

BRIEFING PAPER

# Briefing on the 25<sup>th</sup> meeting of the Adaption Fund Board

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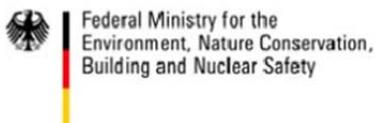
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## **Executive Summary**

From 9-10<sup>th</sup> April 2015, the 25<sup>th</sup> meeting of the Adaptation Fund Board (AFB), the operating body of the Adaptation Fund, will take place in Bonn, Germany. In the two days prior to the meeting, the Board members will convene in their respective committees: the Ethics and Finance Committee (EFC) and the Project and Programme Review Committee (PPRC).

The 25<sup>th</sup> AFB meeting will start with the transition to the new chair and vice-chair and the new EFC and PPRC chairs. Afterwards, the AFB will deliberate on the recommendations of the Accreditation Panel. The Accreditation Panel (AP) is in charge of the accreditation of National, Multilateral and Regional Implementing Entities. According to the recommendations of the AP, the Board will have to approve the accreditation of one National Implementing Entity (NIE) Fundaciòn Natura Panama and the approval of applicant NIE039 as Small National Implementing Entity (SNIE) for accreditation under the Streamlined Accreditation Process, provided the AF Board approves the decision on streamlined accreditation process.

Streamlined Accreditation Process for small entities will be one of the milestones of this meeting. This process is based on experience gained by the AP in considering options to accredit small entities through a streamlined process: This takes into account compensating measures, controls and practices commonly used by small entities, while ensuring that the small entity applicant meet the fiduciary standards and does not expose the AF to any kinds of risks. The Board will also be requested to re-accredit the three first entities accredited by the Fund, as their five-year term is ending this year.

Secondly, the AF will have to decide, based on the recommendations of the PPRC, on the potential approval and endorsement of nine projects and concepts, all submitted for this meeting.

The EFC will consider among others, the financial report by the Adaptation Fund Trust fund. Other issues such as the Evaluation of the Fund, the Complaint handling mechanism and Implementation of the code of conduct are announced in the agenda to be considered at the this meeting. However, there is no secretariat document for this on the agenda item.

Last but not the least; the Board will discuss the remaining agenda item of the last board meeting. The prominent ones are the document on the second phase of the readiness programme and the potential linkages of the AF with the GCF.

On readiness, the discussion will be centered on the activities to be undertaken in the second phase, based on the lessons learnt in the first phase. The paper on potential linkages presents a range of options that the AF could take into account, when considering potential linkages between the AF and the GCF.

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# **1 General background to the Adaptation Fund under the Kyoto Protocol**

The Adaptation Fund (AF) was established under the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) in order to finance concrete adaptation projects and programmes, which should support the adaptation of developing countries to negative impacts of climate change. The Adaptation Fund includes novelties in climate finance for instance a direct access pathway through national institutions. Germanwatch has been following all the meetings from a civil society perspective. One can find elaborated information on the Adaptation Fund and the past meetings on our web page [www.af-network.org](http://www.af-network.org).

Germanwatch has also established an NGO Network to help NGOs in developing countries to better accompany the implementation of projects funded by the Adaptation Fund (see [www.af-network.org](http://www.af-network.org)). If you would like to be part of AF NGO Network; please fill the Membership form. Last but not least, you can have a simple overview on the projects submitted to the AF through the Germanwatch Project Tracker at: [af-network.org/4889](http://af-network.org/4889).

## **2 Report of the Accreditation Panel**

The Accreditation Panel (AP) of the AFB is in charge of reviewing accreditation applications for National Implementing Entities (NIEs), the key feature in the AF's direct access approach, as well as for Multilateral Implementing Entities (MIEs) and Regional Implementing Entities (RIEs).

On the 15-16<sup>th</sup> January 2015, the AP met for the eighteenth times to discuss the status of accreditation process under the AF. Noteworthy is that two new experts have joined the AP, as result of the termination of the terms of two outgoing panel experts. As usual, the panel held teleconferences with applicants, communicated application status, asked questions, and provided direct guidance on any additional documentation required.

### **2.1 Accreditation of Implementing Entities**

Four new completed applications were considered, three from NIEs and one from an RIE, in addition to the news applications that were to be re-viewed at the panel meeting. Furthermore the panel continued its consideration of eight potential NIEs, two potential RIEs and one potential MIE. Overall eleven applications (eight for potential NIEs, two for potential RIEs, and one for a potential MIE are currently under review. However, the panel concluded by recommending the accreditation of a NIE Fundaciòn Natura (Panama) and the second applicant, is also recommended for approval provided that the Board approve the streamlined accreditation process also on the agenda of this meeting.

