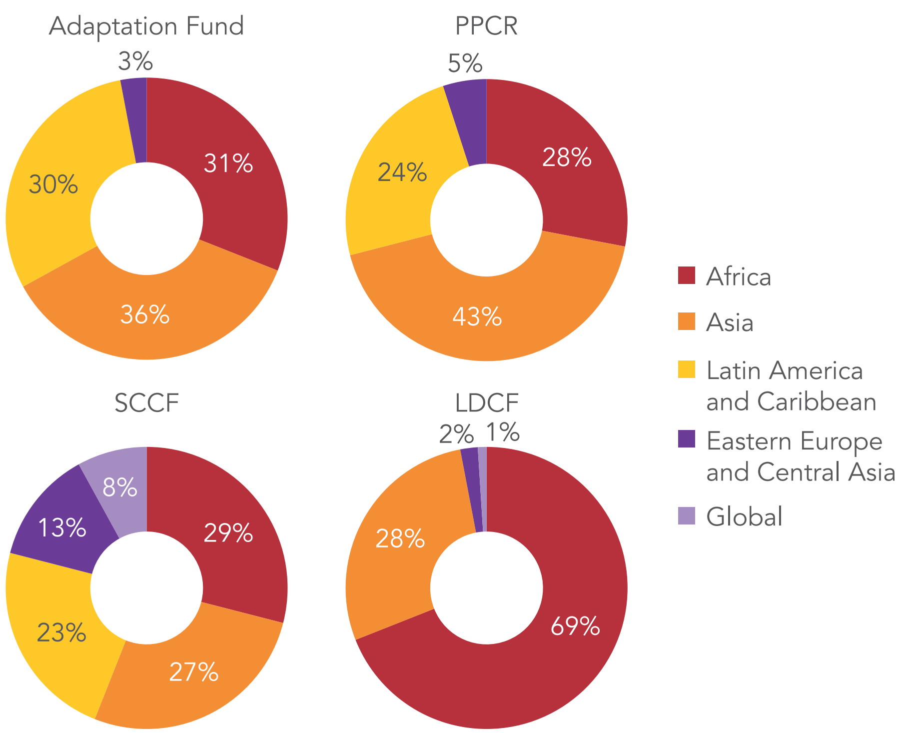
GCF Status

Achieving geographical balance is a criteria set out in the Governing Instrument of the GCF, interpreted as providing for *"a reasonable and fair allocation across a broad range of countries."*[61] As some parts of the world are more vulnerable to the effects of climate change than others, a degree of regional preference is necessary to allocate resources efficiently and reasonably. The challenge is to ensure that in doing so, all regions are still able to access resources, and that assessment of country need and vulnerability is conducted according to fair and transparent criteria.

Project vs. Programmatic Focus

To some extent, all four of the adaptation funds stress the importance of programmatic approaches, prioritizing the funding of projects that form part of larger strategic programs and demonstrate scale and depth beyond a one-off provision of funds. However, though the term *'programmatic approach'* is straightforward insofar as it refers to the alignment of projects with NAPAs and other planning documents, the distinction between projects and programs is not always clear, particularly in the LDCF/SCCF, where it was felt the terms are sometimes used interchangeably.

Figure 10: Regional distribution of funds, running clockwise: Africa, Asia, Latin America and Caribbean, Eastern Europe and Asia, Global.



There are no clear criteria (for example scale of a funding proposal, or number of discreet activities within a proposal) to distinguish project proposals from program proposals. With regards to the Adaptation Fund, it is somewhat artificial to discuss programmatic approaches where only project by project funding is available under a $10 million cap. In fact, though the phrase *moving towards a programmatic approach* featured in the strategic priorities adopted

[61] Green Climate Fund Board, Decision B.06/06 a.iii.

by the CMP in 2008,[62] the term programmatic approach does not feature in project application guidelines,[63] a possible reflection of the constraint on Adaptation Fund resources that has become evident since 2008. Only the PPCR allocates sufficient resources to develop what might be considered a programmatic approach with up to US$ 1.5 million per country[64] to develop the SPCR and up to US$ 110 million to implement the program.

5.2 Access modalities

Direct v. International access

As illustrated in Figure 8, the vast majority of the four adaptation funds' resources have been captured through multilateral implementing entities/development banks, with 55 percent of all funds distributed by the IBRD and UNDP and just 2% flowing directly to NIEs. With such a large proportion of resources going through a few multilateral organizations, adaptation programs are still not fully country-driven nor are they developing the relevant capacity in national institutions and processes. A greater degree of direct access to adaptation finance is essential to build country ownership of specific projects/programs, raise the profile of adaptation issues generally within recipient countries and mainstream climate adaptation considerations at the national planning level.

Successful models of direct access exist outside of adaptation finance in which national level institutions have the ability to issue grants and on-lend without further funding approval by donors

The role of MIEs and MDBs extends beyond the distribution of finance and includes project and program preparation, and to some extent project selection. Under the LDCF/SCCF, any of the ten GEF Implementing Agencies can develop project/program concepts together with project proponents.[65] Under the PPCR, MDBs play a key role in assisting the government with the preparation of the SPCR.[66] Once the PPCR Sub-Committee has approved them, recipient countries must follow the standards and criteria of the relevant MDBs (up to three MDBs may be working in the recipient country) to access funds. There is therefore some duplication within multilateral funds, with MDBs having to approve proposals that they have been involved in creating during the preparation of the programmatic document.

There are also a number of potential pitfalls with direct access. Given the difficulties many countries have faced in establishing NIEs under the Adaptation Fund,[67] it is likely that many of the least developed countries would struggle to meet the standards for devolved access. This could lead to resource capture by the larger, middle-income developing countries that could more easily satisfy such criteria. Where direct access modalities are used, assistance should be made available to recipient countries to enable

[62] Decision 1/CMP.4, Annex IV, Strategic Priorities, Policies and Guidelines of the Adaptation Fund, para. 15h., U.N. Doc. FCCC/KP/CMP/2008/11/Add.2.

[63] See Adaptation Fund, Instructions For Preparing A Request For Project Or Programme Funding From The Adaptation Fund, available at https://www.adaptation-fund.org/sites/default/files/OPG%20ANNEX%204-2%20Instructions%20(Nov2013).pdf

[64] Meeting of the PPCR Sub-Committee, PPCR/SC.10/9 para. 24. April 13, 2012, available at http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_9_Allocation_of_PPCR_Resources_0.pdf

[65] GEF, Accessing Resources Under the Least Developed Country Fund, p.10, available at http://www.thegef.org/gef/sites/thegef.org/files/publication/23469_LDCF.pdf

[66] See Climate Investment Funds, Guidelines For Joint Missions To Design PPCR Pilot Programs (Phase I), available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_joint_mission_guidelines_final.pdf

[67] See 2012 review conducted by the Adaptation Fund, The Adaptation Fund and Direct Access, available at http://www.adaptation-fund.org/sites/default/files/DirectAccessMemo29_Oct_2012_0.pdf

them to meet required standards, and that traditional, multilateral channels of accessing finance should remain open for those countries unable to do so. In fact, this has taken place within the Adaptation Fund, with the introduction of a Readiness Programme. This provides technical assistance, training sessions and grants for south-south cooperation for building readiness workshops for NIE applicants and accredited NIEs, to enable the former to meet the Adaptation Fund's fiduciary standards and increase the capacity of NIEs to appraise and assess adaptation projects.[68]

A further question is the extent to which target levels should be set for the proportion of resources to be accessed directly. The Adaptation Fund has placed a 50 percent cap on financing through MIEs to ensure that recipient countries will be able to gain experience accessing resources through NIEs, which have been slower to gain accreditation.[69] As MIE project proposals have already exceeded 50% of available funding, applications submitted through MIEs have currently been placed on hold in a pipeline.[70] While limits have been helpful to ensure that Adaptation Funds are used to build recipient country capacity, it has imposed additional delays on the disbursement of finance.

Other successful models of direct access exist beyond adaptation finance. Under the Amazon Fund, which administers international finance for efforts to reduce deforestation in Brazil, project level decision-making and oversight are taken exclusively at the country level. The Amazon Fund is a national level institution that has the ability to issue grants and on-lend without further funding approval once certain fiduciary standards have been met.[71]

GCF Status

Direct access under the GCF will resemble the Adaptation Fund to the extent that funds will be made available through national implementing entities accredited by the GCF Board, according to the GCF's fiduciary standards and social and environmental safeguards.[72] An innovation of the GCF is the proposed used of 'intermediaries' at national, subnational or regional level: bodies with the same function as implementing entities but with the additional capacity to on-lend, award grants, blend funds and so on, without the need for further GCF Board approval.[73] The GCF has not yet specified whether there will be a specific amount set aside for directly accessed finance, having confirmed only that countries will be able to use both direct and international modalities to access finance.

[68] See Adaptation Fund Board meeting, AFB/B.23/5, Feb. 21, 2014, Programme To Support Readiness For Direct Access To Climate Finance For National And Regional Implementing Entities, available at https://www.adaptation-fund.org/sites/default/files/AFB%20B.23.5%20Execution%20arrangements%20of%20the%20Readiness%20Programme.pdf

[69] AFB/B.13/6 para. 67.a.

[70] AFB/B.12/9.

[71] For the Amazon Fund arrangement, see Donation Agreement entered into by and between the Norwegian Ministry of Foreign Affairs and Banco Nacional de Desenvolvimento Economico E Social (BNDES), Article V (Contributions and Obligations of the BNDES) and Article IX (Selection of Projects and Procurement), available at http://www.regjeringen.no/upload/MD/Vedlegg/Klima/klima_skogprosjektet/donation_agreement_bndes.25.03.09.pdf

[72] See Governing Instrument of the Green Climate Fund, para. 47, establishing GCF direct access facility. For the latest progress on operationalizing this facility, See Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards, GCF/B.07/02, available at http://gcfund.net/fileadmin/00_customer/documents/MOB201406-7th/GCF_B07_02_Guiding_Framework_for_Accreditation_fin_20140512_16.30_hrs.pdf

[73] Ibid. paras. 15-17.

Under the Adaptation Fund and LDCF/SCCF, all project and program proposals must be endorsed by a national focal point prior to submission

National Focal Points

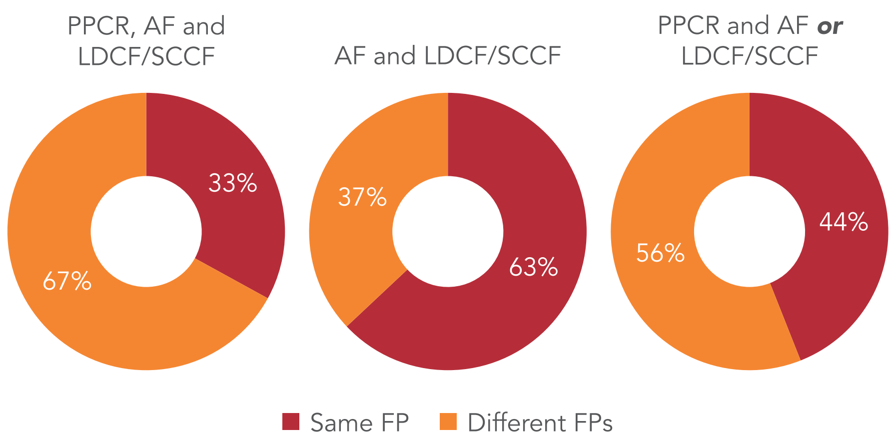
National focal points are designated government officials within recipient countries that act on behalf of their government in its interactions with the adaptation funds.

Under the Adaptation Fund and LDCF/SCCF, all project/program proposals must be endorsed by a national focal point prior to submission.[74] This ensures that adaptation activities are consistent with national plans and priorities set at the governmental level, and - in the event that neither implementing nor executing entities are governmental bodies - provides for governmental involvement with project/program selection. Under the Adaptation Fund's direct access facility, focal points (referred to as Designated Authorities) may have a role in selecting potential NIEs, and must endorse the accreditation applications of national or regional implementing entities before they are sent to the fund secretariat.[75] This provides for further governmental oversight where funds are accessed directly.

Where funds are accessed directly by a non-governmental entity it is important to achieve separation between the focal point and the national implementing entity (this essentially provides a veto function within government, often referred to as a *'no-objection'* process). Veto powers of focal points, however, can be misused, for example by favoring projects and programs relevant to the department of the focal point. This risk is exacerbated by the absence of an appeals process. The promulgation by the funds of clear guidelines and terms of reference for the focal points would help to improve the accountability of decision-making.

There is also a risk of fragmentation between the four adaptation funds. Focal points play a similar role in each of the funds, and having the same focal point for the four funds would enhance coordination of activities and simplify processes where countries access multiple funds. As illustrated by Figure 11, however, of those countries to have selected focal points for the four adaptation funds, only one third use the same focal point across the funds. PPCR focal points are the same as Adaptation Fund or LDCF/SCCF

Figure 11: Consistency of focal points of the four adaptation funds[76].



[74] For the Adaptation Fund, see AF Operational Policies, para. 39. For LDCF/SCCF see GEF, Accessing Resources Under the Least Developed Country Fund, p.10.

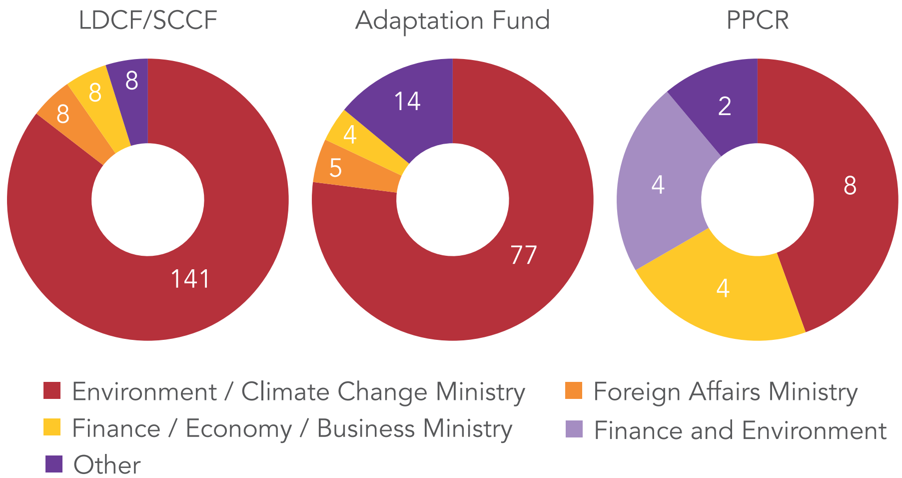
[75] AF Operational Policies, para. 33.

[76] Country focal points for LDCF/SCCF available at http://www.thegef.org/gef/focal_points_list; Adaptation Fund Designated Authorities available at https://www.adaptation-fund.org/page/parties-designated-authorities; PPCR focal points available on PPCR website, under country specific programming information.

focal points (i.e. Operational Focal Points) in only 44 percent of countries. Coordination between the Adaptation Fund and LDCF/SCCF is slightly higher, with 63 percent of countries using the same focal point.

Focal points are predominantly located within environment ministries, and less frequently within finance or foreign affairs ministries. Given the often weak nature of environment ministries, one advantage of locating the focal point within a ministry of finance or planning is that it can help to elevate the profile of adaptation within government and mainstream adaptation finance with other national processes. As illustrated by Figure 12, focal points are more frequently located in finance ministries under the PPCR than other funds, perhaps because the PPCR makes larger per-country grant allocations to recipient countries.

Figure 12: Location of focal points by ministry for the four adaptation funds.



GCF Status

The GCF currently envisions a similar role for national focal points (termed National Designated Authorities) as the Adaptation Fund: endorsing both the accreditation application of national implementing entities and individual funding proposals.[77] The GCF Board has also adopted a draft no-objection procedure to promote swift access to the funds whilst ensuring that governments retain the capacity to review, clarify or object to proposals that are *"ill conceived, duplicative or of low priority."* [78] To enhance transparency of decision making, it is proposed that all no-objection communications are made publically available on the GCF's website.

When the GCF begins to designate national focal points it will be important that it doesn't create further fragmentation in the constellation of actors endorsing adaptation finance. The GCF has developed draft guidelines on focal point selection, which state that focal points will *"likely be placed within a ministry with authority and overview of the country's national budget, economic policies and their interrelation with climate change‑related priorities*

[77] GCF/B.04/17

[78] GCF/B.06/07 Annexes I and II

Only the PPCR includes a private sector window for projects that directly engage the private sector

and development plans."[79] This suggests a preference for finance ministries or other more centrally located departments such as national planning commissions, something which would not be satisfied if the GCF took over Adaptation Fund focal points, 77 percent of which are based in environment ministries.

To increase national ownership and coordination, a further option would be to designate an interministerial body as the national focal point as seen under the PPCR. In Dominica, for example, the Ministry of Finance, in close collaboration with the Environmental Coordinating Unit of the Ministry of Environment, Natural Resources, Physical Planning and Fisheries will be responsible for overall coordination of SPCR implementation across government, and for overall PPCR monitoring and oversight.[80] This interministerial body could also act as the NIE thereby ensuring cross-departmental ownership and decision-making in adaptation planning and implementation.

Private Sector Access

Although the private sector is involved at the delivery stage of adaptation projects across the four funds (for example, as contractors working on infrastructure development, or by engaging with local farmers) only the PPCR includes a private sector set-aside for projects that specifically engage the private sector, in addition to private sector projects funded under the SPCR.[81] The semi-competitive nature of the call for proposals on the private sector set aside is unique to the four funds' adaptation programming experience.[82] As private sector investment has the potential to vastly outstrip public spending, funds are used to incentivize the private sector to move to business models that take into account the future impacts of climate variability and climate change by assisting with additional investment costs.

The PPCR set-aside can also be accessed indirectly through MDBs, either for private sector investments or public sector investments that incentivize the private sector. It is unclear though, whether this model improves private sector participation or simply adds another layer of administration that slows investment, and ultimately discourages private sector involvement.

Where private companies access funds directly, no-objection or equivalent processes should be implemented to avoid the risk that country ownership of projects will be undermined, particularly where international firms are involved. Under the PPCR, private sector proposals must demonstrate alignment with the SPCR, and must be developed in consultation with stakeholders and beneficiaries, including governmental focal points.[83]

[79] GCF/B.06/07, Annex III.

[80] See Climate Investment funds Dominica SPCR submitted October 2012 https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Dominica_SPCR_Final_October2012.pdf

[81] See CIF website, PPCR Private Sector Set-Aside, available at https://www.climateinvestmentfunds.org/cif/node/11440

[82] See Climate Investment Funds, Procedures For Allocating PPCR Resources On A Competitive Basis From An Agreed Set Aside Of Resources, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Procedures_for_Allocating_PPCR_Resources_on_a_Competitive_Basis_from_a_Set_Aside_0.pdf

[83] See Climate Investment Funds, Procedures For The Second Round Of The PPCR Private Sector Set Aside, paras. 12-15, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR__Round_2_Revised_Set_Aside_Procedures_Template_Timeline_1_10_2014_final.pdf

GCF Status

It has been agreed that a Private Sector Facility will be established as part of the GCF,[84] with the requirement that spending must align with national planning documents and prioritize the involvement of small and medium sized enterprises within the recipient countries.[85] As of yet, access modalities to operationalize the Private Sector Facility have not been agreed, though the GCF Board is expected to develop these.[86] To increase the involvement of the private sector at stakeholder level, a Private Sector Advisory Group (PSAG) made up of private sector representatives has been established to advise the GCF Board on private sector engagement.[87] Balancing country ownership with the need to develop systems conducive to private sector investment will be a challenge for future adaptation finance and has been considered by the PSAG.[88]

5.3 Programming and approval process

For this analysis we divide programming and approval processes into two phases: program approval and project approval. Program approval refers to the development of a programmatic document such as an Investment Plan under the PPCR, or NAPAs under the LDF. These are broad, overarching strategies within which individual projects can be elaborated. Project approval, meanwhile, refers to the development of individual standalone projects. The four adaptation funds place differing emphasis on these stages. The PPCR has the most elaborated process of program development, whereas its project approval process has relatively few steps. The LDCF on the other hand has a relatively expedited programmatic phase, but a more involved project development stage. The Adaptation Fund meanwhile does not require the development of a programmatic document.

Phase I: Program approval process

The PPCR and the LDCF both require the completion of a programmatic document before project funding is made available. Access to the LDCF is contingent on the completion of a National Adaptation Programme of Action (NAPA), a document prepared by LDCs as part of the UNFCCC process that identifies priority activities that respond to urgent and immediate adaptation needs.[89] The LDCF makes US$ 200,000 available to LDCs to assist in NAPA completion.[90] The first phase of the PPCR involves the preparation of a Strategic Program for Climate Resilience (SPCR), which outlines an investment program of activities to be funded under phase 2. The PPCR makes up to US$ 1.5 million available to pilot countries for SPCR completion.

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[84] Governing Instrument of the Green Climate Fund, para. 41.

[85] Ibid. para. 43 and DECISION B.04/08.b.

[86] Green Climate Fund, Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility, GCF/B.07/08, para. 31.

[87] DECISION B.04/08.i.

[88] See Report of the Private Sector Advisory Group (PSAG) to the Board of the Green Climate Fund, GCF/B.07/10.

