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

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.

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

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,

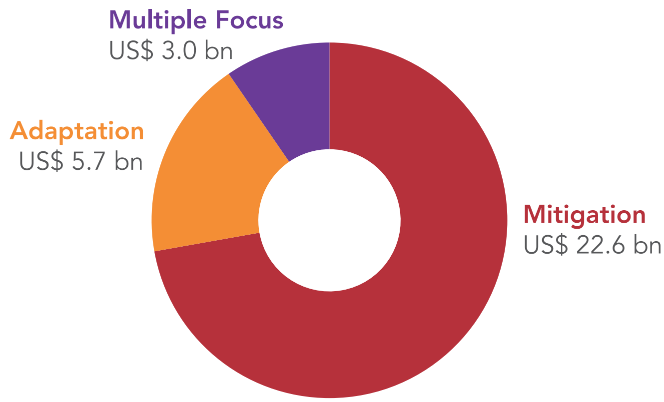
[36] Decision 5/CP.9 para. 1a, U.N. Doc. FCCC/CP/2003/6/Add.1

[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

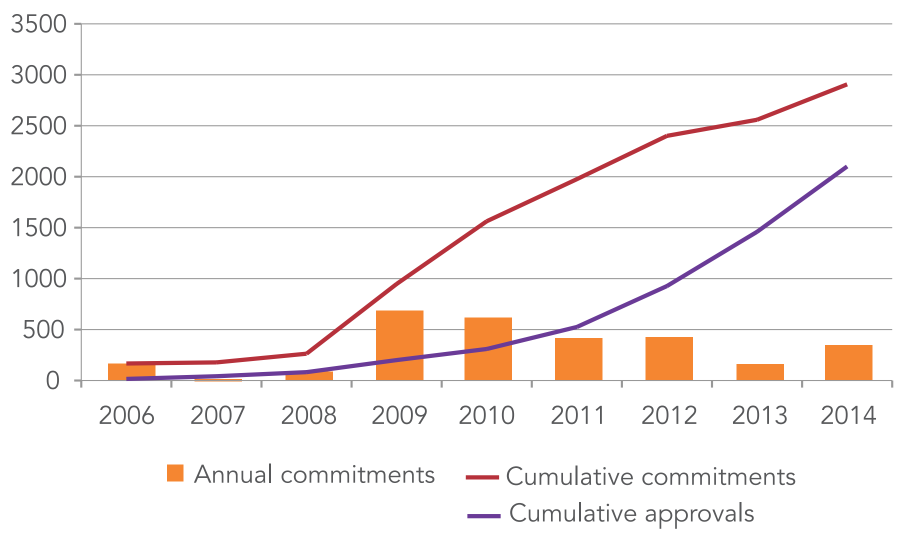
developed countries have reported contributions totaling US$ 5.7 billion[39] to climate change adaptation under their fast start finance commitments, with roughly a half of this (US$ 3 billion) going to the four multilateral adaptation funds.[40] By way of comparison, US$ 22.6 billion has been committed 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.

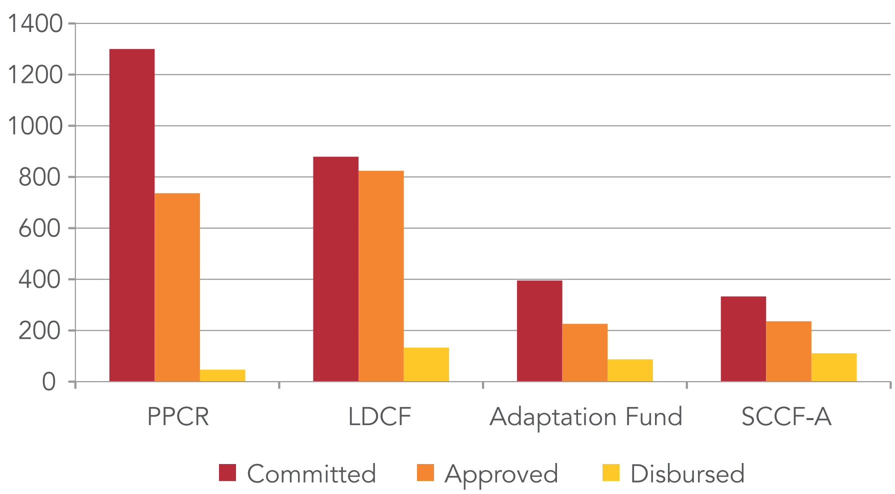
[41] Nakhooda et al. (2013).