### **2.1.1 Fundaci3n Natura Panama**

Fundaci3n Natura is a non-profit based in Panama, which first application was submitted in January 2014. After discussion, further clarification requests by the panel and subsequent answers as well as implementation of some policies measures by the applicant, the AP is of the view to recommend Fundaci3n Natura Panama for accreditation.

### **2.1.2 NIE Applicant NIE039**

The second applicant referred in the document as NIE039 was first considered at the tenth meeting of the AP. At that time it was noticed that the applicant has no track record in handling high amounts of money. In fact, as stated in the document, the applicant has been handling only projects and grants less than USD50.000. Only few proposals carried out by the applicant exceeded the USD 100.00 threshold. Given this constraint, the applicants made the case that based on its experience and business model, it is likely that the size of grants it will be managing increases, unless it will be given the opportunity to prove itself. It hence requested an accreditation by the AF an accreditation for small projects, while guaranteeing that it will in that case not submit a project beyond the jointly agreed threshold.

This request stimulated a discussion at the AP on whether the AF could open small grants window, whereby small institutions such as NIE039 could be accredited for small projects. The Board in its deliberation on the proposal forwarded by the panel as result of its preliminary discussion felt that the proposal for accessing small grant is worth being considered. It then requested the Panel to develop a case example, how this small grant could be operationalized. Subsequently a field visit was organized in the applicant country. Based on the discussion that took place the Panel prepared a document titled Option for accreditation of small entities (AFB/EFC.14/3) for the Board's consideration. The Board considered the document at its 23<sup>rd</sup> meeting and requested the panel to further develop a "streamlined" process for accreditation of small entities.

The understanding of the Board on streamlined accreditation is that it will be quicker than the standard one. It would, however, entail no changes to the Fiduciary Standards, but it would institute appropriate mitigating measures and controls needed for SNIEs to demonstrate their required competencies. Specifically, the mitigating measures and controls would reflect the institution's characteristics<sup>1</sup>. Subject to the approval by the Board of the streamlined process for accreditation; the Panel recommends the accreditation of applicant NIE039 as Small National Implementing Entity (SNIE). The recommendation AFB/AP.18.2 is specific on the requirement that proposals submitted by SNIE should not exceed the small size project cap of USD 1 million. Further conditions included that the applicant provides description of the expertise and ability of the resources that will use to complete and oversee procurement.

Another important issue was debated at the last meeting, with regard to the re-accreditation of already accredited entities, whose terms are ending this year. These entities are the Centre de Suivi Ecologique (CSE), the International Bank for Reconstruction and Development (IBRD), and the United Nations Development Programme (UNDP). The

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<sup>1</sup> AFB/B.25/4 [https://adaptation-fund.org/sites/default/files/AFB.B.25.4%20Report%20of%20Accreditation%20Panel\\_0.pdf](https://adaptation-fund.org/sites/default/files/AFB.B.25.4%20Report%20of%20Accreditation%20Panel_0.pdf)

panel after due consideration of the re-accreditation applications of the three institutions recommends the accreditation of the three entities for further five years.

## 2.2 Comments

*At the outset it should be noticed that the accreditation panel did not consider the call made by the CMP to work towards accreditation of additional NIE particularly from LDCs. Though this question is taken up in the frame of the readiness programme, it is also important that the panel discusses strategies to enable accreditation of more LDCs countries. The outcome of these discussions can be fed into the readiness programme.*

*Furthermore and more importantly, the Panel did not discuss the implication of the decision by the GCF Board (B.08/03) to fast track AF accredited entities. The GCF Secretariat found that entities accredited by the Adaptation Fund up to the time of the Board decision and in full compliance with the AF's fiduciary standards are eligible to apply under the fast-track accreditation process as meeting the GCF's basic fiduciary standards and Environment Social Safeguard. Nevertheless some gaps have been identified as followed<sup>2</sup>.*

**I. Tables on gaps that AF accredited applicants should address in order to be accredited by the GCF. The entity will be assigned a risk category<sup>3</sup> for funding proposals for projects and activities commensurate with its track record if and when the entity is approved for accreditation:**

- (i) Fiduciary gap: Have publicly available terms of reference that outline the purpose, authority and accountability for the investigation function (basic fiduciary criteria for the purpose of transparency and accountability and scope of investigation);*
- (ii) Fiduciary gap: Ensure functional independence by having the investigations function headed by an officer who reports to a level of the organization that allows the investigation function to fulfil its responsibilities objectively (basic fiduciary criteria for the purpose of transparency and accountability and scope of investigation);*
- (iii) Fiduciary gap: Publish guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process (basic fiduciary criteria for the purpose of transparency and accountability and scope of investigation); and*
- (iv) ESS gap: Have the capacity to assess and manage relevant Performance Standards 1-8 environmental and social risks and impacts in line with the Fund's ESS through an ESMS.*