[89] Decision 28/CP.7, Annex, para.2, U.N. Doc. FCCC/CP/2001/13/Add.4.

[90] GEF, Operational Guidelines For Expedited Funding For The Preparation Of National Adaptation Programs Of Action By Least Developed Countries, para. 20. Available at http://unfccc.int/files/cooperation_and_support/capacity_building/application/pdf/gefsecnapaguideeng.pdf

The NAPA process, which is completed on national government endorsement and submission to the UNFCCC, has been relatively expeditious, with 30 LDCs having completed their NAPAs by 2007, and 50 completed to date. The SPCR process, which is completed on endorsement by the PPCR Sub-Committee, has been more time consuming. These processes, however, differ greatly. Firstly, NAPAs are drafted without the requirements of specific funders in mind, whereas SPCRs must meet the standard required for endorsement at PPCR Sub-Committee and MDB level. Of the 19 SPCRs endorsed by 2013, none had been completed in less than 20 months (the target completion time was 12 months), and four had taken over 40 months to complete.

Figure 13: Project approval process for the LDCF/SCCF, Adaptation Fund and Green Climate Fund (PPCR not included for illustrative reasons).

PROJECT APPROVAL PROCESS

	LDCF / SCCF	Adaptation Fund	GCF
Project Development			
	Project identification form (PIF) developed by project proponent and implementing entity	Concept developed by project proponent	Brief concept note developed by Implementing entity, executing entity or intermediary
Focal Point Endorsement			
	GEF Operational Focal Point must endorse concept	Designated Authority must endorse concept	Not required at this stage
Quality Screening			
	GEF Secretariat either rejects, or forwards PIF to LDCF/SCCF Council, which conducts review	AF Secretariat screens, committee reviews and AF Board endorse, do not endorse or reject	Secretariat provides feedback on alignment with GCF objectives
Project Proposal Development			
	Project proponent and implementing entity prepare full project proposal	Project proponent prepare fully developed project document	IE, EE or intermediary prepare funding proposal
Focal Point Endorsement			
	Not required at this stage	Designated authority must endorse fully developed projected document	The Natioal Designated Authority (NDA) must communicate no objection
Quality Screening			
	GEF reviews proposal and may circulate to LDCF/SCCF Council. GEF CEO must endorse	AF Secretariat screens, committe reviews and AF Board approves, do not approve or rejects	Secretariat and Board review and approve, conditionally approve or reject.
Transfer of Funds to Implementng Entity			
	Funds released to GEF Implementing Agency	Legal agreement is signed between the AFB and the IE. Funds transfered to MIE or NIE	Legal agreement between GCF and IE, EE or intermediary signed

STEP 1 STEP 2

Another distinction is that while NAPAs are developed exclusively by national stakeholders, an SPCR is produced collaboratively with the government supported by MDBs through joint missions: country visits that engage UN and bilateral donors as well as civil society participants.[91] Ideally, the development of an SPCR should require only two joint missions, though in fact many have required three or even four.[92] Although the development of the SPCR should be led by national government, in some instances MDBs have taken the lead where the countries have lacked capacity to take ownership of the process.[93] A 2014 review of "Phase 1" of the PPCR also noted the difficulties engaging the private sector during SPCR preparation, with barriers identified as lack of knowledge within the private sector about climate-related investment opportunities, limited private sector capacity and lack of coordination between public and private sectors.[94]

Program preparation is an essential component of adaptation planning to ensure that adaptation finance is planned, well directed and the product of an in-country consultative process engaging all stakeholders. Nonetheless, the preparation process should not form a barrier to the timely distribution of finance where program completion stretches country capacity. To circumvent funding bottlenecks and delays, individual, no-risk elements within a program could be funded up-front during program preparation and approval. National Adaptation Plans (NAPs) could also play an increased role in the programmatic phase of adaptation funds as NAPs (prepared pursuant to the Cancun Adaptation Framework), encourage countries to be more long-term in their thinking, aligning local and regional planning with national strategies. Making NAP completion a further prerequisite for accessing adaptation finance may, however, put further bottlenecks in adaptation programming and approval processes.

If the GCF or other funds choose to adopt a programmatic approach, it will be important that they avoid the duplication of existing processes and instead build on existing in-country systems for adaptation planning.

Phase 2: Project approval process

The project approval process is similar across the LDCF/SCCF, Adaptation Fund and the GEF (see Figure 13), moving from a concept development stage to a full project proposal development, with both steps requiring either fund approval or review (though the Adaption Fund allows direct submission of a full proposal through the one-step approach). Common features are a) the requirement for national focal point endorsement b) pre-screening of applications by the fund Secretariat and c) the option of a shortened approval process for small scale projects (those under US$ 1 million in the Adaptation Fund and SCCF and under US$ 2 million in the LDCF). A key difference is

[91] PPCR, Guidelines For Joint Missions To Design PPCR Pilot Programs (Phase I), available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_joint_mission_guidelines_final.pdf

[92] ICF International, Final Interim Report (July 2013), Independent Evaluation Of The Climate Investment Funds, Figure 7-9, p.116, available at http://www.cifevaluation.org/cif_interm_report.pdf

[93] For example, joint missions to Tonga have been led by the Asian Development Bank. See http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/tonga_joint_mission_report_062410.pdf

[94] Climate Investment Funds, Lessons From Phase 1 For Developing Strategic Investment Frameworks For Climate-Resilient Development (Conference Paper), PPCR/SC.14/Inf.2, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_14_Inf.2_Lessons_from_Phase_I_for_Developing_Strategic_Investment_Frameworks_for_Climate_Resilient_Development.pdf

the existence of a pre-selection step under the SCCF, an informal process introduced to deal quickly with the large number of applications the fund received but did not have the capacity to review in full.[95]

One concern under both the PPCR and the LDCF has been the gap between program approval/endorsement under Phase 1, and the approval of projects under Phase 2. To address this, a small percentage of endorsed funds could be automatically released on the completion of the programmatic document to get the implementation process started. Another issue has been lengthy processing times in general. The first projects approved under the LDCF and SCCF significantly exceeded target processing times. The project cycle under both funds has fallen consistently in recent years, though under GEF-5 (2010-2014) only 61 percent of endorsed projects under the LDCF were processed within the 18 month target,[96] with delays in the submission of project documents largely responsible for the delays where targets are missed.

The substantive and procedural criteria to which the decision-making bodies within the funds assess project/program proposals are set out in Table 2. Most criteria are common across the four adaptation funds, though key differences include a) the demonstration of co-financing for LDCF/SCCF and PPCR projects b) the requirement to illustrate baseline development in the absence of fund investment for the LDCF/SCCF and c) the requirement under the PPCR to raise awareness of climate vulnerabilities among key stakeholders and target populations.

Table 2: Substantive and procedural criteria for assessing project / program applications. Criteria apply to all four adaptation funds, except where expressed in parentheses.

SUBSTANTIVE CRITERIA	• The baseline level of climate vulnerability and environmental benefits of the project/program • The socioeconomic benefit of project/program, with reference to the most vulnerable communities, including consideration of gender • Cost effectiveness of projects and programs • Consistency with national development plans, NAPAs etc • The strength of risk management measures • Coordination with related projects and other funding sources to avoid duplication • The scalability and replicability of project benefits at the end of the funding cycle • Levels of expected co-financing (LDCF/SCCF) • The strength of monitoring and evaluation procedures • The strength of implementation set-up, who will implement the project and why (LDCF/SCCF) • Clarity of impact indicators, as well as baseline and target values, for each of the project's outcomes and outputs • The level of baseline development without fund investment (LDCF/SCCF) • Evidence of a programmatic approach • How the project meets national technical standards e.g. requirements for environmental impact assessment (AF)
PROCEDURAL CRITERIA	• Engagement and participation of potential delivery partners • Engagement and participation of potential beneficiaries • Awareness raising of climate impacts generally and the degree to which the project/program has been publicized in target population (PPCR)[98]

[95] See GEF, Pre-Selection Criteria for Projects and Programs Submitted under the Special Climate Change Fund, May 7, 2012, GEF/LDCF.SCCF.12/Inf.05, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/Pre-Selection%20Criteria%20SCCF%20Inf.05%20May7.pdf

[96] GEF, FY13 Annual Monitoring Review Of The Least Developed Countries Fund And The Special Climate Change Fund, para. 56, May 1, 2014, GEF/LDCF.SCCF.

Although some substantive criteria are quantifiable (e.g. the number of people impacted or co-financing raised), the satisfaction of criteria can often only be judged subjectively. To address the predictability and transparency of fund decision-making, the Adaption Fund has promulgated successful examples for each criterion of the Secretariat's project application guidelines.[97]

5.4 Financial instruments

Grants v. Loans

LDCF, SCCF and Adaptation Fund resources are disbursed as grants, with only the PPCR offering a mixture of grants and concessional loans. The PPCR has received 56 percent of its funds in grant contributions and 44 percent in low interest capital contributions; 93 percent of capital has been provided by the UK, the remainder is from Spain.[98]

The use of loans for adaptation is still contentious. Very poor countries already struggling with basic development goals are unable to meet the fiduciary requirements for debt finance. Investment in adaptation activities may also not generate income with which to repay loans, as projects are often not designed to be income generating, and rates of return are typically much lower than for mitigation projects. Finally, there is an equity implication in requiring developing countries, which are largely not responsible for the problem of climate change but most vulnerable to climate impacts, to pay for adaptation costs.

LDCF, SCCF and Adaptation Fund resources are disbursed as grants, with only the PPCR offering a mixture of grants and concessional loans for financing projects

The PPCR has a number of elements designed to address these concerns. First, loans are highly concessional, with loans for public sector projects set with near zero interest rates implying a 75 percent grant element.[99] Second, countries can choose to access only grant resources, with countries at high risk of debt distress not eligible for concessional borrowing.[100] Third, where loans are requested by countries and provided, the grant element should be sufficient "to cover the additional costs of integrating climate risk and resilience into development activities."[101] In theory, this means that PPCR grants should cover the full cost that climate change adds to baseline levels of development, with the loan element financing additional development and revenue generating activities.

Demand for PPCR credits from pilot countries has been far higher than expected, with an initial loan ceiling of 20 percent of total financing for SPCRs replaced in 2011 with a US$36 million cap. This is perhaps an indication that developing countries see utility in debt-finance to fund certain adaptation

[97] Programming And Financing Modalities For The SCF Targeted Program, The Pilot Program For Climate Resilience (PPCR), Annex II, Guiding Questions to Aid the PPCR Sub-Committee in its Consideration of Strategic Programs.

[98] Report On The Financial Status Of The SCF, June 5, 2014, CTF-SCF/TFC.12/Inf.3 p.17, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_SCF_12_Inf.3_Report_on_the_financial_status_of_the_SCF.pdf

[99] Climate Investment Funds, The Use of Concessional Finance in the PPCR, available at https://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%20_Use_of_concessional_finance_in_the_ppcr.pdf

[100] Climate Investment Funds, MDB Policies And Tools Regarding Debt Sustainability And Their Application In The PPCR, PPCR/SC.9/4, available at http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%204%20MDB%20Tools%20and%20Policies%20DSF.pdf

[101] Climate Investment Funds, Pilot Program On Climate Resilience (PPCR): Financing Modalities, June 15, 2012.

activities. Another challenge, however, has been the lack of capacity in recipient countries, particularly within the private sector, to meet the standards required to access IFC loans, which means that almost all loans set aside for private sector operations remain undisbursed.

Whether financing is provided in loan or grant form also affects the extent to which decision making on project selection can be devolved to the country level. Many countries are not in a position to assume risk regarding loan issuance, and the same may apply to national implementing entities on-lending under a direct access facility.

GCF Status

The GCF has confirmed its commitment to providing grants and concessional loans generally,[102] but has not specified terms for adaptation projects in particular (though financial instruments used to fund adaptation and mitigation projects and programs are also expected to be the same for the initial phase of the Fund's operations).[103] An additional option explored by the GCF for financing adaptation activities are debt swaps, whereby the GCF would purchase highly indebted countries' debt obligations to enable those countries to devote additional resources to adaptation efforts.[104]

Co-financing

Of the four funds, only the Adaptation Fund is designed to cover the full cost of approved projects.[105] Though a handful of Adaptation Fund projects have been co-financed, and application guidelines state that co-financing can increase cost-effectiveness (a criteria assessed by the Board), Adaptation Fund projects are designed to be achievable without additional support, and overall co-financing remains a small percentage of mobilized funds.

As Figure 14 indicates, the LDCF has raised the most co-financing of the four funds (US$ 3.6 billion), though the ratio of fund contributions to co-financing is highest for the SCCF (1:7) and lowest for the PPCR (1:1.5). This is consistent with the mission of the SCCF: to serve as catalyst to leverage and maximize complementary resources from bilateral and other multilateral sources.

Leveraging and co-financing modalities, however, are still poorly defined. All adaptation funds consider other public finance to be co-financing and leveraging of private sector finance is rarely a factor. As illustrated by Figure 15,[106] the bulk of PPCR co-financing derives from MDB contributions (in fact, PPCR financing modalities refer to PPCR funds as co-financing MDB grants

[102] Governing Instrument of the Green Climate Fund, para. 54.

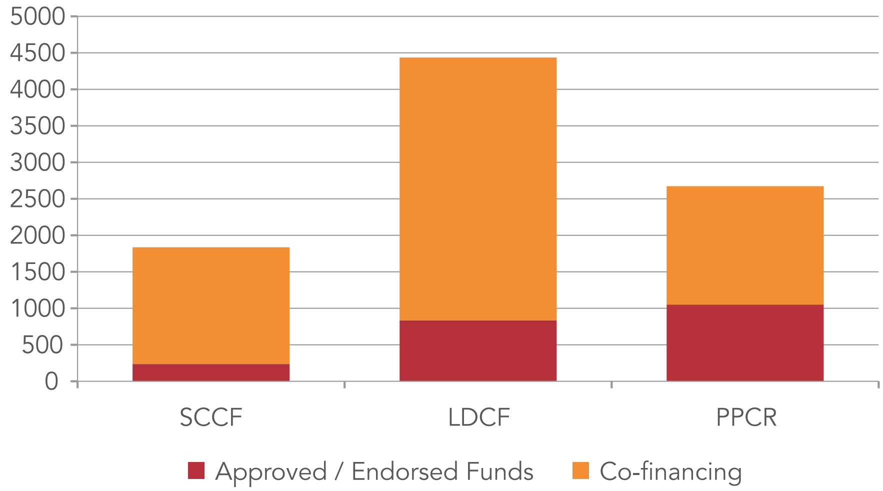
[103] Green Climate Fund, Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility, para. 15, GCF/B.07/08, available at http://gcfund.net/fileadmin/00_customer/documents/MOB201406-7th/GCF_B07_08_Initial_Modalities_fin_20140512.pdf.

[104] Green Climate Fund, Business Model Framework: Financial Instruments, GCF/B.04/06, paras. 33-36, available at http://www.gcfund.net/fileadmin/00_customer/documents/pdf/B-04_06_BMF_Financial_Instruments_10Jun13.pdf

[105] Decision 5/CMP.2 para. 1d.

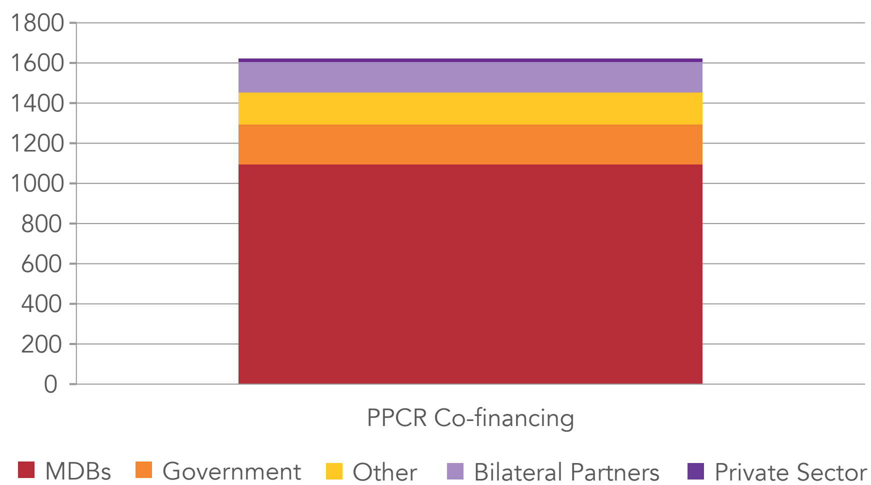
[106] Data collated from PPCR Semi-Annual Operational Report, PPCR/SC.13/3/Rev.1, Annex II, PPCR Portfolio Summary by Pilot.

Figure 14: Financing and co-financing levels in SCCF, LDCF and PPCR.



and loans, and not the other way around). Under the SCCF meanwhile, 44 percent of co-financing is provided by national governments and 36 percent from other GEF administered funding sources.[107] However, across the three funds, co-financing from the private sector is consistently low, around 1 percent for the SCCF and PPCR. According to a 2014 evaluation of the LDCF, only seven percent of projects surveyed indicated the private sector as a source of co-financing.[108] The GCF Governing Instrument indicates that GCF resources should be used to 'catalyze' private sector resource mobilization, though it is not clear how the barriers encountered to date will be overcome.

Figure 15: Breakdown of PPCR co-financing by source.



5.5 Results-management framework

Measuring the impact of adaptation finance is notoriously difficult. Benefits may take many years to emerge, during which time extreme weather events, political instability or local climatic variability can alter baselines and make it difficult to measure the differential effect of projects against business-as-usual

[107] GEF Evaluation Office, Evaluation of the Special Climate Change Fund, p.16, April 2012, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/sccf-vol1.pdf

[108] GEF Evaluation Office, The Least Developed Countries Fund: Review of the Implementation of NAPAs (Unedited), p.11, fig.5, April 2014, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF%20Implementation%20of%20NAPA.pdf

scenarios. Being able to measure the success of projects/programs is vital in order to capture lessons and improve delivery; however, these benefits must be balanced against the cost of information collection, a calculation made harder by the questions around result accuracy.

Indicators identified as particularly difficult to measure over time included baseline levels of private sector finance (and, therefore, the degree to which it is being leveraged), baseline income levels of vulnerable people (and, therefore, the degree to which livelihoods are strengthened by adaptation projects) and local ownership of adaptation processes. Owing to the difficulty of gathering accurate results, numbers are often manipulated, or are not indicative of intended outcomes.

Inherent difficulties measuring adaptation benefits can be exacerbated where indicators are poorly formulated. A 2012 evaluation of the SCCF noted that in the project documentation there was often confusion between outputs and outcomes, noncompliance with SMART criteria[109] (in particular indicators lacking measurability and specificity), vague formulation of indicators and doubtful linking between 'proxy' indicators and project activities. Recommendations included the use of binary indicators (where indicators are answered either yes or no) and scale and results chains (the use of multiple indicators, qualitative and quantitative, for the same outcome). In recognition of these challenges, the GEF secretariat has developed an Adaptation Monitoring and Assessment Tool (AMAT) with suggested outcome and output indicators that can be used in future project development.

Table 3: Summary of intended outcomes of the four adaptation funds.

PROJECT/ PROGRAM LEVEL	• Reduced exposure at national level to climate related hazards and threats • The number of people supported by a project to cope with adverse climate impacts • Strengthened institutional capacity to implement adaptation measures • The incorporation of adaptation considerations into national development and planning strategies • The extent to which funded activities, tools, instruments and strategies are used by intended beneficiaries (e.g. local communities, businesses and so on) • Awareness raised (among decision makers but also local populations) of the impacts of climate change • Increased resilience of natural resource sectors to climate change • Increased ecosystem resilience to climate change • Diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas • Improved policies and regulations that promote and enforce resilience measures
FUND LEVEL	• Project cycle efficiencies (for example, the time taken from project submission to disbursement); • Financing mechanisms (for example, the grant to loan ratio and associated impact, or levels of co-financing) • The extent to which projects/programs are meeting overall fund objectives

[109]SMART refers to indicators that are Specific, Measurable, Achievable and Attributable, Relevant and Realistic, and Time-bound, Timely, Trackable, and Targeted. Evaluation of the Special Climate Change Fund, pp.48-52.

Notwithstanding the above challenges, it is vital that results-management frameworks be as robust as possible to ensure that adaptation finance is being used efficiently and effectively. Table 3 lists the outcomes that are commonly measured across the four funds, at the project/program level by the implementing/executing entity, and at the more strategic level by bodies within the fund itself (for example, fund evaluation units).

GCF Status

The GCF Board has adopted a results-management framework structured according to a 'logic model' whereby project/program outcomes (recorded by executing entities) lead to strategic level impacts (recorded by implementing entities).[110] Outcomes and impacts identified by the GCF resemble the outcomes above in Table 3, though one GCF intended outcome - the increased generation and use of climate data for decision making within government and the private sector - appears to go beyond the 'awareness raising' and 'incorporation of adaptation considerations into decision making' that feature as intended outcomes in the four existing funds.

[110] Green Climate Fund, Initial Results Management Framework of the Fund, GCF/B.07/04 Annex III: Initial adaptation logic model.