[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

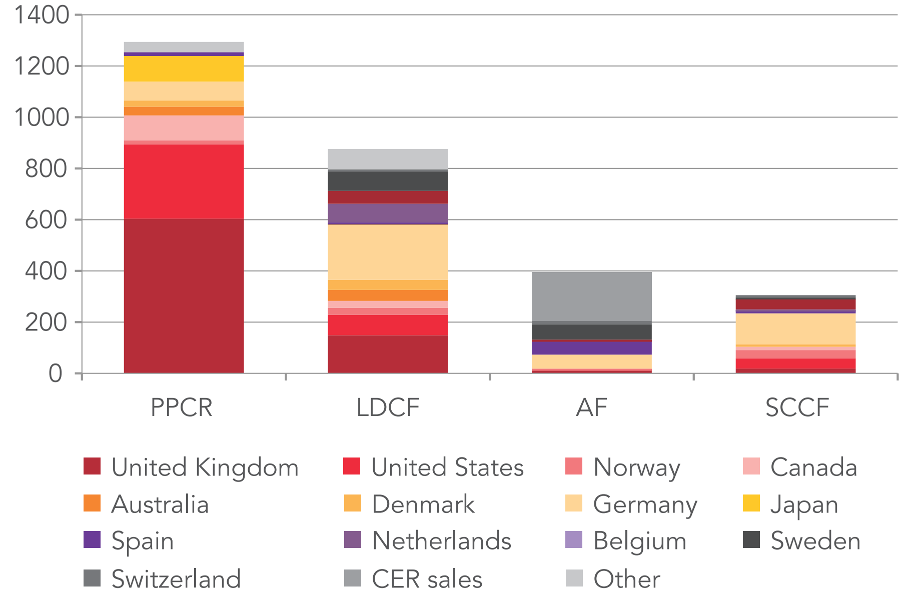
[45] See Adaptation Fund Trust Fund: Financial Report Prepared By The Trustee, 12 Feb. 2014, AFB/EFC.14/7 available at https://www.adaptation-fund.org/sites/default/files/AFB.EFC_.14.7%20AF%20Trustee%20Report%20at%20December%2031,%202013%20(w%20cover%20page).pdf

[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.

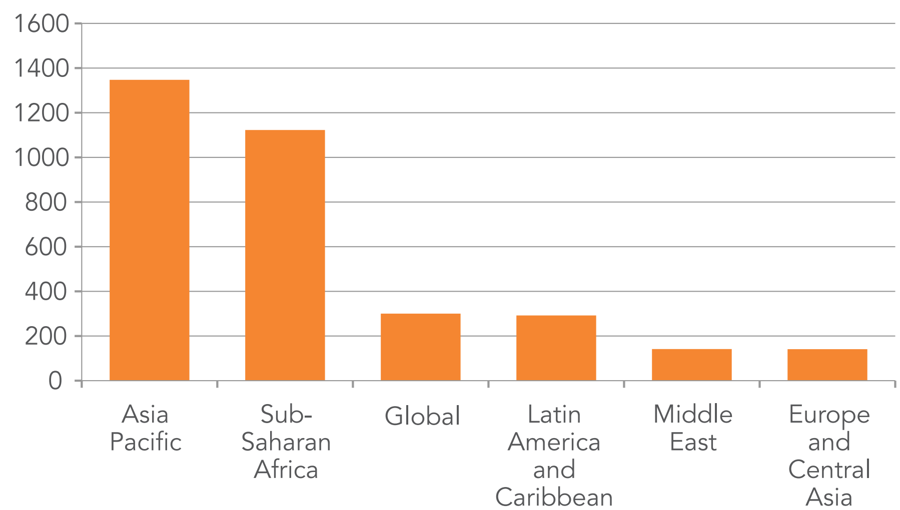
Ninety-three percent of adaptation fund commitments are from developed country contributions counted as overseas development assistance (ODA). Only the Adaptation Fund has taken an innovative approach to sourcing finance through a levy on Clean Development Mechanism (CDM) credits; an approach, though, 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).