*At the last 9<sup>th</sup> meeting of the GCF, the Centre de Suivi Ecologique du Senegal and the Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE), Both NIEs accredited by the AF, were accredited as NIEs by the GCF.*

*The issue at hand will be to consider whether the AF should undertake steps to fill the identified gaps by the GCF, by introducing these elements in its accreditation process. From an AF NGO Network perspective this is a key question to be answered, as the AF explores potential linkages with the GCF. This is important for enhancing coherence and complementarities. As one can assume, most of the identified gaps are at institutional level and apparently could be addressed by the already entities now accredited under the GCF, it stands to be expected*

<sup>2</sup> GCF/B.08/03 Assessment of Institutions Accredited by Other Relevant Funds and Their Potential for Fast-track Accreditation [http://www.gcfund.org/fileadmin/00\\_customer/documents/MOB201410-8th/GCF\\_B.08\\_03\\_Assessment\\_Institutions\\_Accredited\\_fin\\_20101008.pdf](http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_03_Assessment_Institutions_Accredited_fin_20101008.pdf)

<sup>3</sup> Risk categories are identified in Annex I of document GCF/B.07/11. Risk categories include Category A/Intermediation 1 (high), Category B/Intermediation 2 (medium), and Category C/Intermediation 3 (low).

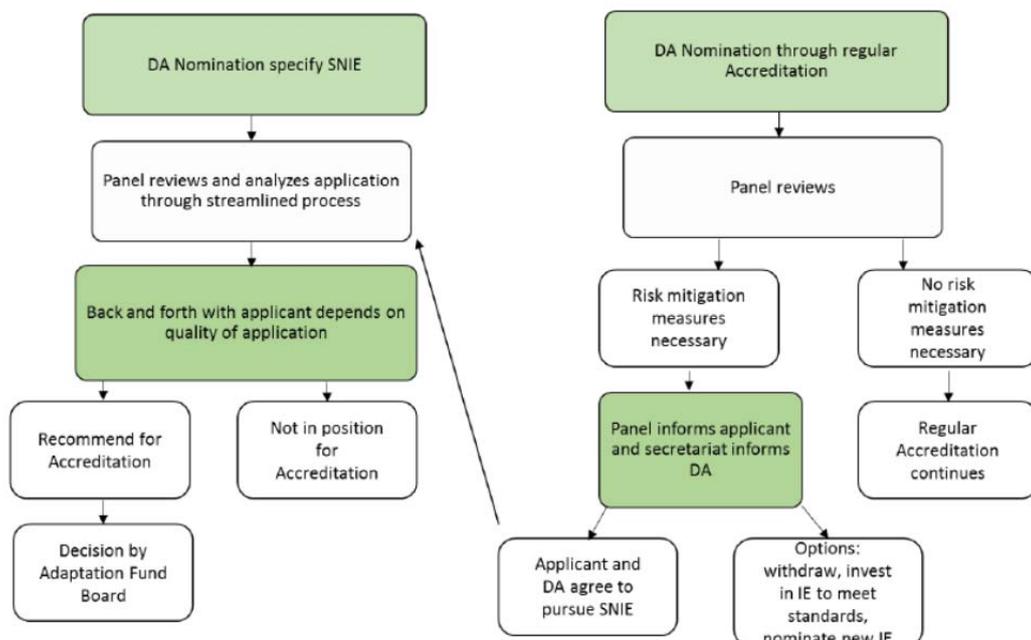
that providing policies for the identified goals will not be an insurmountable obstacle for future applicants. In our view the Board in discussing the report of the AP, should request the panel and the Secretariat to develop a paper, which should lay out the process how the AF could integrate such element into its own accreditation policies.

### 3 Streamlined Accreditation Process:

As mentioned above since March last year, the Board has regularly considered options for the streamlined accreditation process. This process is based on experience gained by the AP in considering options to accredit small entities through a streamlined process by taking into account compensating measures, controls and practices commonly used by small entities, while ensuring that the small entity applicant does not only meet the fiduciary standards, but also will not expose the AF to any kind of risk. The process of elaboration of the modalities for streamlined accreditation was based on the following areas:

(a) An assessment of the potential risks that the AF would take by funding a project based on the capacity and nature of an SNIE, (b) A greater emphasis on identifying alternative ways to meet the requirements of the fiduciary standards, (c) Added flexibility for an applicant to show how it uses mitigating measures to meet the spirit of the fiduciary standards, (d) Reduced time and effort for the applicants to go through the accreditation process, and (e) Alignment where possible with the fit-for-purpose approach of the Green Climate Fund

**Table II: Flow chart SNIE Accreditation Process**



In the streamlined accreditation process the requirements for fiduciary standard are commensurate with the type, size and risk profile of the applicants. The proposed approach relies where possible on credible and independent reviews and due diligence by the applicants. This reliance is in line with the Paris declaration on aid effectiveness as well as the Accra Agenda for action.