6. Recommendations

We now have over a decade of collective experience in adaptation finance under the four principle multilateral adaptation funds. Through these funds we have developed rich lessons in what has worked well and what worked less well in international adaptation finance. This chapter builds on this experience and provides recommendations for the future of adaptation finance through multilateral funds.

This chapter is divided into two parts. First, we present a set of targeted recommendations for adaptation finance based on the experiences within the four adaptation funds. These recommendations are grouped within the five elements of the analytical framework developed in chapter 3. We then outline a set of crosscutting recommendations for current and future adaptation finance.

6.1 Targeted recommendations

Resource Allocation

The allocation of adaptation resources should be country-driven and based on recipient country strategies and priorities.

Climate change impacts are distributed unevenly across sectors and countries. Resource allocation should not be based on donor priorities, but driven by recipient country demands according to their programmatic documents/ national planning strategies. Achieving regional or sectoral balance is less important than targeting resources towards those countries most in need of assistance.

Funds should set a minimum cap and an optional ceiling on adaptation finance per country.

A proportion of adaptation finance should be ring-fenced for least developed countries. A minimum amount should therefore be set aside for each eligible country to ensure that a lack of capacity is not a barrier to accessing larger amounts of support. Where funds are poorly resourced, country ceilings could be introduced to prevent resource capture by higher capacity countries.

Where funds are well resourced, however, there should be no ceiling on country allocation, as this could create an incentive for countries to simply aim for the cap.

Both programmatic and project-based approaches should be encouraged based on in-country capacities.

Given the challenges and resources needed to develop national programs or plans, programmatic approaches will be more appropriate in more advance developing countries as a means to build country ownership and devolve decision-making. Where the preparation of a programmatic document challenges country capacity, however, project-based approaches should still be encouraged to ensure timely access to finance.

Access modalities

Direct access should be scaled up to ensure country ownership of adaptation actions.

The accreditation of national entities can improve country ownership and raise the profile of adaptation activities within government. Direct access to date, however, despite being a priority for the Adaptation Fund in particular, has only played a very minor role in the overall landscape of adaptation finance. Increased emphasis should be placed on scaling up direct access, including developing readiness programs and outreach activities, to ensure low capacity developing countries have the capability to accredit national entities. Implementing partners should be encouraged or required to build NIE capacity as part of their adaptation support for developing countries.

A range of access modalities will be needed to match differing country capacities and needs.

Developing countries have a diversity of adaptation needs and varying capacities to implement and manage adaptation projects. Given the high fiduciary standards and longer processing times needed to accredit NIEs, direct access will not always be appropriate nor desirable for some developing countries. Access modalities should be flexible and allow a range of options for developing country access.

Government institutions should be accredited as national entities, while ensuring full participation of civil society.

Given the importance of mainstreaming adaptation within government and prioritizing and developing national adaptation policies and plans, the accreditation of NIEs should, where possible, be within a government institution. At the same time, mechanisms should be in place to ensure that governments meet the appropriate standards to receive international adaptation finance.

A clear relationship should be established between national implementing entities and designated authorities

At a minimum, clear guidelines should be established outlining the role and relationship of DAs in endorsing or objecting to project and program proposals. Under a more coordinated model, DAs and NIEs could be integrated under a single interministerial body that engages with civil society and other relevant and affected stakeholders. Models outside of adaptation finance can be drawn upon including the Global Health Fund and the Guyana REDD+ Investment Fund.

Adaptation funds should work with the same national entities and designated authorities in each country

The emergence of multiple adaptation funds has resulted in an increase in fragmentation between NIEs and DAs at the national level. Where possible, a consolidation and coordination of NIEs and DAs should be encouraged to reduce competition and a lack of coordination at the country level.

Financing Instruments

Both grant based and concessional loans should be made available for adaptation activities.

The majority of adaptation activities that do not generate financial returns will need grant-based finance. Certain activities, however, such as climate resilient agriculture, that may generate returns on investment can be financed through concessional loans, where the grant component covers the incremental costs of adaptation. This can be particularly appropriate for activities that engage the private sector.

Increased coordination of international public funds is needed to improve efficiency of adaptation projects and programs.

The current fragmentation of multilateral finance creates unnecessary burdens on recipient countries to comply with differing access modalities of individual funds. Coordination of international finance is needed to achieve cost effective and scaled up financing of adaptation projects and programs.

Co-financing efforts should focus on leveraging private sector finance and in certain cases recipient country budgets.

Adaptation funds should not consider other international funding sources as co-finance. International finance should instead aim to leverage private sector finance (both domestic and foreign direct investment) to be more climate-resilient and, where appropriate, leverage domestic public budgets to mainstream adaptation measures into existing expenditures.

Programming and approval process

Enhanced direct access should be piloted for more advanced developing countries to improve country ownership and reduce management costs and processing times.

The management of international adaptation finance at the scale required across all developing countries will require considerable (and potentially insurmountable) financial oversight. To improve country ownership and reduce the burden on centralized decision-making bodies, advanced developing countries could be evaluated for funding at the programmatic level rather than at the project-by-project level. Models outside of adaptation finance that have successfully adopted enhanced direct access modalities, such as the Amazon Fund, can be replicated.

The risks from delaying disbursement of adaptation finance are potentially as great as the risks from fund misallocation, and greater emphasis should be placed on timely disbursement of adaptation finance.

Disbursements to the countries have lagged overwhelmingly compared to allocations and commitments made by the funds to their agencies. The damage caused by climate change and the cost of adaptation measures increase the longer investment is delayed. In addition, country needs are often urgent and delays in addressing these needs can be costly. Adaptation funds should streamline and simplify programming and approval processes to ensure that adaptation funds are disbursed in a timely manner. In certain cases, e.g. upon completion and endorsement of a programmatic document, up-front finance should be available to bridge the gap between programming steps.

Investments should be delivered according to periodically updated country-driven programmatic documents.

The preparation of programmatic documents should not be considered as a one-off activity to access finance but rather a process within government that engages all relevant stakeholders and integrates adaptation measures into national planning strategies. Funding should be disbursed according to current and relevant programmatic documents and should be reviewed on a periodic basis according to changing priorities and needs.

Results-management framework

Results-management frameworks should inform the future management and decision-making within adaptation funding.

At the outset, results-management frameworks should be closely linked with the design of allocation criteria and programming and approval processes. A periodic analysis and review of a fund's portfolio should then be used to inform the redesign of these criteria based upon the successful (or unsuccessful) completion of individual programs and projects. Project evaluations should be publicly available and key lessons circulated between recipient countries.

Results-management frameworks should strike a balance between overly precise indicators on the one hand and vague, catch-all indicators on the other.

Due to the inherent uncertainties in climate change impacts and evolving country needs, a degree of uncertainty about the effectiveness of individual investments is inevitable. Results-management frameworks should avoid the creation of artificially over-precise indicators for adaptation results. At the same time, indicators should be clearly usable, and comparable within and across countries.

6.2 Crosscutting recommendations

Developing countries have a range of needs and country circumstances. Multilateral adaptation funds should allow for a diversity of approaches to ensure that all eligible countries are able to access adaptation finance.

Potential recipients of adaptation finance vary from advanced developing economies to the least developed countries and small-island developing states. There is great divergence across these countries, both in terms of their ability to access adaptation resources and their capacity to effectively absorb resources. These countries also present a huge variety of adaptation needs, and their needs are likely to change dramatically and unpredictably over the coming decades. This diversity will have to be accounted for in the way that adaptation finance is delivered. The ability to change and adapt to change should thus be an organizing principle of adaptation finance.

Adaptation finance should seek to develop recipient country capacity to ensure that shared accountability can be taken at the national level for the implementation of projects and programs.

Adaptation finance should seek to move beyond country ownership to country accountability. Recipient countries should be encouraged to move towards a model of more direct access, even where projects and programs are being implemented through multilateral implementing entities. This would include the development of interministerial coordination bodies for decision making on adaptation programming; mainstreaming of adaptation considerations into national planning processes; and the development of fiduciary systems with the capacity to handle large scale flows of adaptation finance. Emphasis should be placed on building national capacity - where it does not yet exist - in the long-term, rather than outsourcing adaptation activities to non-governmental organizations as NIEs and an over-reliance on MIEs in the short-term.

Coordination at both the national and the international level is a key factor for ensuring the overall success of adaptation strategies in a country.

Successful climate adaptation will require a multitude of organizations and other stakeholders to cooperate in the financing and delivery of projects and programs. This will require the coordination of multilateral and bilateral funds, MDBs and other international institutions, with governmental, non-governmental and private actors at the national level. Partnerships will be most effective where funding criteria are harmonized at the donor level, and recipient governments can establish and coordinate multi-stakeholder bodies at the national level. The joint missions undertaken during the planning stage of the PPCR provide some indication of how such partnerships might be assembled. It is vital, however, that partnerships are led by national governments and align with national development strategies that integrate climate change into decision making.

At this formative stage in international adaptation finance, bilateral and multilateral funds should be willing to take risks. Trying different approaches will be essential to gain experience in what works and what does not work before financial flows are fully scaled-up.

The delivery of adaptation finance is still at a relatively early stage, and financial flows are modest in comparison to the adaptation challenges facing developing countries. Excessive risk aversion in the early stages will prevent institutions from developing more sophisticated approaches to risk management going forward. This requires a certain willingness to fail, and recognition that an overly cautious approach to the provision of funds may stifle the innovation and capacity development at a national level that a 'no regrets' approach could better foster.

Future adaptation funds, including the GCF, should avoid the establishment of entirely new mechanisms and processes in the design of its adaptation window, and seek to build on and improve existing systems for adaptation finance.

Recipient countries, implementing entities and fund managers now have over a decade of experience managing adaptation finance. In that time, many recipient countries have built institutional capacity and developed comprehensive adaptation plans, and have developed a familiarity with the modalities and procedures of existing adaptation funds. Alongside this, multilateral funds have increased the transparency of their selection and approval processes while better communicating their funding requirements to potential beneficiaries. Increased familiarity with existing processes and the closer alignment of national planning documents, project designs and fund objectives, is largely responsible for reducing the turn-around time in accessing adaptation finance. Developing entirely new institutions and processes in parallel to existing ones could undermine this institutional knowledge and lead to needless duplication of effort.

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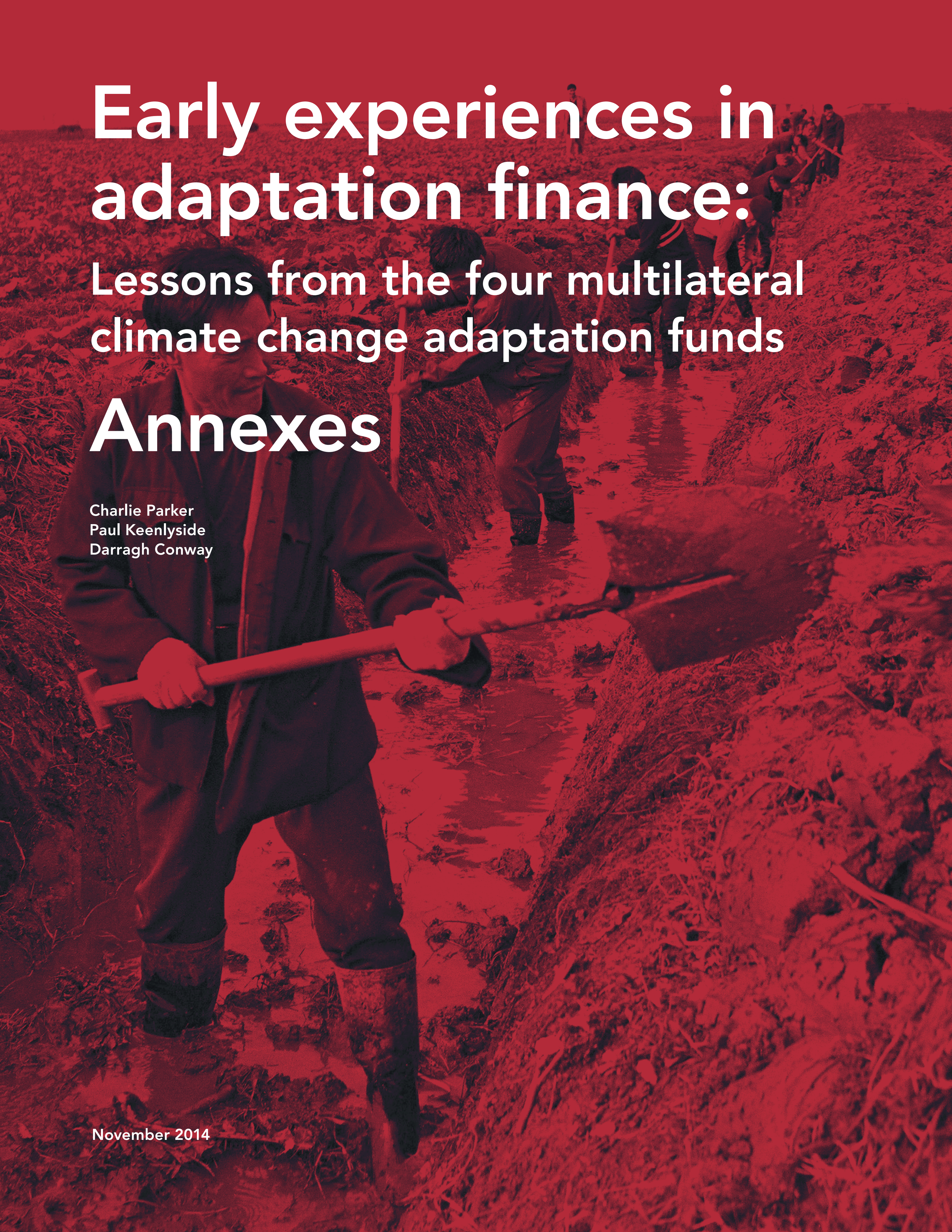

Early experiences in adaptation finance:

Lessons from the four multilateral climate change adaptation funds

Annexes

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November 2014

CLIMATE FOCUS

WWF

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change adaptation funds

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November 2014

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Contents

1. Adaptation Fund

The Adaptation Fund was established to finance concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol and are particularly vulnerable to the adverse effects of climate change. Over the past three years, the fund has dedicated more than US$ 232 million to increase climate resilience in 40 countries around the world.

1.1 History, Overview and Current Status

The Adaptation Fund derives from a provision in the Kyoto Protocol calling on developed countries to ensure that a share of the proceeds of the Clean Development Mechanism are used to "assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation".[1] This led to the formal establishment of the Adaptation Fund at the Marrakesh COP 7 in 2001 with the central aim of financing "concrete adaptation projects and programmes in developing country Parties that are Parties to the Protocol".[2]

It took until 2005 for the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) to agree on broad guidelines for the Adaptation Fund, following which the CMP decided on a further set of principles in 2006. These principles focus on:

1. Balanced and equitable access to the fund;
2. Funding on a full adaptation cost basis (i.e., no additional cost or incremental cost approach);
3. Accountability in management, operation and use of funds;
4. Short and efficient project development and approval cycles, and expedited processing of eligible activities; and

[1] Kyoto Protocol to the United Nations Framework Convention on Climate Change, Dec. 10, 1997, U.N. Doc. FCCC/CP/1997/7/Add.1, art. 12, para. 8.

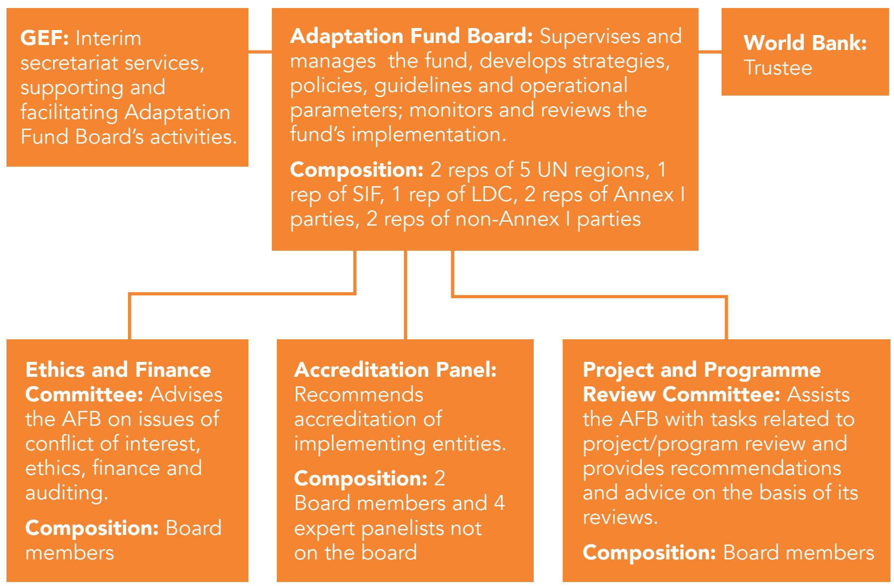
[2] Decision 10/CP.7 para. 1. U.N. Doc. FCCC/CP/2001/13/Add.1.

5. Country-driven projects, taking into account existing national planning exercises and development activities.[3]

Only after the CMP's third meeting, in Bali in 2007, did it begin the development of operational modalities, agreeing on the creation of the Adaptation Fund Board (AFB) structure, its composition and decision making modalities. Agreement was also reached on access modalities, and it was decided that the GEF should serve as Secretariat[4] and the World Bank as trustee to the Adaptation Fund on an interim basis. The Adaptation Fund became fully functional in 2009 when the AFB adopted *Operational Policies and Guidelines for Parties*,[5] which explain how parties can access the AF's resources. The first AF projects were approved in September 2010,[6] thirteen years after the adoption of Kyoto Protocol in 1997.

The Adaptation Fund governance structure is set in Figure 1. A key feature is a governing board comprising a majority of members from developing countries.

Figure 1: Adaptation Fund governance structure.



The Adaptation Fund was originally intended to be funded primarily by a 2% share of certified emission reductions (CERs) generated by certain Clean Development Mechanism (CDM) project activities, with Annex I Parties invited to provide additional funding in the form of pledges.[7] However, following the post-2012 collapse in CER prices, a far greater proportion of Adaptation Fund resources have had to be raised through voluntary pledges than was initially anticipated.

3 See Decision 5/CMP.2 para.1. U.N. Doc. FCCC/KP/CMP/2006/10/Add.1.

4 In order to provide these services "a dedicated team of officials shall be identified to render secretariat services to the Board in a functionally independent and effective manner" as per para. 18 of decision 1/CMP.3 and the MOU between the CMP and the GEF Council

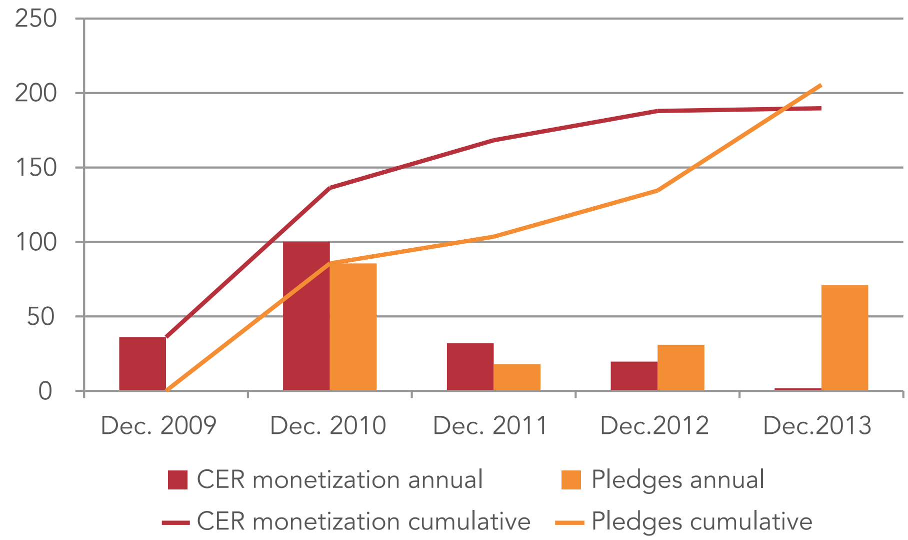
5 Adaptation Fund, Operational Policies And Guidelines For Parties To Access Resources From The Adaptation Fund, March 2009, updated version available at https://www.adaptation-fund.org/sites/default/files/OPG%20amended%20in%20November%202013.pdf

6 See Adaptation Fund, The Adaptation Fund Board Approves Financing for Projects, Operationalizes the Direct Access Modality, Sept. 20, 2010, available at https://www.adaptation-fund.org/content/794-adaptation-fund-board-approves-financing-projects-operationalizes-direct-access-modality

7 Decision 17/CP.7 para. 15a. U.N. Doc. FCCC/CP/2001/13/Add.2.

As of December 2013, the Adaptation Fund had received a total of US $395.32 million, with US $189.79 million generated through the proceeds of CER sales and $205.53 million received from Annex I Party pledges, representing 52 percent of the total (Figure 2).[8] By way of contrast, in December 2010 pledges accounted for only 39 percent of AF capitalization. Most of the proceeds from CER sales were generated between 2009 and 2011, with AF contributions peaking in 2010.[9] In 2013, almost all proceeds came from pledges. In order to secure more sustainable funding streams, the AFB has created a Fund Raising Task Force with a target of raising US $80 million per year in 2014 and 2015.[10]

Figure 2: Contributions to the Adaptation Fund (US $ millions).