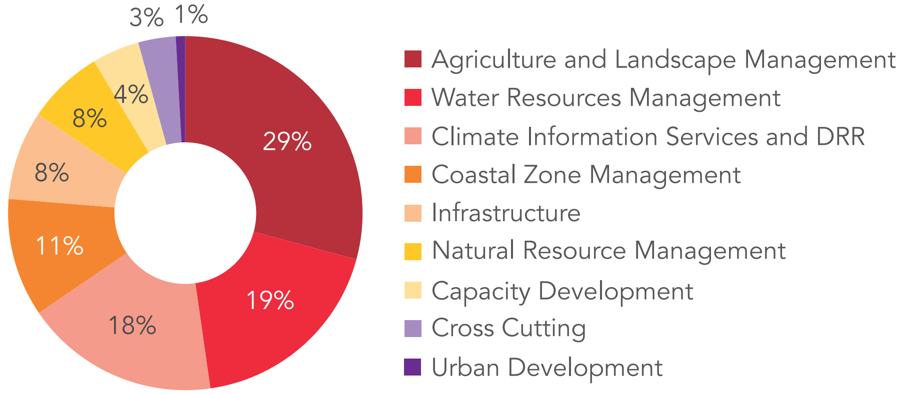
In terms of regional allocation, most adaptation finance has gone to projects/programs in Asia Pacific and Sub-Saharan Africa (Figure 5), where SIDS and LDCs with the greatest adaptation challenges are located, though regional allocation varies between the funds. The Adaptation Fund, which also provides 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).



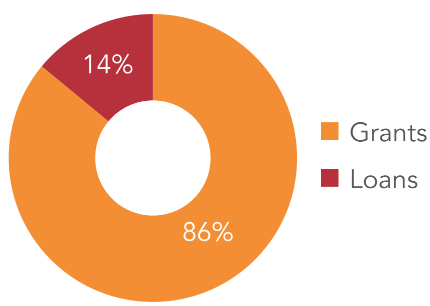
The breakdown of the adaption funds' portfolios by sector (Figure 6) shows that climate resilient agriculture has been a main priority across the four funds. The LDCF, which is designed to address urgent and immediate needs of least developed countries, has allocated a higher proportion of funds (15 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.

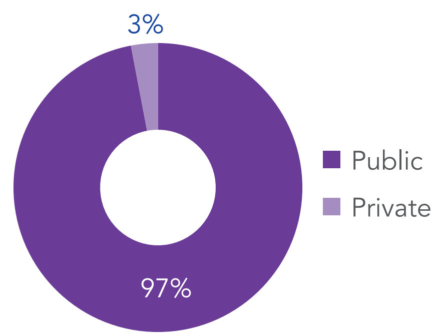
Figure 6: Adaptation funds approved by sector.



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.

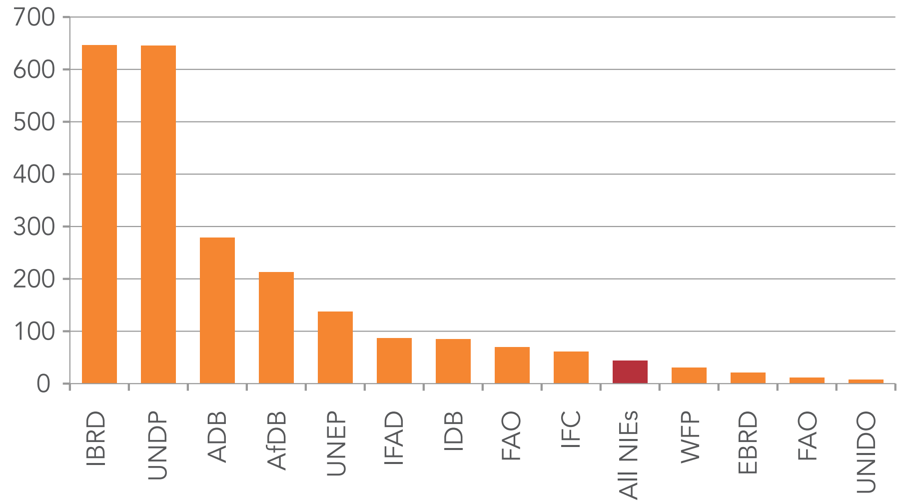
Almost all (98 percent) adaptation finance has been accessed by recipient countries 'indirectly' through multilateral implementing entities. Only the Adaptation Fund has had a direct access facility whereby recipient country based national implementing entities (NIEs)[49] channel finance. However,