Eligible under streamlined accreditation process are applicants that have a track record in dealing with projects up to USD 1 million, having 25 professional staff working on implementing and executing proposals as well as an annual administrative expense of up to USD 1 million<sup>4</sup>. In applying for accreditation an applicant is not obliged to determine upfront, whether it applies for streamlined or normal accreditation. Rather this will be proposed by the Panel to the applicant based on the initial findings in the accreditation screening.

These requirements are flexible and should not prevent applicant to submit their applications. For cases that are outside these ranges, applications will be considered based on the characteristic and types of business run by the applicants. Accreditation as SNIE will also last for five years, with the possibility of upgrading any time the accreditation to full NIE, if the applicant provides information how it can meet the AF's fiduciary standard and Environment and Social Policy of the AF.

The paper also outlines range of risk mitigation measures that will be applied on a case-by-case basis. Further details on these risks mitigation measures laid out in the document go beyond the scope of this paper.

It is expected at this meeting that the Board a) approves the streamlined process as outlined in the current document; and also b) requests the secretariat to work with the Accreditation Panel to develop a fact sheet for applicants about the process and its implications.

### 3.1 Comments

*The AF NGO network has been supportive of the streamlined accreditation process, as it has the potential to further strengthen the strategic objective of the fund to bring adaptation benefits to vulnerable people. We are of the view that the document presents a balanced approach to ensure that applicants meet the standards and safeguard of the AF, while at the same time providing flexibility that will allow small institutions to get accredited and upgrade their skills and fields of intervention over time as to get full accreditation by the AF. The streamlined accreditation approach bears similarities with the fit-for-purpose approach applied by the GCF. However, the streamlined accreditation should also have components that ensure further devolution of funding decision at national levels, by for instance providing options to countries with already accredited NIEs to further accredit SNIE as they wish. Also, often some existing entities are meeting those requirements for streamlined accreditation. They should also be invited through the call of proposal. Although applicants for SNIE should meet the fiduciary standards, the paper is silent on the level of accountability required to run a small projects. We expect project to happen at the very local level. Small projects often are good tools to enhance adaptive capacity at local level.*

*In order to actively promote SNIE we recommend the AF to set-up a pilot programme for this purpose, by earmarking at least 10 million of its resources to SNIEs.*

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<sup>4</sup> Streamlined Accreditation Process AFB/EFC.16/7, p.2 [https://www.adaptation-fund.org/sites/default/files/AFB.EFC\\_16.7%20Streamlined%20accreditation%20process\\_0.pdf](https://www.adaptation-fund.org/sites/default/files/AFB.EFC_16.7%20Streamlined%20accreditation%20process_0.pdf)

## **4 Report of the fourteenth meeting of the Project and Programme Review Committee**

The Project and Programme Review Committee (PPRC) is responsible for assisting the Board in tasks related to project and programme review and implementation in accordance with the Operational Policies and Guidelines as well as for providing recommendations and advice to the Board thereon<sup>5</sup>. Thus, at the upcoming meeting, the AF Board will consider the projects/programmes submitted based on the recommendations emanating from the technical review by the Secretariat on the approval status of the submitted project proposals, which are based on the Secretariat's expertise.

Furthermore, the PPRC will discuss issues related to the project/programme pipeline and proposals as well as the intersessional review of proposals.

## **5 Report of the Secretariat on Initial Screening/Technical Review of Project and Programme Proposals**

For the upcoming meeting the PPRC will consider projects submitted based on the recommendations from the technical review by the Secretariat on approval status of the submitted project proposals. The document contains finding and recommendation of the technical screening by the Secretariat to the PPRC and subsequently the AF Board.

Nine proposals -three concepts requested funding of US\$ 16,461,880 and six full developed proposals all by NIE with a total requested funding of US\$ 30,285,788-, have been submitted by accredited entities with a total amount of US\$ 48,097,199. Two regional entities submitted each a concept note for endorsement by the Board, before development of the full proposal. These are the Secretariat of the Pacific Regional Environment Programme (SPREP) for the Federated States of Micronesia, and the Sahara and Sahel Observatory (OSS) for Uganda. The total amount included US\$ 3,615,112 or 8.1%<sup>6</sup> as Implementing Entities management fees and US\$ 3,779,052 or 8.5%<sup>7</sup> in execution costs. The NIE for Senegal (*Centre de Suivi Ecologique*, CSE) also submitted a concept. This is for the first time, that a NIE submits a second proposal after completion of the first project.