1.2 Allocation

Adaptation Fund eligibility is limited to those developing country Parties to the Kyoto Protocol identified as "particularly vulnerable to the adverse effects of climate change". This includes "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".[11] In allocating funds between eligible Parties, the AFB must take into account the following criteria:

1. The level of vulnerability;
2. The level of urgency and risks arising from delay;
3. The need to ensure access to the fund in a balanced and equitable manner;
4. The potential to capture lessons learned in project and programme design and implementation;

[8] Adaptation Fund Trust Fund: Financial Report Prepared By The Trustee, 12 Feb. 2014, AFB/EFC.14/7. Figure 2 generated with data available from Adaptation Fund financial reports, available on Adaptation Fund website.

[9] See CER Sales Proceeds, Id at 6.

[10] AFB/B.23/7 para. 27a.

[11] Adaption Fund, Operational Policies And Guidelines For Parties To Access Resources From The Adaptation Fund, Annex I, Strategic Priorities, Policies, And Guidelines Of The Adaptation Fund Adopted By The CMP, para. 10

5. Where applicable, the achievement of regional co-benefits to the extent possible;

6. The maximization of multi-sectoral or cross-sectoral benefits;

7. The adaptive capacity to the adverse effects of climate change.[12]

In March 2011 the AFB decided to cap resources at US $10 million per eligible host country.[13] This cap is a temporary measure designed to ensure equitable fund distribution in the context of limited availability, and will be reassessed periodically according to available resources. As Figure 4 indicates, grant amounts have been distributed fairly evenly between Asia Pacific, Africa and Latin America and the Caribbean, with the levels of funding proportionate to the number of projects approved. Further, there has been a relatively even distribution of funding between sectors as illustrated by Figure 3.

Figure 3: Adaptation Fund project funding by region.

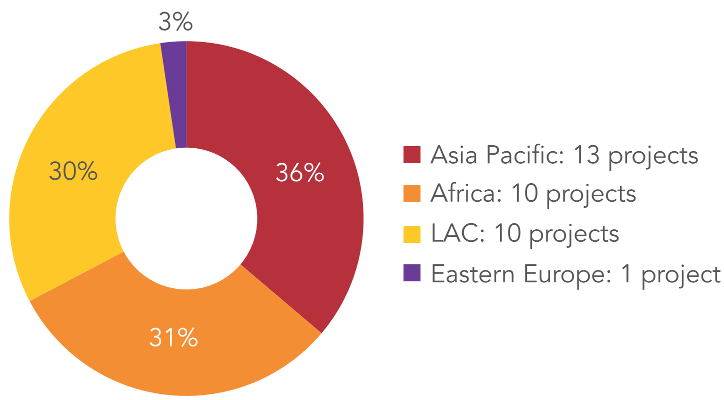
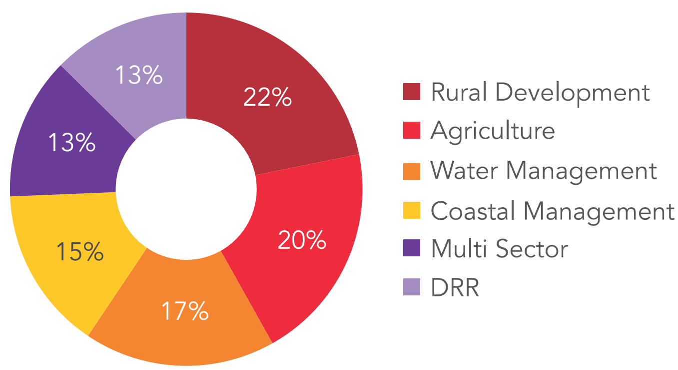


Figure 4: Adaptation Fund project funding by sector.



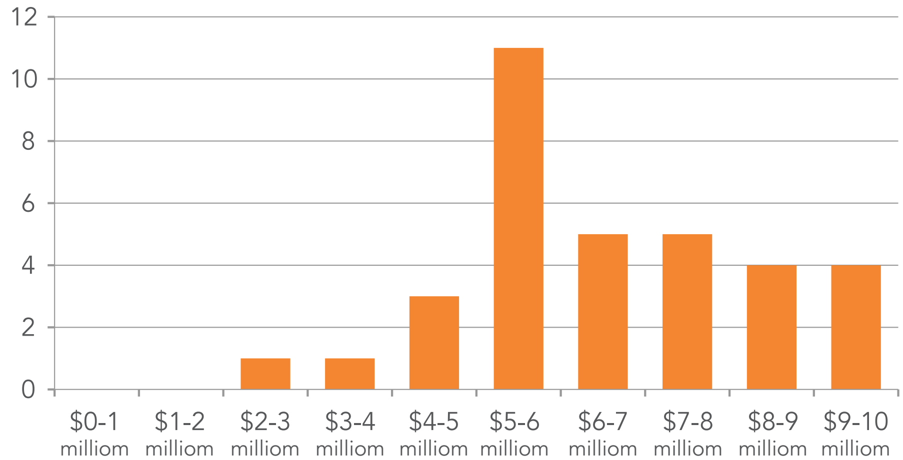
As of May 2014, approximately US $226 million has been allocated in grant amounts between 34 projects and programmes, with approximately US $92 million disbursed.[14] As illustrated by Figure 5, grants commonly fall in the US $5-6 million range, with an average grant size of US $6.6 million.

[12] Id. para. 16

[13] AFB/B.13/6 para. 67.a.

[14] Figures from Adaptation Fund website, available at https://www.adaptation-fund.org/funded_projects/interactive

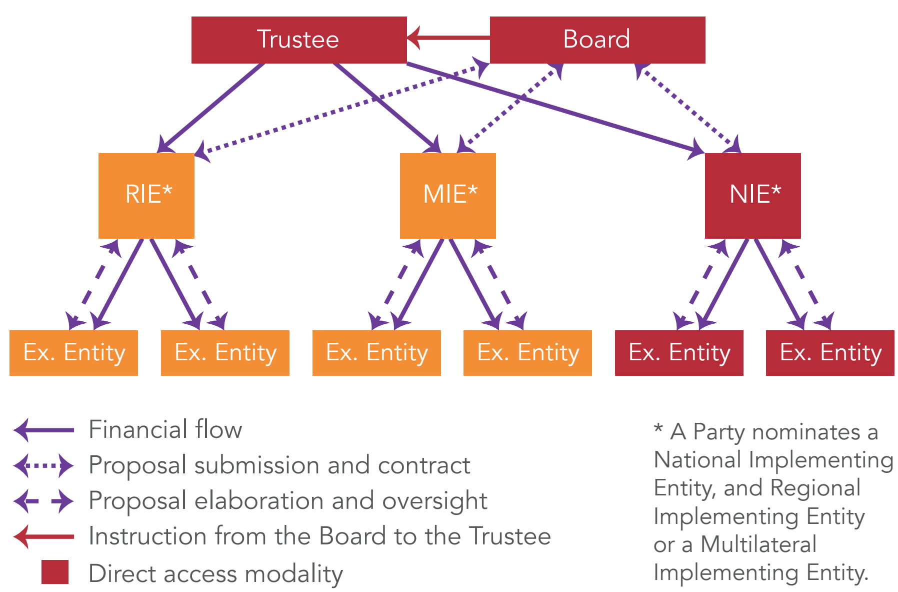
Figure 5: Adaptation Fund grant allocations by size.



1.3 Access Modalities

Recipients can access Adaptation Fund resources 'indirectly' through traditional multilateral channels, or 'directly' through country based accredited institutions known as National Implementing Entities or NIEs (Figure 6).[15] The so called 'direct access' approach is an innovation of the Adaptation Fund designed to improve the capacity of developing countries to manage funds and projects, strengthen country ownership of projects and elevate the profile of climate change and adaptation issues at the national level. Under the direct access modality, NIEs are responsible for project implementation through executing entities and bear all financial, monitoring and reporting responsibilities.[16]

Figure 6: Adaptation Fund access modalities.



Direct Access Through NIEs

As a first step to accessing AF resources directly, governments must appoint a Designated Authority (DA), an officer within the government administration

[15] Operational Policies And Guidelines For Parties To Access Resources From The Adaptation Fund, paras. 26–27.

[16] Id. para. 28.

that represents the government in its dealings with the AFB and its secretariat.[17] DAs are typically located within national environment ministries, and less frequently ministries of finance or foreign affairs. The DA will sometimes identify and select an appropriate entity in the country with the best potential of becoming an NIE, though each country has its own process for identifying and selecting a potential NIE. The DA must communicate that selection to the Adaptation Fund but s/he does not necessarily make the decision within the country.

Once nominated by the DA, the elected NIE must complete a standardized application and gather supporting documentation for submission to the AFB Secretariat. The application is analyzed and reviewed by an Accreditation Panel, which then provides its review and recommendations to the AFB. The AFB makes the final decision either to approve the accreditation or request further information. Once granted, accreditation is valid for a period of five years with the possibility of renewal.[18]

To be successful in the accreditation process, NIEs must satisfy certain fiduciary standards and demonstrate an ability to comply with the AFB's Environmental and Social Policy. Fiduciary standards cover three areas: financial integrity and management; institutional capacity; and transparency and self-investigative powers.[19] Key requirements are the periodic and independent auditing of transactions and balances, the presence of transparent procurement procedures and the capacity to undertake monitoring and evaluation. The AFB's Environmental and Social Policy, approved in November 2013, requires that projects be designed and implemented to be consistent with the protection of natural habitats, biological diversity and public health, and respect for labor rights, indigenous peoples' rights and gender equity.[20]

As of May 2014, 16 entities had been accredited as NIEs.[21] This is a marked improvement on the early days of the Adaptation Fund, when language difficulties, confusion surrounding fiduciary standards and lack of clarity around supporting documentation required with each submission were cited as significant barriers to NIE accreditation.[22] A 2012 review conducted by the Adaptation Fund concluded that meeting the accreditation criteria was challenging but achievable for Least Developed Countries and Small Island Developing States, noting that autonomous entities with experience working with multilateral development organizations were more likely to gain accreditation than government ministries.[23] Another view is that though many of the initial NIE applications failed to gain accreditation, over time the accreditation process has become better understood, with explanatory documents such as Adaptation Fund's *NIE Accreditation Toolkit* helping to clarify the requirements and improve the quality of applications.

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[17] Id. para. 21.

[18] Id. para. 35.

[19] Id. para. 32.

[20] Adaptation Fund, Environmental and Social Policy, available at https://www.adaptation-fund.org/sites/default/files/Environmental%20&%20Social%20Policy%20(approved%20Nov2013).pdf

[21] https://www.adaptation-fund.org/national-implementing-entities

[22] See AFB/B.11/4 Annex, Problem Solution Matrix, available at https://www.adaptation-fund.org/system/files/AFB.B.11.4%20Report%20of%20the%20Accreditation%20Panel.pdf

[23] Adaptation Fund, The Adaptation Fund and Direct Access, available at http://www.adaptation-fund.org/sites/default/files/DirectAccessMemo29_Oct_2012_0.pdf

One consequence of the slow onset of NIE accreditation is that to date, of the 34 funded projects, only five have been submitted directly through NIEs, representing 24 percent of total grant amounts. To promote direct access and ensure the availability of funds through NIEs, in March 2012 the AFB placed a 50 percent cap on financing through MIEs, requiring that the other 50% flow through NIEs.[24] Since MIE project proposals have exceeded 50% of available funding,[25] all excess proposals that have met initial project review criteria have been placed in a pipeline pending additional funding.

In recognition that more is needed to be done to support NIEs seeking accreditation and increase the number of high quality project proposals submitted to the Board by accredited NIEs, in November 2013 the AFB approved a Readiness Programme.[26] With a budget of approximately $1 million, the first phase of the Readiness Programme will provide technical assistance, training sessions and workshops for NIEs to enable NIEs to meet the Adaptation Fund's fiduciary standards and increase the capacity of NIEs to appraise and assess adaptation projects. Through the readiness programme, grants are set-aside for two purposes: South-South cooperation, which allows countries without an NIE to access funding to work with an existing NIE to assist with the accreditation process; and technical assistance grants for accredited NIEs to help build capacity to address environmental and social risks within projects. Targets for the first phase of the Readiness Programme (a two year period) include the accreditation of at least eight additional NIEs and the approval of at least 10 project proposals prepared by NIEs.[27] The Readiness Programme is a significant departure for the Adaptation Fund, with the AFB previously of the view that to fund capacity building of applicant entities would divert resources from the Adaptation Fund's core task of funding concrete adaptation projects.[28]

Access Through MIEs

Countries can also access Adaptation Fund resources indirectly by submitting proposals through Multilateral Implementing Entities (MIEs). MIEs are multilateral institutions and regional development banks invited by the AFB to serve as implementing entities. Though MIEs have to meet the same fiduciary standards and demonstrate capacity to comply with the AFB's Environmental and Social Policy, in practice accreditation is straightforward as potential MIEs are likely to have equivalent standards and policies already in place.

As of May 2014, 11 entities have been accredited as MIEs. As indicated above, 29 of the 34 projects approved for funding have been submitted through MIEs, representing 76 percent of total grant amounts. Of those, 23 have been submitted through UNDP, representing 62 percent of total grant amounts.

1.4 Programming and Approval Process

Implementing entities are responsible for submitting project or programme proposals to the AF. For a project/programme to be submitted, it must

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[24] AFB/B.12/9.

[25] This figure is calculated based on the sum of funding already allocated and funding that remains available for allocation. See id.

[26] AFB/B 22/24.

[27] See AFB/B.23/5.

[28] AFB/B.11/4 para. 15.

be endorsed by the Designated Authority (DA) on behalf of the national government, and the DA must confirm that the project/programme proposal is consistent with the government's national or regional adaptation priorities. Following DA endorsement, the review and approval process is as follows:

1. The implementing entity submits a concept/fully-developed project document to the AF Secretariat, based on a template approved by the Board. A disbursement schedule with time-bound milestones will be submitted together with the fully developed project/programme document.

2. The Secretariat screens all proposals for consistency and provides a technical review based on the criteria approved by the Board (see below). It will then forward the proposals and the technical reviews to the Project Programme Review Committee (PPRC) for review. The PPRC will review the proposals and give its recommendation to the Board.

3. The Board either endorses, does not endorse, or rejects a proposal with a clear explanation to the implementing entities. Rejected proposals cannot be resubmitted.[29]

The Adaptation Fund distinguishes two categories of projects and programs:

1. Small-sized projects and programs request up to USD 1 million;

2. Regular-sized projects and programs request USD 1 million or more.[30]

Small-sized projects and programs go through the review and approval process once, while regular-sized projects and programs go through it twice: first as a brief project concept, and then when the AFB approves the concept as a fully developed proposal. As of July 2013, 59 proposals had been submitted to the Adaptation Fund, of which 34 (58 percent) were approved. However, of those 34, only 15 were fully approved by the AFB at first proposal, with the remaining 19 requiring resubmission either at concept or final proposal stage. No proposals had been rejected by the board, though four had been withdrawn by the implementing entities without further submission.[31]

The CMP have developed eight criteria according to which the AFB should prioritize project and programme proposals.[32] The Adaptation Fund Secretariat have provided further guidance for applicants on meeting these criteria.[33] The CMP criteria and Adaptation Fund Secretariat guidance are described below.

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[29] Operational Policies And Guidelines For Parties To Access Resources From The Adaptation Fund, paras. 39-41.

[30] Id.

[31] Figure from The Germanwatch Adaptation Fund Project Tracker, available to download at http://af-network.org/4889

[32] Operational Policies And Guidelines For Parties To Access Resources From The Adaptation Fund, Annex I, Strategic Priorities, Policies, And Guidelines Of The Adaptation Fund Adopted By The CMP, para. 15.

[33] Adaptation Fund, Instructions For Preparing A Request For Project Or Programme Funding From The Adaptation Fund, available at https://www.adaptation-fund.org/sites/default/files/OPG%20ANNEX%204-2%20Instructions%20(Nov2013).pdf

1. Consistency with national sustainable development strategies, including, where appropriate, national development plans, poverty reduction strategies, national communications and national adaptation programmes of action and other relevant instruments, where they exist.

At a minimum, the proposal must identify the most important adaptation plans and relevant sectoral plans, and explain in detail how the project will achieve compliance with these. For example, in a programme proposal to enhance the resilience of coastal areas in Jamaica, the proposal describes how the goals of Jamaica's National Development Plan, and National Ocean and Coastal Zone Management Policy align with the specific goals of a beach erosion prevention project for which Adaptation Fund finance is sought.[34]

2. The economic, social and environmental benefits from the projects.

Adaptation Fund guidance states that proposals should describe the economic, social and environmental benefits with reference to the most vulnerable communities, with an emphasis on equitable distribution of benefits. Where possible, benefits should be quantified. A proposal must also demonstrate compliance with the AFB's Environmental and Social Policy as described above.

3. The ability to meet national technical standards, where applicable.

These include standards for environmental impact assessment, water quality regulations and other sector specific regulations as required by national legislation.

4. The cost-effectiveness of projects and programmes.

Though quantitative estimates of cost-effectiveness are not always required, proposals should compare project costs with alternative adaptation options. For example, in a proposal to assist farmers to adapt to uncertainty of Nile water flow in Egypt, the chosen adaptation measures are farm based water conservation measures, such as introducing irrigation/rotation schedules. The proposal compares the cost effectiveness of these measures against alternatives such as dam building and increasing reservoir capacity.[35]

5. The arrangements for management, including for financial and risk management.

Proposals should include a table detailing different categories of risk, the level of risk and how risks will be managed. For example, financial risk may be mitigated by setting aside additional resources from public budgets to be made available in the event of an unforeseen increase to project costs.

6. The arrangements for monitoring and evaluation and impact assessment.

An M&E plan should be consistent with Adaptation Fund M&E guidelines, structured along results-based management lines and able to capture the causal relationship between activities, outputs, outcomes and impacts over time. M&E should also address social and environmental risks associated with the proposal.

[34] See Jamaica's Programme Proposal, p.60, available at https://www.adaptation-fund.org/sites/default/files/Jam%20Proposal%20for%20posting.pdf

[35] See Egypt Project Proposal, p.42, Table 8, available at https://www.adaptation-fund.org/sites/default/files/Final%20egypt.pdf

7. The avoidance of duplication with other funding sources for adaptation for the same project activity.

Potentially overlapping projects should be clearly described in a proposal, exploring interaction and complementarity between existing projects and those contained in the proposal.

8. Evidence of a move towards a programmatic approach, where appropriate.

Adaptation Fund Operational Policies and Guidelines describe an adaptation programme as "a process, a plan, or an approach for addressing climate change impacts that is broader than the scope of an individual project". However, the term 'programmatic approach' does not appear in AF Secretariat's project application guidelines, is not used widely in approved project documents and is arguably the least well-defined of the above criteria.

An additional criterion not contained in the annex but included in Adaptation Fund Secretariat's project application guidelines is the sustainability of the project/programme outcomes, and whether adaptation benefits can be scaled up and replicated at the end of the funding cycle. Sustainability could be demonstrated by pointing to policy and governance changes expected to deliver long term benefits, or provisions for the maintenance of newly developed infrastructure.

A final criterion is the degree to which consultation has taken place with potential implementation partners, project beneficiaries and other key stakeholders. Stakeholders could include local communities, government bodies, the private sector, CSOs or universities/research centers. The level of consultation required will vary according to expected involvement of stakeholders, though their views should be taken into account at the concept stage and reflected in the design of the final proposal. Where relevant, particular emphasis should be given to the views of marginalized groups.

1.5 Financing Instruments

Adaptation Fund finance is grant based and covers the full costs of approved projects.[36] Although it is recognized that co-financing from other sources can increase the cost effectiveness of projects, the Adaptation Fund does not require co-financing for the projects it funds, and outputs and outcomes of Adaptation Fund supported projects should be achievable without additional support.[37] In actual fact, some Adaptation Fund supported projects have mobilized matching levels of co-financing from government and multilateral sources,[38] whilst for other projects co-financing represents a very small percentage of overall funding,[39] or does not feature at all.[40]

[36] Decision 5/CMP.2 para. 1d.

[37] Adaptation Fund, Instructions For Preparing A Request For Project Or Programme Funding From The Adaptation Fund, p.8.

[38] See Mongolia Project/Programme Proposal, available at https://www.adaptation-fund.org/sites/default/files/Approved%20Project%20Document.pdf

[39] See Pakistan Project/Programme Proposal, available at https://www.adaptation-fund.org/sites/default/files/Pakistan%20for%20posting.pdf

[40] See Senegal Project/Programme Proposal available at https://www.adaptation-fund.org/sites/default/files/SENEGAL_Adapation%20project_full_28%20oct%202010_0_0.pdf

Table 1: Adaptation Fund Strategic Results Framework.