[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

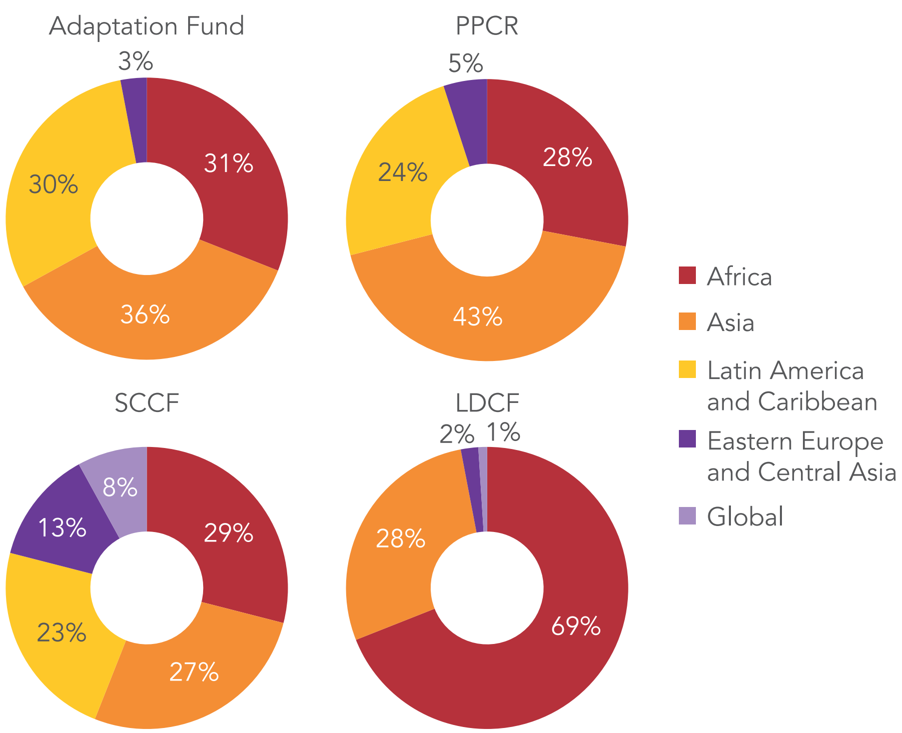
GCF Status

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%20 4-2%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

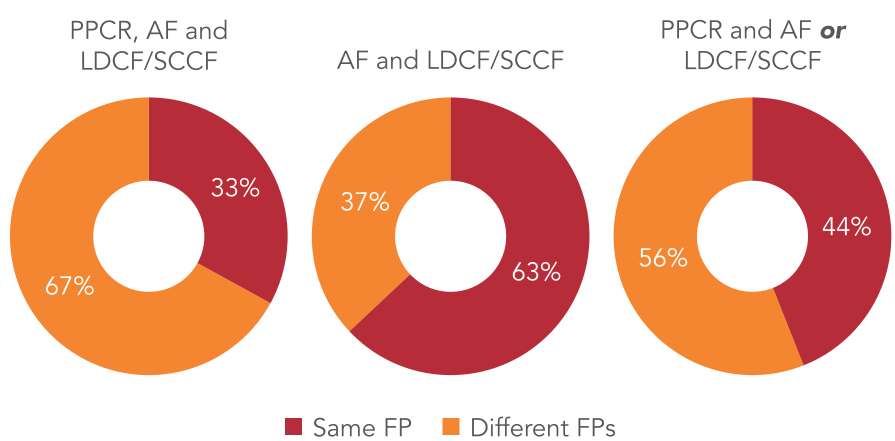
National focal points are designated government officials within recipient countries that act on behalf of their government in its interactions with the adaptation funds.

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.