Eight of the nine proposals are regular one, which means that they exceed the USD 1.threshold, which is the highest bar that a project should cost in order to qualify as small-sized projects.

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<sup>5</sup> See document AFB/B.6/6 on the Adaptation Fund Board committee

<sup>6</sup> The implementing entity management fee percentage is calculated compared to the project budget including the project activities and the execution costs, before the management fee. With the exception of one of the proposals for India (3) for which a corresponding observation has been made, these proposals do not request management fees in excess of 8.5% and are thus in compliance with Board Decision B.11/16 to cap management fees at 8.5%.

<sup>7</sup> The execution costs percentage is calculated as a percentage of the project budget, including the project activities and the execution costs, before the implementing entity management fee.

**Table 2: Project proposals submitted to the 25th Adaptation Fund Board meeting**

Country	IE	Financing requested (USD)	Stage	IE Fee, USD	IE Fee, %	Execution Cost (EC), USD	EC, % of Total
Senegal	CSE	\$1,351,000	Project concept	\$104,890	8.42%	\$108,110	8.68%
Federated States of Micronesia <sup>4</sup>	SPREP	\$8,967,600	Project concept	\$646,425	7.77%	\$716,175	8.61%
Uganda	OSS	\$7,494,280	Project concept	\$490,280	7.00%	\$480,000	6.85%
India (1)	NABARD	\$969,570	Fully developed project document	\$75,600	8.46%	\$76,595	8.57%
India (2)	NABARD	\$1,790,500	Fully developed project document	\$139,413	8.44%	\$143,192	8.67%
India (3) <sup>5</sup>	NABARD	\$1,378,010	Fully developed project document	\$109,955	8.67%	\$120,800	9.51%
Jordan	MOPIC	\$9,226,000	Fully developed programme document	\$723,000	8.50%	\$703,000	8.27%
Morocco	ADA	\$9,970,000	Fully developed project document	\$781,060	8.50%	\$872,950	9.50%
Peru	PROFON ANPE	\$8,950,239	Fully developed project document	\$544,489	8.50%	\$555,750	8.68%
Senegal	CSE	\$30,000	Project formulation grant	-	-	-	-
<b>Total</b>		<b>\$48,097,199</b>		<b>\$3,615,112</b>	<b>8.13%</b>	<b>\$3,776,372</b>	<b>8.49%</b>

**Table 1: Status of the projects that were in the pipeline between the 24<sup>th</sup> and 25th Adaptation Fund Board meetings**

Pipeline of MIE projects							
Order of priority	Country (MIE)	Recomm. date	Submission date	Net cost US\$ M	Financing requested US\$ M	Cumulative US\$ M	Approval
1	Ghana (UNDP)	4/4/2013	1/28/2013	7.64	8.29	8.29	3/5/15
2	Mali (UNDP)	7/4/2013	4/24/2013	7.86	8.53	16.82	3/25/15
3	Nepal (WFP)	10/31/2013	8/26/2013	8.78	9.53	26.35	3/9/15
4	Indonesia (WFP)	3/20/2014	1/13/2014	5.52	5.99	32.35	In process

During the twenty-fourth meeting, no MIE projects were added to the pipeline.

The remaining four project/programmes (see table 1 on the status of proposal in the pipeline) in the pipeline had a total value of US\$ 32,350,146. Between the last meeting and the upcoming meeting, the AF has received new funds through contributions by some developed countries. Afterward, the Board initiated steps for intersessional approval of all the four projects that were in the pipeline. Germany made the largest contribution in Lima with a pledge of EUR 50 million. This pledge makes Germany the largest contributor of

the AF. As of the date of this report, the proposals for Ghana, Mali and Nepal have been approved intersessionally, and the proposal for Indonesia is being processed for Board approval.

## **6 Report of the fourteenth meeting of the Ethic and Finance Committee**

According to its terms of reference, the EFC is responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit.

## **7 Adaptation Fund Trust Fund: Financial Report Prepared by the Trustee**

Since the start of CER's monetization by the Trustee the fund has generated USD 190.80 million through CER sales. In the last two quarters of 2014, the Trustee has sold USD 1,34 million CERs and generated USD 0.37 million in CER proceeds. The average price reached during the last two quarters of 2014 was around EUR 1.36.