EXPECTED OUTCOMES	CORE OUTPUTS
Outcome 1: Reduced exposure at national level to climate related hazards and threats.	Output 1: Risk and vulnerability assessments conducted and updated at national level.
Outcome 2: Strengthened institutional capacity to reduce risks associated with climate-induced economic losses.	Output 2.1 Strengthened capacity of national and regional centers and networks to rapidly respond to extreme weather events. Output 2.2 Targeted population groups covered by adequate risk reduction systems.
Outcome 3: Strengthened awareness and ownership of adaptation and climate risk reduction processes at local level.	Output 3:Targeted population groups participating in adaptation and risk reduction awareness activities.
Outcome 4: Increased adaptive capacity within relevant development and natural resource sectors.	Output 4 and 5 Vulnerable physical, natural and social assets strengthened in response to climate change impacts, including variability.
Outcome 5: Increased ecosystem resilience in response to climate change and variability-induced stress.	
Outcome 6: Diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas.	Output 6. Targeted individual and community livelihood strategies strengthened in relation to climate change impacts, including variability.
Outcome 7: Improved policies and regulations that promote and enforce resilience measures.	Output 7: Improved integration of climate resilience strategies into country development plans.

The Adaptation Fund does not feature a private sector facility, and there is no requirement to demonstrate that Adaptation Fund finance will lead to mobilization of private investment. Nevertheless, private actors can still play an important role as executing entities contracted by the implementing entities to deliver adaptation projects, either alone or through public private partnerships. In Senegal for example, a project to protect against coastal erosion in a tourist resort has enlisted private companies to conduct feasibility studies, and design and construct protective infrastructure securing hotels and fishing communities. This represents a scaling up of adaptation work previously undertaken by the private sector under state supervision on a much more localized basis.[41]

In selecting private companies to deliver projects as executing entities, implementing entities are expected to follow transparent and competitive procurement procedures consistent with recognized international practice. The institutional capacity to design and deliver acceptable procurement procedures is one of the key requisites that implementing entities must demonstrate in order to gain accreditation.

1.6 Results-management Framework

To access Adaptation Fund resources, applicant countries must include project baselines and a results framework as part of their application, setting out expected results, indicators of success, baseline data and targets. The

[41] Id.

Adaptation Fund has prepared a guidance document to assist applicant countries select an appropriate set of indicators and describe the monitoring, reporting and evaluation procedures it will adopt in order to measure progress towards targets against baselines.[42]

Table 2: Progress against Adaptation Fund knowledge management framework.

ACTIONS	OUTPUTS	PROGRESS AS OF MAY 2014
1: Identify Project Learning Objectives (PLO)	Learning Objectives are identified and met New data and knowledge is generated	Leaning objectives for individual projects do not appear to have been completed and made publicly available.
2: Provide guidance to the country to carry out their KM activities	Central repository for AF project Lessons learned List of available resources accessible on the Fund's website KM Toolkit for projects developed	The AF Board have developed some general knowledge sharing guidelines.[43] A KM toolkit has yet to be developed. Lessons learned are available on the Fund's website in performance reports for funded projects, though these are not collected in one place.
3: Collect and analyze projects/ programmes data, information and knowledge	Data collected and tagged based on the Fund's Learning themes Project web page collect information in the Fund's website Analysis and reviews of Lessons learned at thematic –level Project Highlights Series	Project highlights do not appear to have been compiled and a thematic level review of lessons learned does not appear to have been completed. Each project does have an updated webpage within the Fund's website.
4: Promote collaboration and knowledge sharing on adaptation issues, enhancing the engagement with Civil Society	Videoconferences, seminars, and materials that increase capacity within the recipient Countries Strengthen links with Civil Society	The AF Board have undertaken a number of 'dialogues' with Civil Society, which have been made available through webcasts.[44]
5: Systematize and share the Fund's experiences in innovative funding and operating modalities	Experiences in direct access, monetization, small donation and, accreditation of NIEs are systematized	The AF have hosted a number of events/seminars to share experiences on funding and operating modalities. 'Southsouth' grants have been made available to increase collaboration among accredited National Implementing Entities (NIEs) and those seeking accreditation.[45]
6: Develop an improved system to track the Fund's decisions and documents in order to improve its effectiveness and enhance transparency	Document/decision database in place Search functionality added.	Unclear.

[42] Adaptation Fund, Results Framework and Baseline Guidance, available at http://adaptation-fund.org/sites/default/files/Results%20Framework%20and%20Baseline%20Guidance%20final%20compressed.pdf

[43] Available at https://www.adaptation-fund.org/sites/default/files/AFB.B.19.Inf_.5%20Knowledge%20Sharing%20Guidelines.pdf

[44] https://www.adaptation-fund.org/media/dialogue-civil-society

[45] https://adaptation-fund.org/node/3938

The Adaptation Fund Strategic Results Framework sets out the long term goals, outcomes and outputs at the fund level. To be successful, project level results frameworks submitted by applicant countries must align with the broader fund objectives, which are summarized in Table 1.[46]

In 2011 the Adaptation Fund Board developed a knowledge management framework in order to boost the capture, systematization and transmission of lessons learned.[47] Six action areas were identified to be completed by the Fund by 2013, though as Table 2 demonstrates, some of the actions were still incomplete as of May 2014.

[46] For the full framework, see AFB/EFC.4/3.

[47] See AFB/EFC.6/3, available at https://www.adaptation-fund.org/sites/default/files/AFB.EFC_.6.3%20Knowledge%20management%20strategy.pdf

2. Pilot Program for Climate Resilience (PPCR)

The Pilot Program for Climate Resilience is a targeted program of the Strategic Climate Fund (SCF), which is one of two funds within the framework of the Climate Investment Funds (CIF). The PPCR funds technical assistance and investments to support countries' efforts to integrate climate risk and resilience into core development planning and implementation. It provides incentives for scaled-up action and initiates transformational change by catalyzing a shift from "business as usual" to broad-based strategies for achieving climate resilience at the country level.

2.1 History, Overview and Current Status

The Pilot Program for Climate Resilience (PPCR) is the only adaptation fund operating outside of the UNFCCC process, established as part of the Strategic Climate Fund (SCF), one of two multi-donor trust funds within the Climate Investment Funds (CIFs). The PPCR gained the SCF Trust Fund Committee's approval in November 2008. It has been designed as a pilot program, covering a range of diverse countries and climate risks to provide lessons that can be taken up by countries and regions, the development community, and a future climate change regime.

The stated objective of the PPCR is "to pilot and demonstrate ways to integrate climate risk and resilience into core development planning, while complementing other ongoing activities."[48] Pilot programs should:

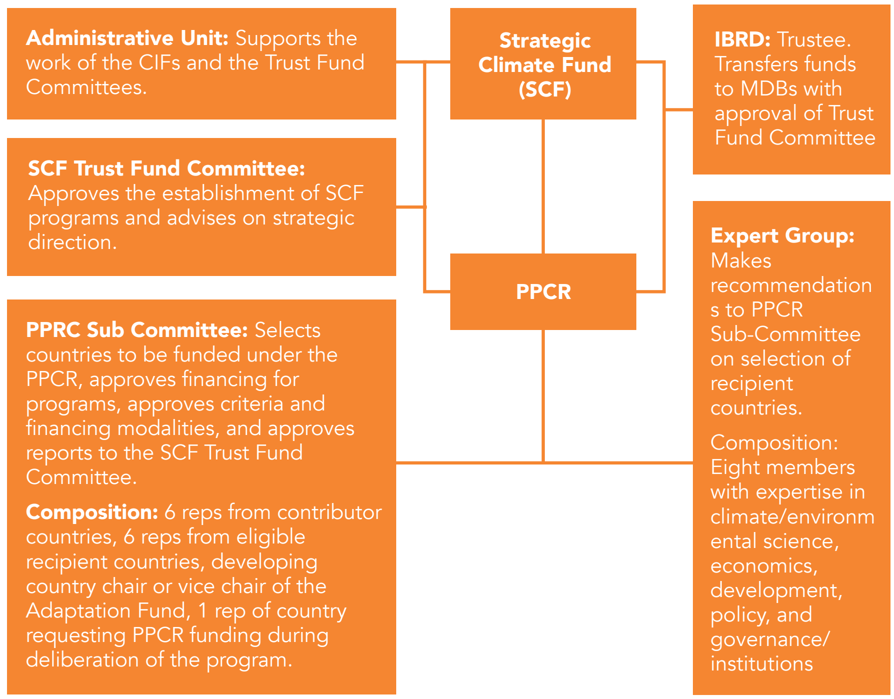
1. Be country led;
2. Build on National Adaptation Programs of Action (NAPAs) and other relevant country strategies;

[48] Climate Investment Funds, The Pilot Program For Climate Resilience Fund Under The Strategic Climate Fund [hereinafter PPCR Design Document], para. 3, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_design_Document_final.pdf

3. Align with the Adaptation Fund and other donor funded activities;
4. Provide incentives for scaled-up action and transformational change.

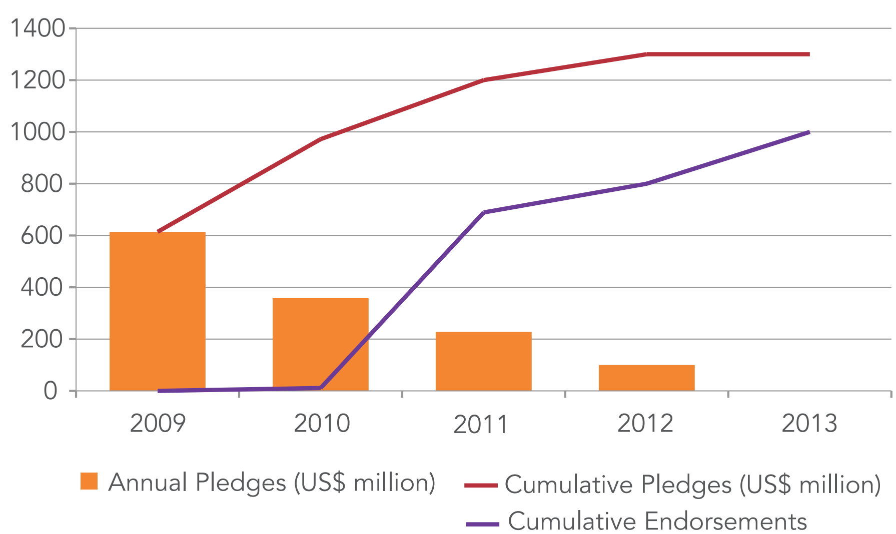
The PPCR governance structure is set out in Figure 7.

Figure 7: PPCR governance structure.



The PPCR is financed by contributions from donor countries, in particular the United States and the United Kingdom. As of June 2013, total pledges to the PPCR amounted to US $1.3 billion, making the PPCR the largest of the adaptation funds.[49] As illustrated by Figure 8,[50] the CIFs do not have regular replenishments like the other funds. This is in keeping with the 'sunset clause' built into the CIFs to the effect that they will conclude operations once a new UNFCCC financial arrangement is effective.[51]

Figure 8: PPCR pledges and endorsements.



[49] Valued at the exchange rates available on the date of the CIF pledging meeting. See Report On The Financial Status Of The SCF, Oct. 2, 2013, CTF-SCF/TFC.11/Inf.5,

[50] Figure 8 generated with data from reports on the financial status of the SCF, available on the SCF website.

[51] See Climate Investment Funds, Governance Framework For The Strategic Climate Fund, paras. 56-58,

2.2 Allocation

Country eligibility is based on:

1. Official Development Assistance (ODA)-eligibility (according to the Organization for Economic Co-operation and Development/Development Assistance Committee guidelines); and

2. The existence of an ongoing MDB lending program/policy dialogue with the country.[52]

As the PPCR is intended to provide programmatic funding at scale in pilot countries, the number of countries supported by the PPCR is limited according to availability of PPCR funds and the mandate to initiate transformational change. Highly vulnerable least developed countries including small island developing states are given priority with the final selection made by the PPCR Sub-Committee, based on the recommendations of an Expert Group.[53] The Expert Group makes recommendation based on:

1. Transparent vulnerability criteria;

2. Country preparedness and ability to move towards climate resilient development plans, taking into account efforts to date; and

3. Country distribution across regions and types of hazards, as appropriate.[54]

Within a pilot country, two broad categories of activity are supported by the PPCR:

1. Technical assistance to enable developing countries to build upon existing national work to integrate climate resilience into national or sectoral development plans, strategies and financing.

2. Programs of public and private sector investments identified in national or sectoral development plans or strategies addressing climate resilience.[55]

A PPCR program is broken into two phases.[56] During phase 1, the pilot country is allocated funds to prepare a Strategic Program for Climate Resilience (SPCR) and initiate capacity development measures in support of the future implementation of the SPCR. The SPCR outlines an investment plan based on identified priorities, setting out how PPCR supported projects will meet country objectives in the context of the PPCR. During phase 2, these projects are implemented. Once an SPCR is accepted by the PPCR Sub-Committee, the project concepts and associated funding needs outlined therein are referred to as 'endorsed'. However, the PPCR Sub-Committee must still approve PPCR funding for each project within an endorsed SPCR once the project is fully developed.

[52] PPCR Design Document, para. 19.

[53] Id. para. 20.

[54] Id. para. 15.

[55] Id. para. 17.

[56] Climate Investment Funds, Programming And Financing Modalities For The SCF Targeted Program, The Pilot Program For Climate Resilience (PPCR) [Hereinafter PPCR Programming and Financing Modalities], para. 8, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Programming_and_Financing_Modalities.pdf

Figure 9: PPCR funding by region.

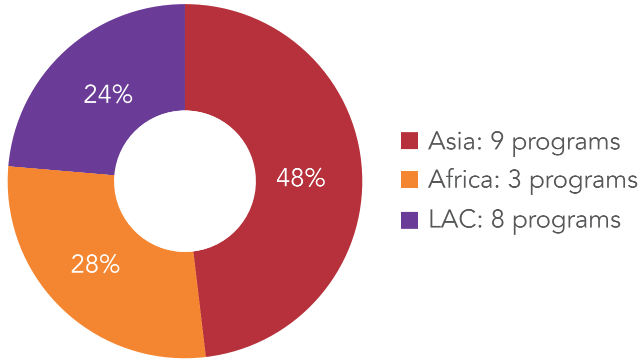
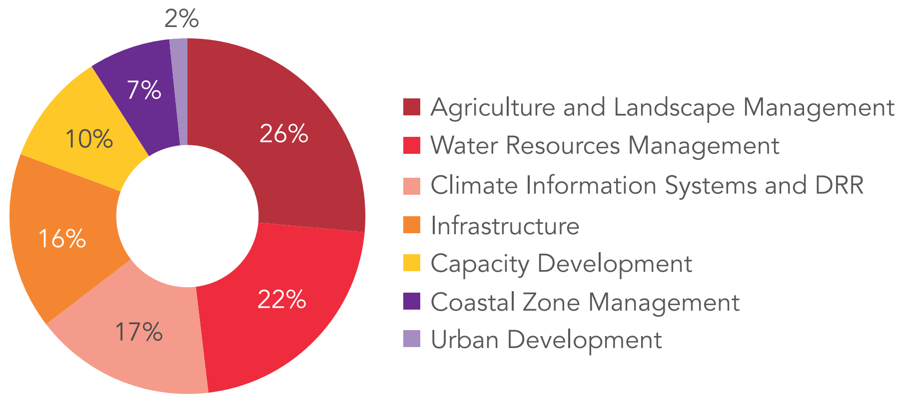
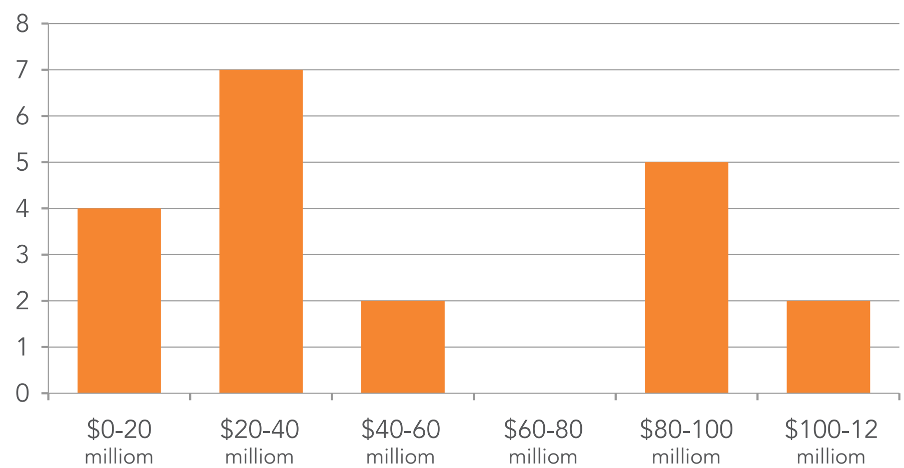


Figure 10: PPCR funding by sector.



Originally, it was envisaged that the PPCR would support pilot programs in five to ten countries.[57] As of August 2013, PPCR resources were allocated between 9 pilot countries and two regional programs which work with 9 additional countries.[58] As illustrated by Figure 9, almost half of all endorsed funds were allocated to Asia. Eight of the countries participating in the PPCR were SIDS, with the two regional programs in the Caribbean and Pacific also supporting island states. As illustrated by Figure 10 agriculture and landscape management and water resources management represented almost half of endorsed funds by sector.

Figure 10: PPCR funding by sector.



[57] Climate Investment Funds, Terms Of Reference (TORs)/ Guidance For The Expert Group On The Selection Of Countries To Participate In The Pilot Program For Climate Resilience (PPCR), para. 2

[58] Climate Investment Funds, PPCR Semi-Annual Operational Report, Oct. 29, 2013, PPCR/SC.13/3/Rev.1, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_SC.13_3_semi_annual_operational_report_rev1.pdf

By August 2013 over US $1 billion had been endorsed, with an average of US $51.7 million for each pilot, ranging from US $10 million for the Pacific Regional pilot to US $110 million for the Bangladesh pilot. As illustrated in Figure 11, pilot programs tend to fall in either the US $10-40 million (typically for SIDS) or $80-120 million range (typically for larger developing countries). Funds are made available in form of grants and near-zero interest credits.

2.3 Access Modalities

PPCR financing is made available through MDBs and recipient countries must follow the standards and criteria of the respective MDBs in order to get access to PPCR funds. MDBs play a central yet distinct role in phases 1 and 2 of the PPCR, both in SPCR preparation and the approval of funds for specific projects. While accountability for developing the SPCR is with the country government, MDBs are accountable for the use of project resources.

National country focal points are governmental and most often located within environment ministries.[59] That said, PPCR focal points are located within the finance ministries in four out of 18 pilot countries, (22 percent) and focal points are in both environment and finance ministries in a further four countries. This contrasts with the Adaptation Fund and LDCF/SCCF, where focal points are located within finance ministries in only five percent of recipient countries, and suggests that PPCR decision making at the national level takes place at a different level of government. This is a likely due to the fact that average allocations for the PPCR are ten times higher than for the other adaptation funds, and increases the prospect that adaptation goals under the PPCR will be mainstreamed into broader developmental goals.

The PPCR has a modest set-aside (currently set at US $29 million) for "innovative programs and projects that engage the private sector."[60] The set-aside can be accessed either by public sector entities working through the MDB public sector arms on projects that remove barriers to private sector engagement with adaptation activities, or by private actors working through MDB private sector arms.[61] Proposals under the set-aside must further the objectives of the SPCR, and must be developed in consultation with relevant public and private sector stakeholders and beneficiaries in the recipient countries, including PPCR government focal points.

Where set-aside funds do not flow through governmental bodies, alignment with SPCR objectives and governmental involvement in the project design are vital in order to ensure country ownership, particularly where the private entities are not recipient country based companies. For example, a Norwegian company intends to access a US $11 million loan to develop a forest plantation in northern Mozambique, to be implemented and financed exclusively by the

[59] See CIF website, PPCR Country and Regional Programming, available at https://www.climateinvestmentfunds.org/cif/Pilot_Programs

[60] See CIF website, PPCR Private Sector Set-Aside, available at https://www.climateinvestmentfunds.org/cif/node/11440

[61] Climate Investment Funds, Procedures For Allocating PPCR Resources On A Competitive Basis From An Agreed Set Aside Of Resources, para.5, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Procedures_for_Allocating_PPCR_Resources_on_a_Competitive_Basis_from_a_Set_Aside_0.pdf

private sector.[62] Demonstrating alignment with Mozambique's NAPA and poverty reduction policies, as well as governmental approval of the specific project (in this case indicated by the granting of a land concession) are central components of the fund application.

2.4 Programming and Approval Process

A shortlist of suitable countries to receive PPCR funding is drawn up by the PPCR Sub-Committee based on the recommendations of an Expert Group. Shortlisted countries are then invited to submit an expression of interest (EOI).[63] EOIs should describe climate change related hazards facing the country, key elements of the country NAPA and other national strategies to build resistance to climate change, any technical assistance the country has received from other funds and country capacity to manage programmatic financing.[64] The Sub-Committee then reviews the EOIs and selects pilot countries. Alternatively, regional or sub-regional programs can be proposed by a group of countries to the PPCR Sub-Committee.