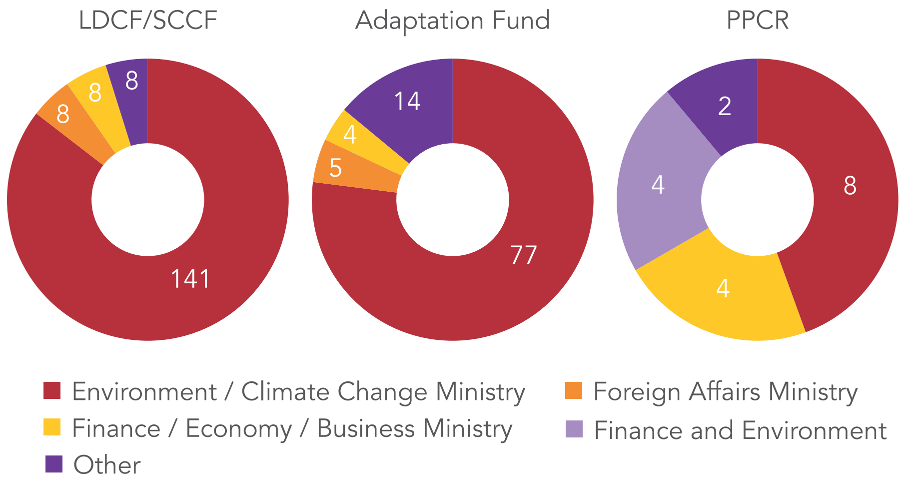
[75] AF Operational Policies, para. 33.

[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.

[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.

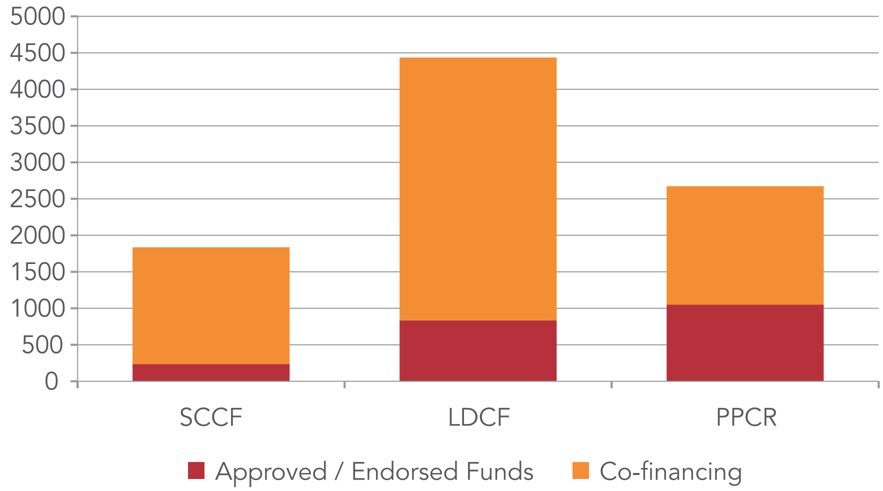
[103] Green Climate Fund, Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility, para. 15, GCF/B.07/08, available at http://gcfund.net/fileadmin/00_customer/documents/MOB201406-7th/GCF_B07_08_Initial_Modalities_fin_20140512.pdf.

[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.

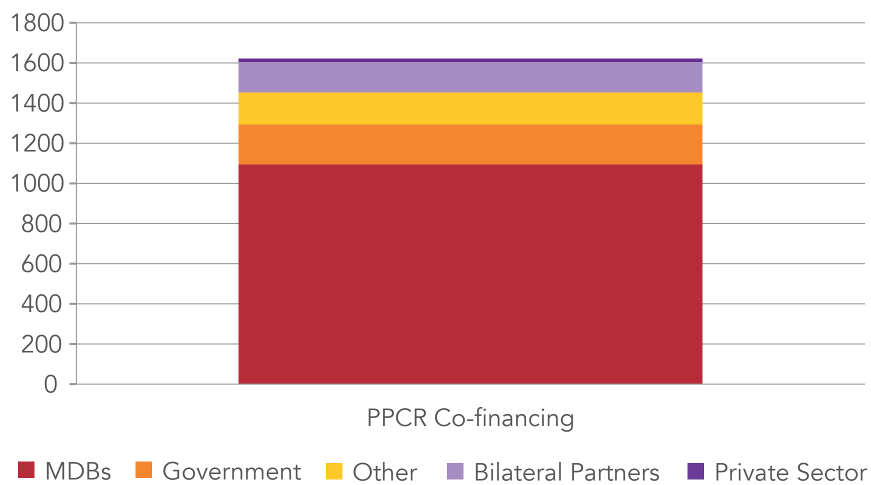
[106] Data collated from PPCR Semi-Annual Operational Report, PPCR/SC.13/3/Rev.1, Annex II, PPCR Portfolio Summary by Pilot.

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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