So far the cumulative amount committed to proposals amounts to USDv291.82 million, out of this amount USD 152.24 are pending to be transferred to implementing entities. The total fund available is about USD 176.81 as of December 2014. As of December 31, 2014, cumulative donations to the Adaptation Fund amounted to USD 277.26 million. The AF is becoming more dependent from pledges by developed countries. It is important to flag here that since the last meeting, the Trustee has received EUR 50 million and EUR1 million from Germany and Corporaciòn Andina de Fomento respectively, in addition to the USD 56,000 received from Belgium (Flanders).

This trend seems to be consolidating, as there is no option in sight today to boost the CDM market

## 8 Issues remaining from the twenty fourth meeting of the GCF

### 8.1 Readiness Programme: Phase I Progress Report and Phase II Proposal

Over the last two years, the Board considered several times the question how it can augment both the number of accredited NIEs and the number of qualitative and approvable projects submitted by national entities. The challenges identified, were twofold; on the one hand, the in-country difficulties to select and identify national applicants for accreditation that in fact gets accredited. On the other hand, once accredited, the NIEs often encounter challenges, to design and develop high qualitative adaptation projects that are approvable by the AF. With the adoption end of 2013 of the AF environmental and social safeguards an additional responsibility for NIEs was added with regard to accreditation and project development.

Consequently, the AFB at its 21<sup>st</sup> meeting requested the secretariat to prepare a programme proposal, to prepare applicants to meet the fund's standards and safeguard. At the sub-sequent meeting, the Board approved the readiness programme, which was launched some months later.

The document analyzed here reports on achievements reached during the first phase of the readiness programme upon which it outlines activities for the second phase of the work programme.

The first phase was based on three elements:

1. **Seminars and regional workshops** convening different stakeholders on accreditation to project design, implementation, monitoring and evaluation. A series of workshop has been organized in the different part of world. Most of them have been enabled through close partnership with key relevant institutions working in the field of readiness, in order to save costs, but also as a means to strengthen the partnership and enhance the visibility of the Fund.
2. **Online collaboration platform** to facilitate knowledge sharing among practitioners and expert, with the view of bringing stakeholders to discuss on experiences and challenges. One of the key outcomes of these activities is the launch of a strategic partnership with CDKN. Through this partnership a new website that will provide an online platform for climate finance readiness “Climate Finance Ready” was created.
3. **South-South grants** to support experienced national implementing entities (NIEs) to assist countries working to get their national institution accredited for climate finance. A call for proposals for South-South cooperation grants was launched as the consequence of the discussions. Four proposals requesting grant have been submitted and accredited by the Board intersessionally. Three grants were awarded to CSE of Senegal on behalf of Cape Verde, Chad, Niger, and one proposal by (MINIRENA) Rwanda on behalf of Burundi

**Table 3: Own table based on information AF /BB.25/5 page.3**

Benefits of going through the accreditation process	Challenges
<p>AF accreditation:</p> <ul style="list-style-type: none"> <li>• Raises the profile of climate change adaptation in-country</li> <li>• can help mobilize additional resources for climate change adaptation</li> <li>• helps “fine-tune” an organization’s policies, procedures, and standards, and align with international standards</li> <li>• validates organization’s process and increases its national and international reputation</li> <li>• consolidates a commitment to implementing the project</li> <li>• places an NIE in a position to promote collaboration with other national and multilateral organizations in-country</li> <li>• NIEs can take on more responsibilities related to climate finance having gone through the process</li> </ul>	<ul style="list-style-type: none"> <li>• Main challenges faced by NIEs going through the accreditation process</li> <li>• The political process of choosing the right entity</li> <li>• The process is time consuming and highly demanding</li> <li>• Lack of appropriate documentation of certain operations or policies</li> <li>• When English is not the working language, translation is costly and time consuming</li> </ul>

## 8.2 Proposal for Phase II of the Readiness Programme

At the outset, it is worth mentioning that at the last CMP in Lima, Parties by appreciating the achievement during the first phase of the readiness programme gave a strong signal to continue the programme to support readiness for direct access to climate finance for national and regional implementing entities. It also invited the AF Board to further support the readiness programme for direct access to climate finance.<sup>8</sup> Furthermore Parties requested the AF Board to consider the accreditation of more national or regional implementing entities particularly in LDCs and ensure that accredited entities access funding. This decision should be perceived as an important signal to the AF Board not only to continue its work programme on readiness, but also to scale it up during its second phase, in order to fit the policy guidance by the CMP to accredit more entities particularly from LDCs and to augment the number of approved project proposals.

As mentioned above the second phase is based on the lessons learned from the first phase as well as needs and views expressed by the different actors involved in the first phase.