Phase 1

Once pilot countries are selected, the relevant MDBs and interested development partners visit the recipient country on a joint mission to assist the pilot country establish a clear process for formulating a Strategic Program for Climate Resilience (SPCR). Joint missions are government led, and engage key stakeholders including bi- and other multilateral partners, the private sector and NGOs in order to ensure country ownership and broad participation in PPCR program development.[65] During Joint missions, 'climate resilience stocktaking' is undertaken and broad based consultations. Each pilot program should require no more than two, two week joint missions. In fact, by 2013, less than a third of programs had required only two missions, with the majority requiring three missions, and some four.[66]

Based on the outcome of the joint missions, the recipient country and MDB jointly prepare a request for PPCR funding for the preparation of an SPCR, which must be submitted to the PPCR for endorsement. Up to US $1.5 million is available for the development of an SPCR which should ideally be completed within 12 months, and initial capacity building measures. In fact, of the 19 SPCRs endorsed by 2013, none had been completed in under 20 months, and four had taken over 40 months.[67]

The PPCR Sub-Committee is guided by a structured set of questions in assessing SPCRs. These focus on the following key areas:

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[62] Program Concept Note available on CIF website at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%20Set%20Aside%20-%20Lurio%20Project%20Mozambique_public_version.pdf

[63] PPCR Design Document, para. 21.

[64] Climate Investment Funds, The Pilot Program For Climate Resilience (PPCR) Template For Country Expression Of Interest, PPCR/SC.1/3, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_Expression_of_interest_draft_template_Nov_08_TFC_Meeting.pdf

[65] Climate Investment Funds, Guidelines For Joint Missions To Design PPCR Pilot Programs (Phase I), available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR_joint_mission_guidelines_final.pdf

[66] ICF International, Final Interim Report (July 2013), Independent Evaluation Of The Climate Investment Funds, Figure 7-9, p.116, available at http://www.cifevaluation.org/cif_interm_report.pdf

[67] Id. Figure 7-7, p.114.

1. Climate Risk Assessment: what are the short, medium and long term economic, social and ecological impacts of climate change?
2. Institutions/ Co-ordination: what are the coordination arrangements to address climate change and what are the existing institutional mechanisms for disaster management?
3. Prioritization: what was the process for prioritizing between sectors, did it take into account existing policies, and how will climate change alter or reinforce existing development priorities?
4. Gaps and Needs Analysis: what are the specific gaps and needs, and how can PPCR support address these?
5. Stakeholder Engagement/ Participation: who was involved in developing the strategic approach, with particular reference to NGOs and vulnerable groups, and how were stakeholders selected?
6. Awareness-raising: How have climate impacts generally and the SPCR in particular been publicized?
7. Monitoring and Evaluation: What are the key results, indicators and baselines, and system for measuring and aggregating these results?[68]

Phase 2

Phase 2 involves the implementation of the SPCR. Following PPCR Sub-Committee endorsement of the SPCR, the MDBs have access to a preparation grant to enable detailed preparation of the projects agreed in the endorsed investment program. Preparation actions include supporting policy reform, institutional capacity building and scaling up investments in key sectors. The preparation and the implementation of the projects follow the respective MDB policies and procedures.

The PPCR Sub-Committee must approve PPCR financing for specific PPCR projects and programs within endorsed SPCRs. The Boards of the MDBs will then approve the projects and programs before funds can be disbursed. As of August 2013, the PPCR Sub-Committee had endorsed US $1.02 billion at the SPCR level across 20 pilots, containing a pipeline of 66 projects and programs. Of those, 32 projects and programs representing US $499 million had received PPCR funding approved by the PPCR Sub-Committee. Twenty-seven of those had also been approved by the Boards of the MDBs, representing US $405 million. However, only eight projects and programs have started implementation, with US $25.6 million disbursed.[69]

2.5 Financing Instruments

PPCR resources are disbursed in the form of grants, concessional loans and guarantees and are accessible to both the public and private sector. Grants are available for preparation activities (Phase 1) including SPCR preparation, and for investment programs/projects (Phase 2).[70] Countries can choose to access only grant resources, and countries at high risk of debt distress are

[68] PPCR Programming and Financing Modalities, Annex 2.

[69] See PPCR Semi-Annual Operational Report, Oct. 29, 2013, PPCR/SC.13/3/Rev.1.

[70] PPCR Programming and Financing Modalities, para. 42.

Table 3: PPCR intervention areas suitable for the use of concessional loans.

EXPECTED OUTCOMES	WATER MANAGEMENT	MICROFINANCE AND RISK INSURANCE	MONITORING AND DATA COLLECTION
Development and dissemination of climate resilient crop varieties and cropping systems for water-logged and salinity-affected coastal areas. Innovation and dissemination of drought tolerant crop varieties. High value crops (HVC) improvement through Biotechnology.	Modernization of existing irrigation schemes and demand management aimed at optimizing physical and economic efficiency in use of water resources and recycled water in water-stressed areas. Sustainable management and control of water resources through payment for environmental services (PES).	Micro-finance in the vulnerable rural areas. Weather based risk insurance and inventory guarantee for crops. Cover the risk of a bank lending to small scale farmers for water conserving irrigation technologies (first loss).	Weather and yield patterns for strategic agricultural crops for which the benefits are both public and private but where only blending with concessional finance would provide a private company with the incentive to invest in the project.

not eligible for concessional borrowing.[71] Private sector grants and loans are available to reduce barriers to financial investment, for example high risk and cost associated with early market entrants. Guarantees are deployed in the public and private sector to reduce risks that lenders and investors would not otherwise be willing to accept. It is expected that PPCR funded projects should be co-financed by MDB loans and grants.[72]

Table 3[73] provides examples of intervention areas identified by PPCR pilot countries as potentially suitable for the use of concessional loans.

As of August 2013, US $1.02 billion of PPCR resources had been *endorsed* at the SPCR stage, with an additional US $1.03 billion in co-financing expected to be mobilized. Of the PPCR resources endorsed, US $678 million (67 percent) are expected to be provided as grants and US $335 million (33 percent) as loans.[74]

Of the US $483 million in PPCR resources *approved* by August 2013, US $338 million (70 percent) were in the form of grants and US $145 million (30 percent) as loans, with US $783 million expected to be mobilized in co-financing.[75] This suggests an expedited approval rate of PPCR funds where a higher proportion of co-financing is available.

As illustrated by Figure 13, the vast majority of PPCR funds go towards public sector projects/programs. Further, as of August 2013, the PPCR funding approval rate for endorsed projects had been slightly higher for public sector operations (52 percent) than for private sector operations (34 percent).[76]

[71] Climate Investment Funds, MDB Policies And Tools Regarding Debt Sustainability And Their Application In The PPCR, PPCR/SC.9/4, available at http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%204%20MDB%20Tools%20and%20Policies%20DSF.pdf

[72] Climate Investment Funds, The Use of Concessional Finance in the PPCR, available at https://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/PPCR%20_Use_of_concessional_finance_in_the_ppcr.pdf

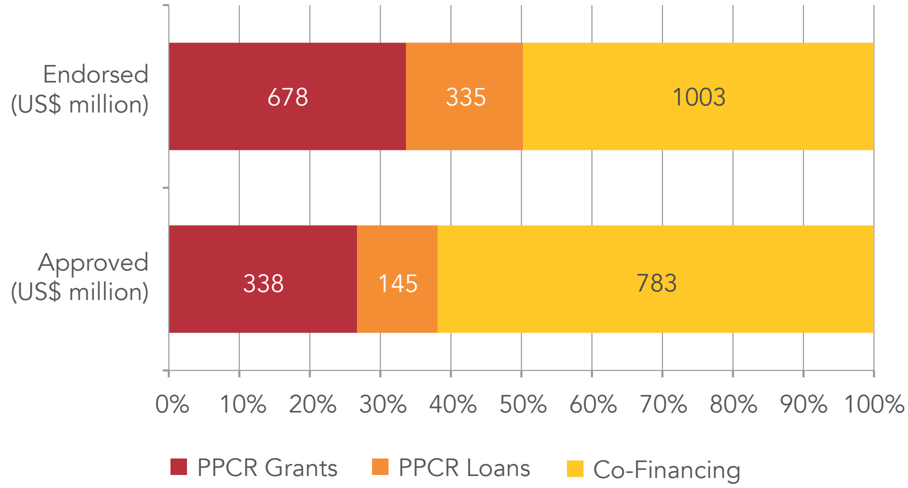
[73] Id. para. 14.

[74] See PPCR Semi-Annual Operational Report, Oct. 29, 2013, PPCR/SC.13/3/Rev.1

[75] Id.

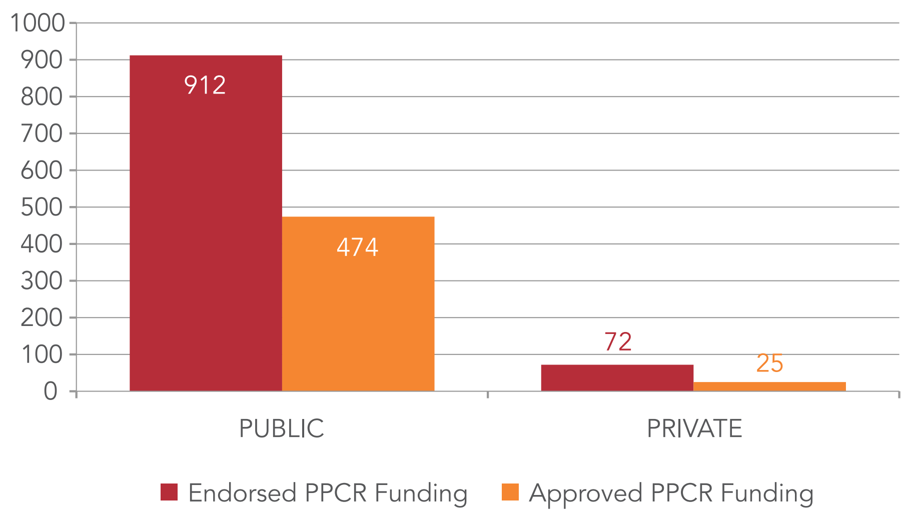
[76] Id.

Figure 12: Ratio of PPCR grants and loans to co-financing.



In funding public sector operations, PPCR seeks to avoid "crowding out" private sector operators or displacing commercial financing by focusing on projects and programs that would not otherwise have taken place and that encourage additional private sector investment. Grants for public sector investment programs are typically used to lower cost through buy-down grants (for example, co-investment for demonstration projects) or to reduce revenue volatility in sectors adversely affected by climate change. Small knowledge management grants are also available to enable lessons from project implementation to be captured.[77]

Figure 13: PPCR public and private sector endorsed and approved funds (US$ millions).



PPCR concessional loans for public sector operations are provided via MDBs in the form of loans to national governments, loans to national governments for on-lending to sub-national entities or loans to sub-national entities. Loans to national governments do not require a guarantee or security, though for sub-national lending the government may have to guarantee the loan. The loan terms proposed for public sector projects are set out in Table 4, with near-zero interest and a grant element of 75 percent (signifying that only 25 percent of the value of the loan at the date of lending will be repaid).[78]

[77] Climate Investment Funds, The Use of Concessional Finance in the PPCR, Annex I.

[78] Ibid.

Table 4: Terms of PPCR loans.

	MATURITY	PRINCIPAL REPAY-MENTS YEAR 11-20	PRINCIPAL REPAY-MENTS YEAR 11-20	PRINCIPAL REPAY-MENTS YEARS 20-40	FY10-11 SERVICE CHARGE	GRANT ELEMENT COLLEC-TION
Credit	40	10	2%	4%	0.10%	75%

In funding private sector investments, PPCR adheres to the principles of minimum concessionality (providing the minimum amount required to make a project happen); avoiding distortion and crowding out; leveraging (maximizing the amount of MDB, bilateral and commercial financing); and financial sustainability (the potential for project/programme viability with reduced subsidies).[79] Both grants and loans are available for private sector investments, with grants used to the same end as in public sector projects (i.e. buy-down grants and volatility reduction), and concessional loans made available for projects with the potential for replication at lower cost in the future.

2.6 Results-management Framework

A revised PPCR *Results Framework* was developed in December 2012 in response to the finding that many developing countries lacked the capacity to establish the complex M&E systems required under the original framework.[80] Under the new results framework, the pilot country has the responsibility to measure and report annually on five 'PPCR core indicators':

1. The number of people supported by the PPCR to cope with effects of climate change;
2. The degree of integration of climate change in national, including sector planning;
3. The extent to which vulnerable households, communities businesses and public sector services use improved PPCR supported tools, instruments, strategies and activities;
4. Evidence of strengthened government capacity and coordination mechanism to mainstream climate resilience; and
5. The quality of and extent to which climate responsive instruments/ investment models are developed and tested.[81]

The CIF Administrative Unit works with the MDBs to review annual progress reports on the above indicators, based on which a synthesis report is prepared and sent to the PPCR Sub-Committee for information.

In March 2010 the CIFs adopted a *Knowledge Management Program* based on the six core principles that knowledge management should be funded,

[79] Ibid.

[80] See Climate Investment Funds, Measures To Improve The Operations Of The Climate Investment Funds, paras. 35-40, available at https://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Measures_to_improve_operations_of_CIFs_11.18.11.pdf

[81] Climate Investment Funds, Revised PPCR Results Framework, para. 5, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Revised_PPCR_Results_Framework.pdf

stakeholder driven, continuous, encourage the discussion and documentation of failures, be innovative, and combine 'tacit' learning of individuals with 'knowledge products' such as publications.[82]

The *Knowledge Management Framework* contains more specific guidance for the capturing and sharing lessons from phases 1 and 2 of the PPCR, summarized in Table 5 below.

Table 5: PPCR Knowledge Management Framework.

PHASE 1	PHASE 2
Cross-pilot country sharing of early lessons in SPCR preparation. **Output:** Country power point presentations posted on CIF website. IConsolidation of early lessons from joint-missions. **Output:** Informal note on early PPCR joint mission lessons as input to the expanded Pilot country meeting. Upon completion of Phase 1, capturing and documenting lessons learned with respect to (a) country process and (b) application of key design elements for SPCRs. **Output:** Individual pilot country reports on full Phase lessons posted on website. Consolidation of country lessons from SPCR preparation. **Output:** Background paper on consolidation of Phase 1 lessons	Capture and sharing of early experience on integration of learning objectives and activities in the design of PPCR projects. **Output:** Draft PPCR Learning Brief on integration of learning in PPCR project design to be shared with all PPCR task teams through MDB PPCR focal points. Pilot Country Meetings expanded to include other stakeholders. Pilot countries to share early experiences and lessons in PPCR project design through PPCR Pilot Countries meeting. Selective country case studies to enrich the findings from knowledge exchanges at Pilot Country Meetings.

PPCR lessons are also disseminated through the CIF's *Global Support Program* (GSP), which was established in November 2010 with the aim of increasing cooperation and knowledge sharing between pilot countries and regions. Intended GSP activities include biannual pilot country meetings, the design and development of web based tools for communication and information sharing and virtual help desk services to provide governments and project participants with access to experts and practitioners to answer questions.

[82] Climate Investment Funds, CIF Knowledge Management - Creating The Capacity To Act, CTF-SCF/TFC.4/4, March 5, 2010, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CIF_KProgramPaperFinal.pdf

3. Least Developed Countries Fund (LDCF)

The Least Developed Countries was established under the United Nations Framework Convention on Climate Change (UNFCCC) at its seventh session in Marrakech in 2001. The fund addresses the special needs of the 49 LDCs that are especially vulnerable to the adverse impacts of climate change. The LDCF supports the preparation and the implementation of National Adaptation Programs of Action (NAPAs): country-driven strategies that identify urgent and immediate needs of LDCs to adapt to climate change.

3.1 History, Overview and Current Status

The LDCF was launched in 2001 at the seventh session of the Conference of the Parties (COP) in Marrakesh.[83] It is designed to address the urgent and immediate adaptation needs of least developed countries (LDCs), to support the United Nations Framework Convention on Climate Change (UNFCCC) work program for least developed countries (LDCs) and to help the world's LDCs prepare and implement National Adaptation Programmes of Action (NAPAs). The LDCF is operated by the GEF and under the guidance of the COP.

NAPAs provide a process for LDCs to identify priority activities that address their urgent and immediate needs to adapt to climate change –those for which further delay would increase vulnerability and costs.[84] The first phase of the LDCF – funding NAPA completion - is largely concluded, with 50 of the 51 LDCs to have received funding for NAPA completion having submitted their NAPAs to the UNFCCC.[85] Implementing NAPAs – the second phase of the

[83] Decision 7/CP.7 para.6, U.N. Doc. FCCC/CP/2001/13/Add.1.

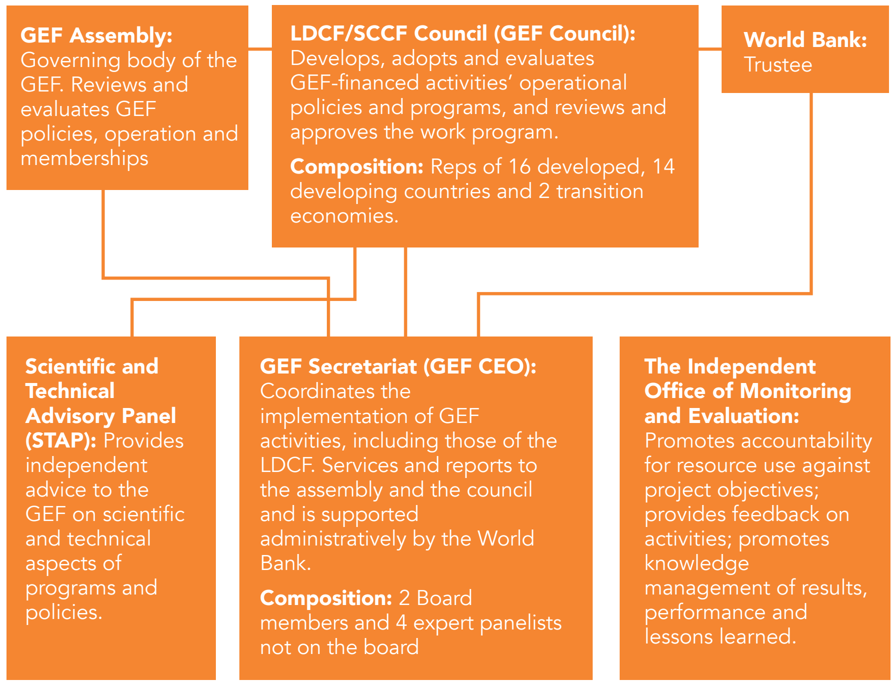
[84] Decision 28/CP.7, Annex, para.2, U.N. Doc. FCCC/CP/2001/13/Add.4.

[85] NAPAs are posted on the UNFCCC website available at http://unfccc.int/adaptation/workstreams/national_adaptation_programmes_of_action/items/4585.php

LDCF – is well underway, with 48 LDCs having accessed funds for projects that address these urgent and immediate needs.[86]

The LDCF governance structure is set out in Figure 14.

Figure 14: LDCF governance structure.



The LDCF is financed by voluntary contributions, which count as official development assistance from Annex I countries. As of February 28 2014, 25 contributing participants had pledged a total of US $879.12 million to the LDCF.[87] As illustrated by Figure 15,[88] almost two-thirds of LDCF resources were mobilized between 2012 and 2014. Equally, the vast majority of project fund approvals have been made between 2012 and 2014. This reflects the time lag between NAPA completion (42 NAPAs had been completed by 2009) and the approval of projects for NAPA implementation.

3.2 Allocation

Eligibility for the LDCF is limited to those countries identified by the UN as Least Developed Countries (LDCs), of which there are currently 48 (the number varies as new countries are added and existing LDCs 'graduate').[89] Any LDC which is party to the UNFCCC and has completed their NAPA can receive project funding. The LDCF provides LDCs up to US $200,000 to assist with NAPA preparation.

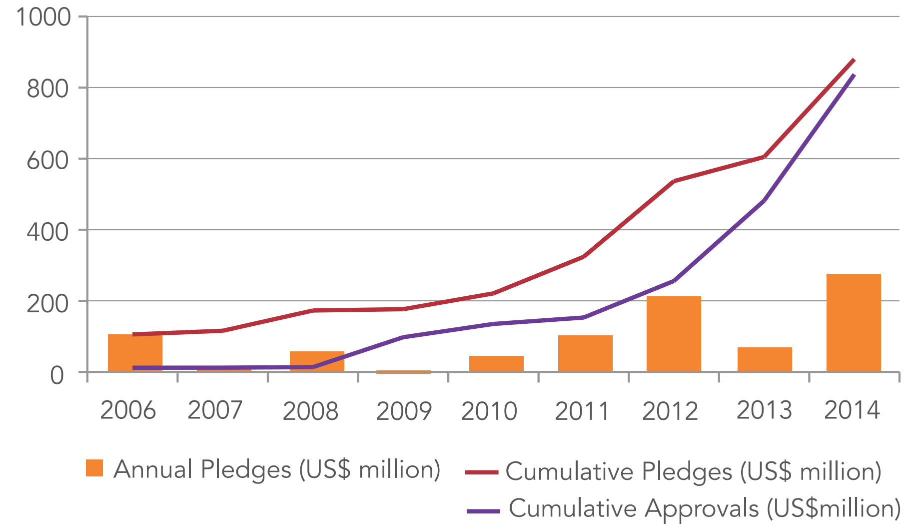
[86] See GEF, Progress Report On The Least Developed Countries Fund And The Special Climate Change Fund, May 1, 2014, GEF/LDCF.SCCF.16/04 [Hereinafter LDCF/SCCF Progress Report], available at http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.LDCF_.SCCF_.16.04%2C%20Progress%20Report%20on%20the%20LDCF%20and%20the%20SCCF%2C%2004-30-14.pdf

[87] Ibid.

[88] Figure 15 generated with data from LDCF/SCCF progress reports available on GEF website.

[89] For an up to date list of LDCs see http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_list.pdf

Figure 15: LDCF pledges and approvals (US$ millions).



The LDCF funds medium-sized projects (MSPs) under US $2 million and full-sized projects (FSPs) over US $2 million.[90] As of May 2014, 136 out of 146 approved projects were FSPs.[91] In addition to project grants, a grant is available to assist with the partial costs of project preparation prior to submission of the project proposal.

The LDCF does not identify priority sectors for fund allocation, as project selection is driven by country NAPAs. Nevertheless, the LDCF/SCCF Council have noted that priority sectors are likely to include: water resources; food security and agriculture; health; disaster preparedness and risk management; coastal zone management and infrastructure; natural resource management; and community based adaptation.[92]

A review of the LDCF conducted in 2014 found a high degree of alignment between LDCF projects and recipient country NAPAs, with 63 percent of LDCF projects addressing the primary priority outlined in the recipient country's NAPA, with the remaining 37 percent of projects addressing one or more of the other priorities outlined in the recipient country's NAPA.[93]

UNFCCC COP guidance states that the LDCF should operate according to the principle of equitable access.[94] Accordingly, the GEF have developed the concept of 'balanced access',[95] which imposes a ceiling on the maximum amount of resources each country may access to ensure that funding for

[90] GEF, Accessing Resources Under the Least Developed Country Fund, p.8, available at http://www.thegef.org/gef/sites/thegef.org/files/publication/23469_LDCF.pdf

[91] Data accessed from GEF website, Project and Funding, available at http://www.thegef.org/gef/gef_projects_funding

[92] GEF, Updated Results-Based Management Framework For The Least Developed Countries Fund (LDCF) And The Special Climate Change Fund (SCCF) And Adaptation Monitoring And Assessment Tool, Oct. 20 2010, GEF/LDCF.SCCF.9/Inf.4, available at https://www.thegef.org/gef/sites/thegef.org/files/documents/LDCFSCCF-RBM-UpdateFramework-Oct%202010%20final.pdf

[93] GEF Independent Evaluation Office, The Least Developed Countries Fund:Review of the Implementation of NAPAs (unedited), April 2014, Table 1, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF%20Implementation%20of%20NAPA.pdf

[94] Decision 6/CP.9, para. 3b. U.N. Doc. FCCC/CP/2003/6/Add.1.

[95] GEF, Programming Paper For Funding The Implementation Of NAPAs Under The LDC Trust Fund, May 12, 2006, GEF/C.28/18, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.C.28.18.pdf

NAPA implementation will be available to all LDCs. The ceiling can be increased depending on the overall availability of funds, and currently stands at US $30 million.

As illustrated by Figure 16 and Figure 17, over two-thirds of project funding has been allocated to African countries, with the largest share of resources spent in the agricultural sector.

As of May 2014, approximately US $824 million has been allocated in grants (including Agency fees) between 146 projects.[96] As illustrated by Figure 18, grants commonly fall in the US $3-6 million range, with an average grant size of US $5.6 million. This is US $1.4 million higher than SCCF average grant size.

Figure 16: LDCF funding by region.

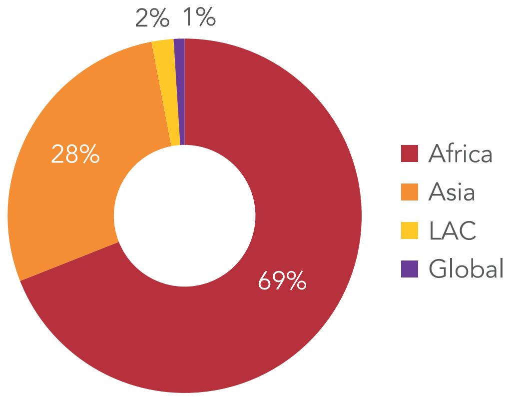
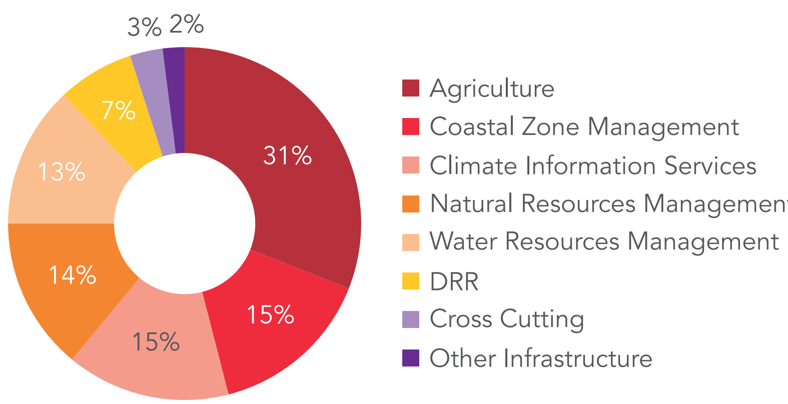


Figure 17: LDCF funding by sector.



3.3 Access Modalities

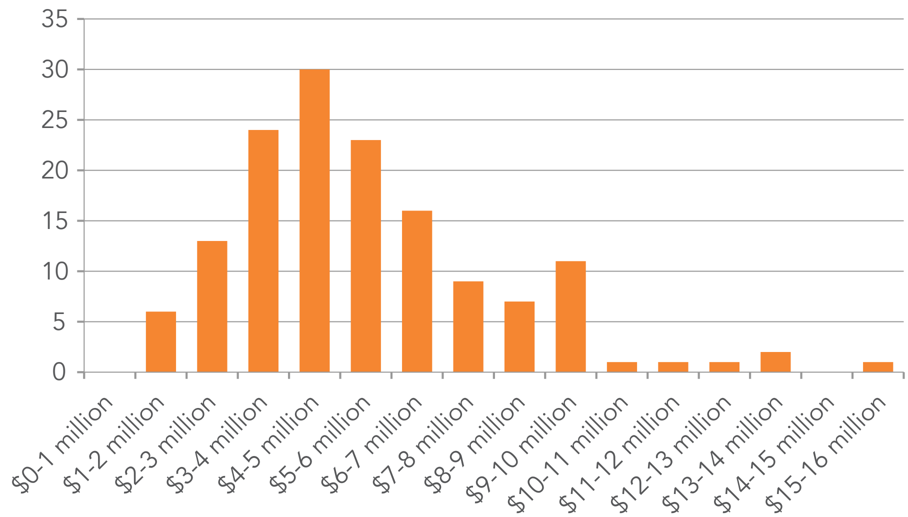
Access to LDCF resources is exclusively through multilateral implementing entities (the GEF Implementing Agencies), which receive cash transfers from the Trustee (The World Bank) in order to meet their disbursing requirements. The same project cycle applies to the LDCF as for other projects and programs financed under the GEF Trust Fund.

Project concepts are developed jointly by country-based 'project proponents' and one of 10 GEF Implementing Agencies. Project proponents are typically governmental, though can be NGOs or CBOs.[97] The GEF Agencies comprise

[96] LDCF/SCCF Progress Report

[97] A list of the GEF Implementing Agencies can be accessed on the GEF website, available at http://www.thegef.org/gef/gef_agencies

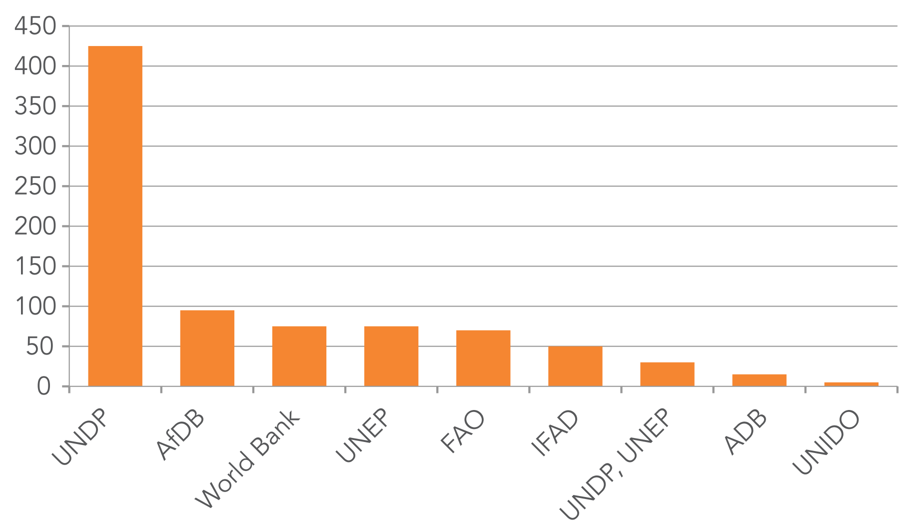
Figure 18: LDCF allocations by size.



MDBs, MFIs and UN Agencies. As illustrated by Figure 19, as of April 2014, UNDP was channeling the largest share of LDCF resources (51 percent), followed by the African Development Bank (11 percent).[98]

Project concepts must be endorsed by the GEF Operational Focal Point before they can be submitted to the LDCF Secretariat. GEF Focal Points are government officials designated by member countries to ensure that GEF projects, including SCCF-funded activities, are country-driven and based on national priorities. Eighty-five percent of GEF Operational Focal Points are located within environment ministries, with the remainder based in finance, foreign affairs or other ministries.[99]

Figure 19: LDCF financing by GEF implementing agency (US$ millions).



3.4 Programming and Approval Process

The LDCF selection process is set out in Table 6 below. During the GEF-4 period (2006-2010), a target of 22 months was set for the average elapsed

[98] LDCF/SCCF Progress Report, Figure 5.

[99] A list of GEF Operation Focal Points can be accessed on the GEF website, available at http://www.thegef.org/gef/focal_points_list

Table 6: LDCF selection process.

	FULL SIZE PROJECT (OVER US $2 MILLION)	MEDIUM SIZED PROJECT (UNDER US $2 MILLION)	
1.	The project proponent develops a concept in partnership with one of 10 GEF Implementing Agencies.	OPTION 1	OPTION 2
		Project concept developed.	Project concept developed.
2.	The GEF Operational Focal Point endorses the project concept.	GEF Operational Focal Point endorsement.	GEF Operational Focal Point endorsement.
3.	The project proponent submits the project concept as a Project Identification Form (PIF) to the GEF Secretariat, which should review the PIF within 10 business days. A request for a project preparation grant (PPG) may simultaneously or subsequently be submitted.	Submission of PIF and PPG request to GEF Secretariat.	Submission of full project document to GEF CEO (a PPG is not available where PIF is not completed).
4.	The GEF Secretariat can either request revisions to the PIF, reject the PIF, or forward the PIF for approval either to the LDCF/SCCF Council.	GEF CEO can request revisions, reject or approve PIF and PPG.	GEF CEO endorses the project. Disbursement and implementation follow.
5.	The LDCF/SCCF Council should review the FSP PIF within four weeks. Approval is granted on a no objection basis.	Project proponent and GEF Implementing Agency have prepare a full project proposal within 12 months.	
6.	The project proponent and GEF Implementing Agency have to prepare a full project proposal, within 18 months.	The GEF processes the proposal within 10 business days.	
7.	The GEF processes the proposal within 10 business days. The GEF circulate the proposal to the LDCF/SCCF Council if, at the time of PIF review, a Council Member requested the opportunity to review of the final project document prior to endorsement.	GEF CEO endorses the project. Disbursement and implementation follow.	
8.	GEF CEO endorses the project. Disbursement and implementation follow.		

Table 7: PIF and Full Project Proposal review criteria.

PIF REVIEW CRITERIA			
Basic project idea (additional cost argument)	Fit with NAPA priorities	Implementation set-up	Indicative budget and co-financing
What is the likely baseline development for the targeted sector without LDCF investment? What are the climate change vulnerabilities? What are the specific additional activities to be implemented to make baseline development more climate-resilient?	Does the project respond to the highest priority/ies identified in the NAPA, and if not, why?	Who will implement the project and why (including comparative advantage of Implementing Agencies and Executing Agencies)? Is the project being coordinated with related projects and programmes to avoid duplication of activities?	How will the project components be weighted in terms of budget and why? What levels and sources of co-financing is the project expecting to leverage?

Full Project Proposal review criteria			
Project idea (additional cost argument)	Monitoring an evaluation framework	Implementation set-up	Indicative budget and co-financing
Similar criteria to PIF stage above, but with more detail regarding specific adaptation activities.	Is a clear, timetabled description of the M&E process provided? Does the strategic results framework provide clear impact indicators, as well as baseline and target values, for each of the project's outcomes and outputs?	As above, but with more detail on implementation and coordination arrangements.	As above, but with detailed, itemized budget. Are letters of endorsement included for all co-financing?

time from PIF approval to endorsement by the CEO.[100] The first handful of projects to be endorsed significantly overshot that target, taking on average 42 months,[101] though over the GEF-4 period as a whole, of those projects endorsed, 75 percent were endorsed within the 22 month target. [102] For the GEF-5 period (2010-2014), the target was lowered to 18 months, though only 61 percent of endorsed projects met this standard.

A 2009 review of the PPCR found that the average process time from final PIF submission to approval was 31 days, three times longer than the stipulated 10

[100]GEF, Summary of Document GEF/C.31/7

[101]LDCF Project Cycle Process Time

[102]GEF, Fy13 Annual Monitoring Review Of The Least Developed Countries Fund And The Special Climate Change Fund, para. 56, May 1, 2014, GEF/LDCF.SCCF.

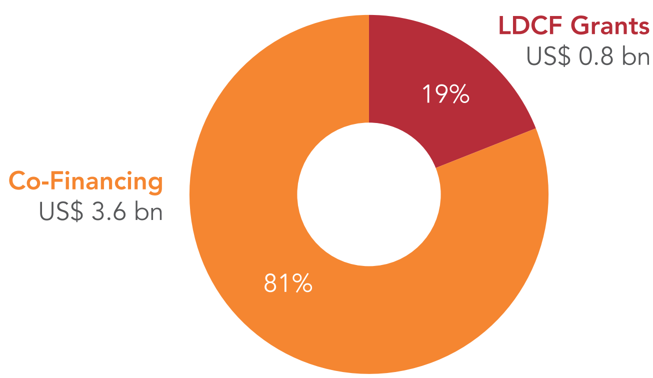
days.[103] Table 7 summarizes the criteria applied by the GEF in reviewing the PIF and the Full Project Proposal:[104]

3.5 Financing Instruments

LDCF funds are disbursed as grants and cover, for the most part, the full cost of adaptation for NAPA projects. Smaller project preparation grants (PPGs) can also be accessed by project proponents. The 'full cost of adaptation' is understood to mean the additional cost that climate change adds to business as usual (BAU) development.[105] For example, if a BAU project would have cost $10 million (the project 'baseline'), but due to climate change costs $11 million, LDCF will cover the 'full additional cost' of $1 million. Resources that cover BAU project costs are referred to as 'co-financing', and can include multilateral, governmental or NGO contributions in the form of grants or loans. The LDCF can fund projects for which there is no co-financing so long as the project is not related to BAU development.

As illustrated by Figure 20, as of April 2014, the ratio of grants to co-financing for all approved projects is approximately 1:4, with US $836 million in grants and US $3.6 billion in co-financing.[106] All NAPA project grants have been co-financed, with the ratio of LDCF grants to co-financing ranging from 1:0.2 to 1:15. Of the NAPA preparation grants, 34 out of 51 have been co-financed, with the proportion of co-financing mobilized for NAPAs typically lower than for project grants.

Figure 20: LDCF ratio of grants to co-financing.



Unlike the GEF Trust Fund, the LDCF does not have a private sector set aside and to date, the role of the private sector has been limited. Private sector and community-based organizations constitute only four percent of national executing agencies, and only seven percent of co-financing has been provided by private sources.[107] Nevertheless there is some degree of private sector engagement with the LDCF portfolio. Thirty-two percent of projects have

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[103] Evaluation Department, Ministry of Foreign Affairs of Denmark, Operation Of The Least Developed Countries Fund For Adaptation To Climate Change, Sept. 2009, Annex, available at http://um.dk/en/~/media/UM/English-site/Documents/Danida/Eval/978-87-7087-232-4/Annex_IX_LDCF_project_cycle.ashx

[104] See GEF, StepbyStep Guide to the LDCF Project Cycle, available at https://www.thegef.org/gef/sites/thegef.org/files/documents/Step-by-Step%20Guide%20to%20the%20LDCF%20Project%20Cycle.pdf and GEF, Accessing Resources Under the Least Developed Country Fund, available at http://www.thegef.org/gef/sites/thegef.org/files/publication/23469_LDCF.pdf

[105] Accessing Resources Under the Least Developed Country Fund, p.14.

[106] LDCF/SCCF Progress Report, Table 1.

[107] GEF Independent Evaluation Office, The Least Developed Countries Fund:Review of the Implementation of NAPAs, p.16.

indicated private sector partnerships, with the private sector most involved with urban water projects and infrastructure development.[108] For example, in a project to strengthen the resilience of small scale rural infrastructure and local government systems to climatic variability and risk in Timor Leste, the role of the private sector was to deliver the infrastructure development and advise on the improvement of infrastructure designs.[109]

The LDCF/SCCF Council has identified technology transfer and insurance as the two areas with the most potential for private sector involvement.[110] Further, The GEF have developed the following strategies to expand private sector engagement:

1. Awareness raising, including of potential risks and response measures;
2. Capacity building to help private entities manage climate change risks;
3. Efforts to improve policy and regulatory environments and institutional infrastructure;
4. Public-private partnerships that promote private sector responses to climate change; and
5. Entrepreneurship development to open and seize emerging private sector opportunities to reduce climate change vulnerabilities.[111]

3.6 Results-management Framework

In November 2009 the LDCF/SCCF Council agreed on a process and framework for results-based management (RBM) during the GEF-5 period (2011-2014).[112] The five focus areas of the RBM implementation strategy are described below.

1. Portfolio Outcome Monitoring

At the fund level, GEF Agencies are responsible for results measurement and reporting against targets and indicators set out in the Result-Based Management Framework. At a higher level, the GEF Secretariat measure progress towards achieving LDCF/SCCF objectives.

For example, a key objective of the LDCF/SCCF is to "reduce vulnerability to the adverse impacts of climate change, including variability, at local, national, regional and global level." An expected outcome associated with achieving this objective is a strengthened awareness and ownership of adaptation and climate risk reduction processes at the local level, which can be indicated by the percentage of the targeted population aware of predicted adverse impacts of climate change and appropriate responses. The associated output

[108] Ibid.

[109] Id. p.17

[110] GEF, Private Sector Engagement in Climate Change Adaptation: Prepared by the GEF Secretariat in Collaboration with the International Finance Corporation, paras. 20-21, May 9, 2012, GEF/LDCF.SCCF.12/Inf.06, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/Note%20on%20Private%20Sector.pdf

[111] GEF, Draft Gef Programming Strategy For Adaptation To Climate Change Under The Least Developed Countries Fund (LDCF) And The Special Climate Change Fund (SCCF), para. 29, March 8, 2013, GEF/LDCF.SCCF/Inf. 02, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF-SCCF-Financing-DRAFT%20Programming%20Strategy%20Adaptation_April_2013.pdf

[112] GEF, Implementation Of Results-Based Management Under The Least Developed Countries Fund And The Special Climate Change Fund, Oct. 15, 2009, GEF/LDCF.SCCF.7/4, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF.SCCF_.7.4_RBM%20implementation%20paper_v.7.pdf

would be adaptation and risk reduction awareness activities, something indicated by the number and type of adaptation actions or strategies introduced at local level.

2. Fund Process Monitoring

In order to measure whether LDCF/SCCF portfolios are being implemented as intended and resources used efficiency, the GEF conduct fund process monitoring according to a *Level Effectiveness and Efficiency Results Framework*. This tracks fund financing mechanisms (for example the ratio of total LDCF/SCCF resources to co-financing), project cycle efficiencies (for example the time taken from PIF submission to Council approval), quality of entry (for example the percent of projects with outcomes aligned to country programs) and results driven implementation (for example the percent of projects on track to reach stated objectives).

3. Learning and Knowledge Management

The GEF Secretariat is responsible for developing and disseminating 'knowledge products' to ensure that lessons learned can be captured and assimilated into future project delivery. Knowledge products are shared through the *Adaptation Learning Mechanism*, a collaborative knowledge sharing platform supported in part by the GEF. Learning objectives include building understanding of how adaptation can be integrated into policy making, understanding the causal relationships between adaptation measures and local community welfare, understanding the catalytic effect of LDCF/SCCF financing with the aim of scaling up or replicating best practices and understanding the effectiveness of Community-Based Adaptation (CBA) to climate change.

In 2011 the LDCF/SCCF Council developed a *Knowledge Management Strategy* for the LDCF/SCCF.[113] This proposed a knowledge management framework with a two year implementation plan setting out general learning objectives and guiding principles for knowledge management in LDCF/SCCF operations and stakeholder interactions. Concrete outputs include reorganizing all public project/program documentation to be made available on the GEF website, undertaking targeted learning missions to project sites on a semi-annual basis, systematically extracting lessons, good practices and innovations from project terminal evaluations and promoting these on the GEF website, and emphasising knowledge management processes in staff training and recruitment at the GEF.