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<sup>8</sup> Decision 1/CMP.10, paragraph 9

The performance of the first phase is significant. Overall, five new additional NIEs and two RIEs applicants have completed applications, in addition to five new applicants that have been nominated by their National Designated Authority. *It should be however stated here, that the paper did not come up with empiric evidence, how the accreditation and designation by NDAs are attributable to the readiness programme.*

With regard to project proposals submissions, it was noticed that during the first phase 13 project proposals were submitted with 12 proposals by NIEs. This trend is continuing as of today. For instance for this meeting five of the seven projects submitted are coming from NIEs. Though, one should not neglect that the AFB capped MIE proposals at 50% of its fund size.

Starting from the experience gained during the first phase, the second phase will aim at filling identified gaps. In doing so, the new phase will expand already proven partnership by e.g. supporting NIE after accreditation particularly in the design of the projects, as well as to strengthen the collaboration with the growing number of stakeholders engaged in climate finance readiness. It will also encourage peer-to-peer learning by facilitating experience and best practices exchange among accredited entities, as well as by providing small grant to accredited entities to help other countries seeking accreditation to reinforce their capacities, as to meet the AF's fiduciary and social standards. Additional materials and tools will be made available to applicants.

## **8.2.1 Comments**

*The paper on the table proposes to scale up resources allocated to south cooperation. The paper presents tangible results so far achieved, which should build the basis for the second phase. However, it remains unclear how the second phase speaks to the CMP decision that requests a strategic support for LDCs with regard to accreditation of NIEs, as well as how to increase the number of entities enjoying facilitated access to small-sized projects. It comes also not clear out how the Secretariat will coordinate this support programme, in order to manage the knowledge generated during the work programme and especially to ensure that the south-south cooperation component is really working and helping countries in gaining accreditation by the AF. Again, increased actions on readiness, was one of the key demand by the CMP last year.*

*Beyond this, readiness should be seen as one of key strategic priorities of the AF. With the recognition of these fiduciary standards by the GCF through its decision on fast-tracking of the AF accredited entities, the AF can harness this momentum to convey the message, that getting accredited by the AF represents also an opportunity vis-à-vis the GCF. And, should the Board decide to fill the gaps identified by the GCF in comparison to the AF accreditation standards, the Fund could tap into other readiness activities, as the standards and expectation will be the same. The paper is also silent on the management coordination role that is limited because of limited resources in AFS personnel. The new phase gives strong attention on south-south exchange and support. Unfortunately, the paper is silent about the role of the Secretariat to monitor, evaluate and adjust the south-south exchange programme.*

## 8.3 Potential Linkages between the Adaptation Fund and the Green Climate Fund

In frame of the debate on the second review of the AF, the Board requested the secretariat at its last meeting, to prepare a document showing potential linkages with the Green Climate Fund for consideration by the Board during the intersessional period<sup>9</sup>. This paper was prepared as response to this specific request and based on the paper on Strategic prospects for the Adaptation Fund that was discussed at the Board's 20<sup>th</sup> meeting.

In the strategic prospect paper, the Secretariat concluded that the strong support of the AF by developing countries is motivated by several reasons. The AF is perceived as well established fund with clear policies and procedures, also because of its proven record in providing direct access. The paper on strategic prospect for the AF has identified two scenarios:

the first being a "*status quo scenario*", with no changes in term of policies and linkages with the GCF;

the second contains operational linkages between the AF and the GCF.

Depending on the possible constellations in option 2, different degrees of integrations are envisageable. This can range from options serving as: a delivery mechanism for concrete adaptation projects for the GCF; a specialized instrument of the GCF to a dedicated mechanism based on innovative sources (building on the experience of the CER-monetization process).

### 8.3.1 Operational linkage scenario

This proposal assumes that given the fact that the GCF as well as the AF have their own legal capacity, both could theoretically, conclude an arrangement containing some operational aspects and institutional linkages along their respective mandates. This is in line with the objectives of building coherence and complementarities of the financial mechanism of the Convention. In doing so, the GCF will then be harnessing the proven track record of the AF by channeling through it some of its resources or all resources for adaptation instead to open up a new mechanism.