4. Reporting

The GEF Secretariat produce an Adaptation Annual Progress Report describing outcome indicators at portfolio and fund level that contribute to the overall objectives of the LDCF and SCCF. At the project level, GEF Agencies must submit a Project Implementation Report describing implementation progress and the likelihood that project objectives will be achieved. In addition, the GEF Agencies should use the Adaptation Annual Tracking Tool to measure quantitative outputs.

[113] GEF, Knowledge Management Strategy For The Least Developed Countries Fund And The Special Climate Change Fund, April 22, 2011, GEF/LDCF.SCCF.10/Inf.4/Rev.1, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF.SCCF%20Council%2010%20Knowledge%20Management%20info%20doc.rev_.1.pdf

5. Evaluation

Mid-term and terminal project evaluations are conducted by the GEF Implementing Agencies. At a higher level, portfolio evaluations of overall fund impact are conducted by the GEF Evaluation Office. The LDCF was last evaluated in 2014, and the SCCF in 2012.

A 2012 evaluation of the SCCF noted that effective results based management was often hindered by weaknesses in the formulation of indicators in project documents.[114] Highlighted problems were confusion between outputs and outcomes, noncompliance with SMART criteria (in particular indicators lacking measurability and specificity), vague formulation of indicators and doubtful linking between 'proxy' indicators and project activities. The evaluation acknowledged that the use of binary indicators (those for which the answer is either yes or no) and scale and results chains (the use of multiple indicators, qualitative and quantitative, for the same outcome) proposed by the Adaptation Monitoring and Assessment Tool (AMAT) have the potential to strengthen indicators, but added that the AMAT had not been widely shared with Agencies.

[114] GEF Evaluation Office, Evaluation of the Special Climate Change Fund, pp.48-53, April 2012, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/sccf-vol1.pdf

4. Special Climate Change Fund (SCCF)

The SCCF was established to support adaptation and technology transfer in all developing country parties to the UNFCCC. The SCCF supports both long-term and short-term adaptation activities in water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management.

4.1 History, Overview and Current Status

The SCCF was established under the United Nations Framework Convention on Climate Change (UNFCCC) at the seventh meeting of the Conference of the Parties (COP) in 2001, to finance and implement activities, programs and measures in non-Annex I countries that increase national development sectors' long-term resilience to the impacts of climate change.[115] The SCCF is meant to serve as a catalyst to leverage and maximize complementary resources from bilateral and other multilateral sources.[116]

The SCCF's priority is funding adaptation activities to address the adverse impacts of climate change (SCCF-A window). Projects on technology transfer and its associated capacity-building activities also receive funding (SCCF-B window). Other activities eligible for SCCF funding relate to energy, transport, industry, agriculture, forestry, waste management (SCCF-C window) and economic diversification of fossil fuel dependent countries (SCCF-D window).[117] To date, only the adaptation and technology transfer windows are active, with 81 percent of funds directed towards adaptation projects.[118] The first SCCF project was approved in 2006.

Like the Least Developed Countries Fund (LDCF), the SCCF is operated by the Global Environment Facility (GEF), under COP guidance. GEF operational

[115] Decision 7/CP.7 para. 2, U.N. Doc. FCCC/CP/2001/13/Add.1.

[116] Decision 5/CP.9 para. 1a, U.N. Doc. FCCC/CP/2003/6/Add.1

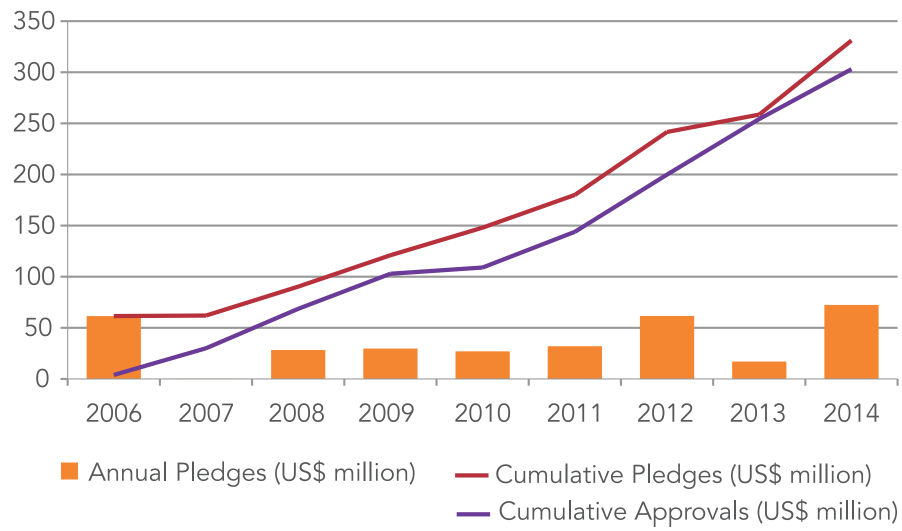
[117] Decision 7/CP.7.

[118] LDCF/SCCF Progress Report, p.14.

policies, procedures and governance structures (council, assembly, secretariat, implementing agencies, Scientific and Technical Advisory Panel, and Independent Office of Monitoring and Evaluation) applicable to both the SCCF and the LDCF, can be found in Annex III.

The SCCF is financed by voluntary contributions, which count as official development assistance from Annex I countries. As of February 28, 2014, 15 contributing participants had pledged a total of US $333.10 million to the SCCF.[119] As illustrated by Figure 21,[120] average annual contributions were greater in 2012-2014 than 2007-2011, when concerns were expressed around fund mobilisation.[121] Nevertheless, as all non-Annex I countries can apply to the SCCF, there remains significant pressure on SCCF resources. This is indicated by the fact that cumulative approvals have tracked closely to cumulative pledges.

Figure 21: SCCF pledges and approvals.



4.2 Allocation

The UNFCCC COP decided that the SCCF should provide funding for "developing country Parties",[122] which for the purposes of SCCF eligibility, the GEF has interpreted as synonymous with all Non-Annex I Parties. Within that group, preference is given to "the most vulnerable countries and those within a country with the greatest need."[123]

The SCCF funds medium sized projects (MSPs) under US $1 million and full sized projects (FSPs) over US $1 million. As of May 2014, 49 out of 56 approved projects were FSPs[124] In addition to project grants, a grant of up to

[119] Id. p.1.

[120] Figure 21 generated with data from LDCF/SCCF progress reports available on GEF website.

[121] See UNDP Evaluation Office, Evaluation Of UNDP Work With Least Developed Countries Fund And Special Climate Change Fund Resources, July 2009, p.8, available at http://web.undp.org/evaluation/documents/thematic/ldcf/LDCF-SCCF_Evaluation.pdf

[122] Decision 7/CP.7 para.1c.

[123] GEF, Programming To Implement The Guidance For The Special Climate Change Fund Adopted By The Conference Of The Parties To The United Nations Framework Convention On Climate Change At Its Ninth Session, para. 41, Oct. 15, 2004, GEF/C.24/12, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/C.24.12.pdf

[124] Data accessed from GEF website, Project and Funding, available at http://www.thegef.org/gef/gef_projects_funding

US $200,000 is available to assist with the partial costs of project preparation prior to submission of the full project proposal.

SCCF projects must be country-driven; be cost-effective; be integrated into national sustainable development and poverty-reduction strategies; and take into account national communications, NAPAs, and other relevant studies and information provided by parties. They must focus on long-term planned response strategies, policies and measures, and should include:

1. Implementation of adaptation activities where sufficient information is available to warrant such activities, inter alia, in the areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountain ecosystems, and integrated coastal zone management;

2. Improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early warning systems, and in this context improving disease control and prevention;

3. Supporting capacity-building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning, in particular, for droughts and floods in areas prone to extreme weather events; and

4. Strengthening existing and, where needed, establishing national and regional centers and information networks for rapid response to extreme weather events, utilizing information technology as much as possible.

Demand for SCCF resources, at around $100 million per year,[125] has consistently exceeded availability, with annual contributions to the SCCF frequently below $50 million. This has led to the introduction of pre-selection criteria to help identify and prioritize the projects most suitable for formal consideration by the GEF. The pre-selection phase is designed to ensure the following:

1. Project or program quality: The proposal must meet the primary criteria set out above;

2. Balanced distribution of funds in the eligible countries: Priority will be given to vulnerable Non-Annex I countries that have not yet accessed SCCF funds;

3. Equitable regional distribution

4. Balanced support for all priority sectors: Priority will be given to projects in priority sectors which have received less funds to date;

5. Balanced distribution among GEF Agencies based on comparative advantage.[126]

[125]GEF, Strategy on Adaptation to Climate Change for the Least Developed Countries Fund (LDCF) and The Special Climate Change Fund (SCCF), p.31, available at http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF-ADAPTION%20STRATEGIES.pdf

[126]GEF, Pre-Selection Criteria for Projects and Programs Submitted under the Special Climate Change Fund, May 7, 2012, GEF/LDCF.SCCF.12/Inf.05, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/Pre-Selection%20Criteria%20SCCF%20Inf.05%20May7.pdf

As illustrated by Figure 22 and Figure 23, SCCF funds have been allocated relatively evenly between Asia, Africa and LAC regions, with water resources management and agriculture receiving the largest share of resources by sector.

Figure 22: SCCF funding by region.

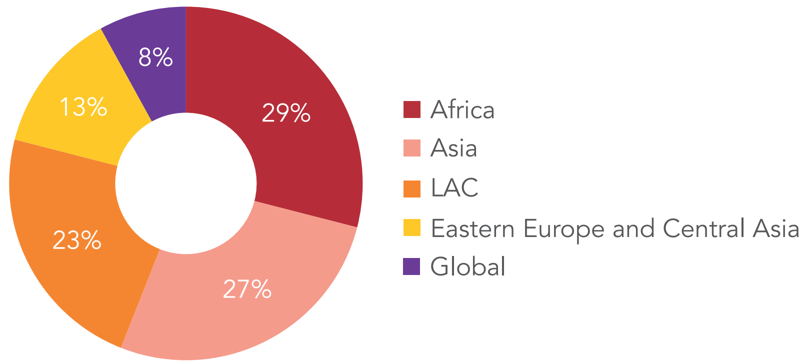
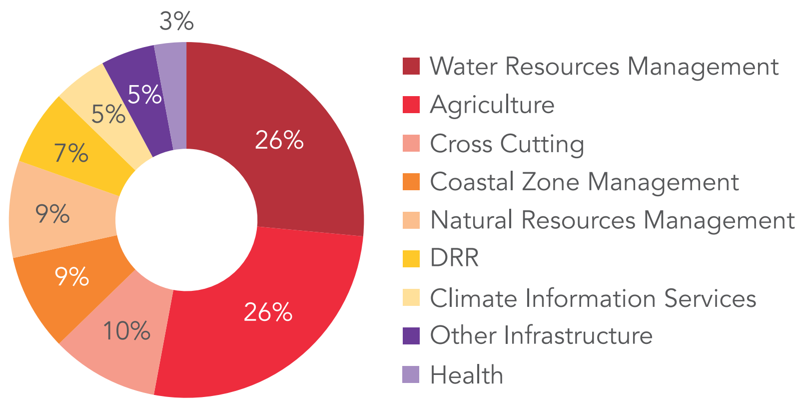
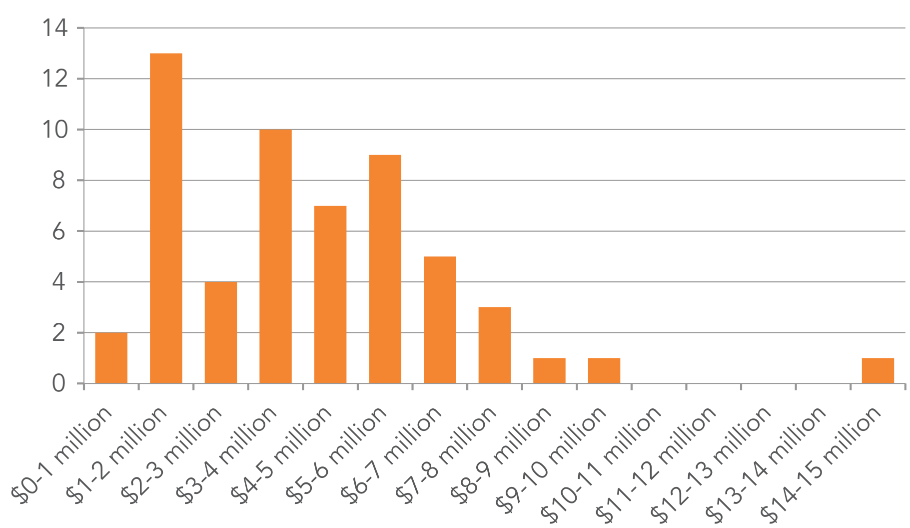


Figure 23: SCCF funding by sector.



As of May 2014, approximately US $236 million has been allocated in SCCF-A grants (including Agency fees) between 56 projects. As illustrated by[127] grants are spread relatively evenly within the US $1 - 6 million range, with an average grant size of US $4.2 million.

Figure 24: SCCF allocations by size.



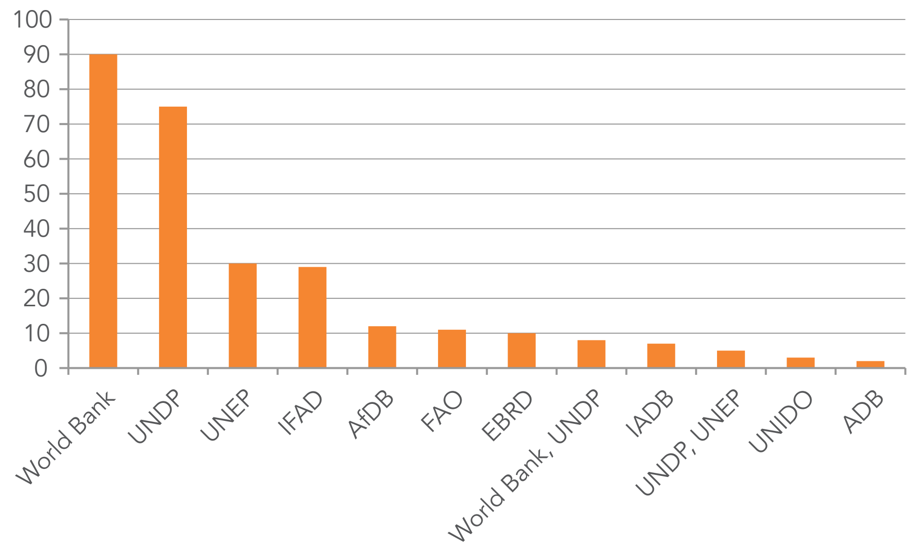
[127] LDCF/SCCF Progress Report

4.3 Access Modalities

Access to SCCF resources is exclusively through multilateral implementing entities. The same project cycle applies for the SCCF as for other projects and programs financed under the GEF Trust Fund.

Project concepts are developed jointly by country-based 'project proponents' and one of 10 GEF Implementing Agencies. Project proponents are typically governmental, though can be NGOs or CBOs. The GEF Agencies comprise MDBs, MFIs and UN Agencies. As illustrated by Figure 25, as of April 2014, the World Bank was channeling the largest share of SCCF resources (31 percent), followed by UNDP (26 percent).[128]

Figure 25: SCCF financing by GEF implementing agency.



Project concepts must be endorsed by the GEF Operational Focal Point before they can be submitted to the SCCF Secretariat. GEF Focal Points are government officials designated by member countries to ensure that GEF projects, including SCCF-funded activities, are country-driven and based on national priorities. Eighty-five percent of GEF Operational Focal Points are located within environment ministries, with the remainder based in finance, foreign affairs or other ministries.

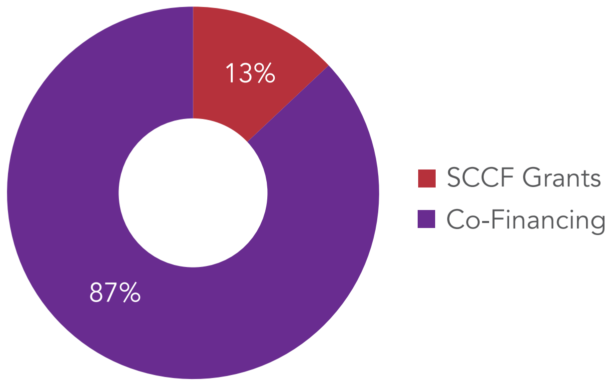
4.4 Financing Instruments

SCCF-A funds are disbursed as grants and cover the full cost of adaptation projects. The 'full cost of adaptation' is defined, as with the LDCF, as the additional cost that climate change adds to business as usual (BAU) development. For example, if a BAU project would have cost $10 million (the project 'baseline'), but due to climate change costs $11 million, SCCF will cover the 'full additional cost' of $1 million. Resources that cover BAU project costs are referred to as 'co-financing', and can include multilateral, governmental or NGO contributions in the form of grants or loans. The SCCF can fund projects for which there is no co-financing so long as the project is not related to BAU development.

[128] Id. Figure 10

As illustrated by Figure 26, as of April 2014, the ratio of grants to co-financing for all approved projects is approximately 1:7, with US $236 million in grants and US $1.6 billion in co-financing.[129] This is higher than the rate of co-financing for LDCF (1:4). All approved project grants have been co-financed, with the ratio of SCCF grants to co-financing ranging from 1:0.5 to 1:37.

Figure 26: SCCF ratio of grants to co-financing.



The SCCF does not have private sector set-aside and the private sector cannot access SCCF resources directly. However, it has been recognised that private sector adaptation measures have strong potential to compliment SCCF objectives, for example in the development sector by contributing to adaptation-related biotechnology innovation.[130] Further, the SCCF is increasingly engaging the private sector at the project level. For example, an SCCF project in Eastern Europe has sought to increase access to catastrophe and weather risk insurance products, thereby transferring the risk of weather related disasters from the public to the private sector. This has been achieved through engaging locally licensed private insurance companies to issue catastrophe and weather risk insurance policies to homeowners, farmers and the enterprise sector.[131]

4.5 Programming and Approval Process

The approval process for the SCCF is the same as for the LDCF set out in Annex III, with the difference that the SCCF contains an additional pre-selection process.

A 2012 evaluation of the SCCF by the GEF Evaluation Office noted that an informal pre-selection process had been included by the SCCF prior to PIF submission in order to manage limited funds more efficiently.[132] The evaluation recognized that pre-selection was necessary to reduce the number

[129] Id. Annex II, Table 10.

[130] GEF, Private Sector Engagement in Climate Change Adaptation: Prepared by the GEF Secretariat in Collaboration with the International Finance Corporation, para. 15, May 9, 2012, GEF/LDCF.SCCF.12/Inf.06, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/Note%20on%20Private%20Sector.pdf

[131] See Project Identification Form (PIF), Southeastern Europe and Caucasus Catastrophe Risk Insurance Facility, available at http://www.thegef.org/gef/sites/thegef.org/files/gef_prj_docs/GEFProjectDocuments/Climate%20Change/Regional%20-%20(4515)%20-%20Southeastern%20Europe%20and%20Caucasus%20Catastrophe%20Risk/04-13-2011%20ID4515%20PIF%20revised-%20SCF.pdf

[132] Evaluation of the Special Climate Change Fund, p.44.

of unsuccessful PIF submissions, and was instrumental in bringing down the average time taken for PIF clearance from 59 months in 2004 to 4 weeks in 2011, and enabling the SCCF Secretariat to meet the 10 day standard for responding to PIF submissions.

However, the evaluation noted that pre-selection criteria were not formally determined or published, and the pre-selection process was often undocumented, lacking transparency and predictability.[133] Further, guidance adopted at COP 17 requested the GEF to "enhance the transparency of the project review process throughout the project cycle". [134]

In response, the GEF have published pre-selection criteria according to which projects can be prioritized. Further, the GEF Secretariat have agreed to communicate the results of the pre-selection process to the Agencies at Adaptation Task Force (ATF) meetings, and to email the minutes of ATF meetings to all GEF agencies.[135]

4.6 Results-management Framework

The results-management framework for the SCCF is the same as for the LDCF set out in Annex 3.

[133] Id. p.47.

[134] Decision 11/CP.17 para.1b, U.N. Doc. FCCC/CP/2011/9/Add.2

[135] GEF, Pre-Selection Criteria for Projects and Programs Submitted under the Special Climate Change Fund, May 7, 2012, GEF/LDCF.SCCF.12/Inf.05, available at http://www.thegef.org/gef/sites/thegef.org/files/documents/Pre-Selection%20Criteria%20SCCF%20Inf.05%20May7.pdf

"Developing countries have a range of needs and country circumstances. Multilateral adaptation funds should allow for a diversity of approaches to ensure that all eligible countries are able to access adaptation finance."

"At this formative stage in international adaptation finance, bilateral and multilateral funds should be willing to take risks. Trying different approaches will be essential to gain experience in what works and what does not work before financial flows are fully scaled-up."

"Future adaptation funds, including the GCF, should avoid the establishment of entirely new mechanisms and processes in the design of their adaptation windows, and seek to build on and improve existing systems for adaptation finance."

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