The GCF Board adopted a decision to fast track the accreditation of already entities accredited by the AF. This means that the GCF will -when it comes to the accreditation of applicants already accredited by the AF- strongly rely on the assessment undertaken by the AF when accrediting those entities. Consequently it will only check those points that have been identified in the assessment as gap between the two funds standards.<sup>10</sup>

Furthermore, this option is boosted by the provision of the Governing Instrument of the GCF, proposing the GCF to work at scale. In doing so, the GCF will need to focus on programmes, and "outsource" all project activities to multilateral and national intermediar-

<sup>9</sup> Decision B.24/29, Paragraph (a)

<sup>10</sup> GCF/B.08/45, GCF Board decision B.08/03, paragraph (d) and (f). The latter specifically outlines gaps for fiduciary standards and environmental and social safeguards, which would be the focus of the fast-track accreditation. Available at [http://www.gcfund.org/fileadmin/00\\_customer/documents/MOB201410-8th/GCF\\_B.08\\_45\\_Compodium\\_fin\\_20141206.pdf](http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_45_Compodium_fin_20141206.pdf)

ies/funding entities.<sup>11</sup> On the basis of the legal capacity conferred to both institutions, the paper outlines three sub-scenarios to implement the operational linkages between the GCF and the AF as follow:

1. **Accreditation of the AF by the GCF:** Given the fact that the AF has been conferred legal capacity, it could apply for accreditation with the GCF as an intermediary.
2. **MoU between the AF and the GCF;** Based on the provision of the GI paragraphs 33-34<sup>12</sup>, the GCF and Fund Boards could enter into some form of MoU or other legal agreement under which the Adaptation Fund could receive GCF funds and serve as a delivery partner for specific activities, where the Adaptation Fund holds a comparative advantage.
3. **Institutional integration scenario:** Here different constellations are imaginable ranging from the absorption of the Fund into the GCF to becoming a sub-fund or window under the GCF dedicated to concrete adaptation projects/programmes of a certain size, to direct access etc.

In the option 2 (MoU between the GCF and the AF), it is important to flag that no additional transaction cost will be incurred, because the AF secretariat will charge no fees for screening of the projects, which any way belong to its core activities. However, the IE will be charging their standard fees for management and execution of projects. The paper also reveals that in addition to the above-mentioned option, a process of enhancing coherence and complementarity will be initiated, which will explore comparative advantages of the two funds, with the view of dividing the labor between the two funds.

The paper concludes that Scenario 2, i.e. the Fund receiving core-funding from the GCF — either as an intermediary of the GCF by accreditation or entering into some other type of arrangement based on paragraphs 33–34 of the GCF GI — seems the most viable, as it would not require a COP/CMP decision but would be within the remit of the Board’s decisions.

### 8.3.2 Comments

*The paper captures the state of the discussion and outlines technical options that the AF can harness in its endeavor to find a solution with the regard to the future of the AF. Like in other papers published here and there on potential linkages of the AF with the GCF, the political dimension and political support needed to implement any of the options proposed is often missing. Certainly the AF cannot do anything about the political discussion at the UN-FCCC level, it is of the view of the network however, that the Board should consider at least potential implications and outcomes of such discussions. This will bring as the debate closer to reality. Assuming this, the Board could request its Secretariat to present the range of decisions and the sequences between the CMP and COP, with the view of elaborating a strategy that at least consider each option.*

<sup>11</sup> See, for example, Benito Müller, *A Delhi Vision: for the Green Climate Fund Business Model Framework – Some Thoughts on Access and Disbursement*, Oxford Energy and Environment Brief, February 2013

<sup>12</sup> Governing Instrument for the Fund, para. 33, V. A. Complementarities and coherence “The Fund shall operate in the context of appropriate arrangements between itself and other existing funds under the Convention, and between itself and other funds, entities, and channels of climate change financing outside the Fund”.

*The AF NGO network also sees the option MoU between the AF and the GCF as the simple one with promising prospect to be implemented promising. A process needs to be established between the AF Secretariat and Board with the GCF as to gauge the feasibility of the option. In addition, one should also identify friends of the AF at the GCF Board level in order to strategize more about how and when to best bring the issue related to the AF at the GCF level. Last but not the least; the paper is silent in term of process and timeline for its implementation. Thought this is not covered in the mandate of the present paper, it will be interesting to also explore the role, which the AF could play in the new agreement and for instance if and how it will be linked with the new market mechanism currently under discussion.*

*The option on accrediting the AF as an intermediary is also a very likely way operationalize a link between the AF to the GCF. The AF needs to balance the prospect of greater role and resources with the reputational risk that might be incurred if the AF itself is not found to meet the GCF standards.*

*It is the view of the AF NGO Network that in the discussion due time should be given to the AF Board to discuss on practical steps that will approach peu à peu the AF to the GCF. In that sense, we see the fast track accreditation of the AF's accredited as a key signal for the AF to upgrade its accreditation requirement to be in line with the GCF one, which is currently perceived as the highest standards in climate finance field. This will not be an insurmountable obstacle, as the identified gaps by the GCF Secretariat are easily to be addressed. In addition, this could be a good argument, when it comes to discussions on an MoU, because it will give the GCF Board members the assurance that the money channelled will be used following its own standards.*

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