



ADAPTATION FUND

AFB/B.12/5  
November 15, 2010

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Adaptation Fund Board  
Twelfth Meeting  
Cancun, December 14 - 15, 2010

Agenda item 8 a)

## **INITIAL FUNDING PRIORITIES**

## I. Note by the Secretariat

1. At its eighth meeting, the Adaptation Fund Board received a presentation of document AFB/B.8/7/Rev.1 on its initial funding priorities. After discussion,

*The Board decided to request the Secretariat to prepare a new document on funding priorities for the ninth meeting of the Adaptation Fund Board which would reflect both the discussion of the Board and the outcomes of the negotiations at the fifteenth Conference of the Parties to the United Nations Framework Convention on Climate Change and the fifth Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol in Copenhagen.*

**(Decision B.8/4)**

2. At its eleventh meeting the Board considered a previous version of the present document. Following the comments by Board members,

*the Board decided to request the secretariat to reformulate the criteria for prioritization among different projects, if they contained any discrepancy with the Convention.*

**(Decision B.11/17)**

The present version of the document has been prepared upon this request.

## II. Eligibility

3. The strategic priorities adopted by decision 1/CMP.4 state:

*10. Eligible Parties to receive funding from the Adaptation Fund are understood as developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems.*

4. The *Invitation Letter to Eligible Parties to Submit Proposals for Accreditation to the Adaptation Fund Board* was sent to all the Parties to the Kyoto Protocol that are Non-Annex I Parties to the Convention. Eligible Parties are thus considered as the Parties to the Kyoto Protocol that are Non-Annex I Parties to the Convention.

## III. Caps per eligible country and allocations

5. The *Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund* states:

*25. A cap in resource allocation per eligible host country, project and programme will be agreed by the Board based on the overall status of resources in the Adaptation Fund and in a view to ensuring equitable distribution.*

6. According to this decision, a cap will be assigned to each eligible country. The sum of the amounts of financing provided to each country for its projects and programmes cannot exceed this cap. A cap is different from an allocation: countries are not entitled to a certain amount of financing (as in an allocation system). Countries will receive an amount between zero and their cap depending on the resources available in the Fund and the prioritization of proposed projects and programmes exercised by the Board.

7. The caps may be defined for a certain period of time, based on the overall status of resources in the Adaptation Fund in this period. The Board may decide whether this period extends until the end of 2010 or until the end of 2012.

8. The report of the eight meeting of the Adaptation Fund Board states under Agenda Item 8: Initial Funding Priorities:

*There was a general consensus that a cap should be introduced which would be both high enough to signal the seriousness of the Adaptation Fund and low enough to allow for a considerable number of projects. Some members suggested a cap of \$US 20 million, while other members preferred a smaller figure for the cap in order to allow more projects to be funded.*

9. In order to reflect this discussion, the Board may consider three options:

- Option 1 – a uniform cap per country,
- Option 2 – variable caps taking into account the specific circumstances of certain groups of countries,
- Option 3 – variable caps taking into account the specific circumstances of each country.

#### *Option 1*

10. A uniform cap among the countries. In this case, all eligible countries will have the same cap and may submit projects and programmes within this cap. Under this option, the Board may decide on the level of the cap.

11. Depending on the level chosen and on the period of time considered (as discussed in paragraph 7, until the end of 2010 or until the end of 2012), a simple numerical simulation shows how many countries may access the Fund until the end of 2010 (based on the medium projection calculated by the Trustee, \$146M) or until the end of 2012 (based on preliminary information from the Trustee, \$388M). It should be noted that there is considerable uncertainty in the projections of available funds, especially by 2012, and that the actual outcome may differ from the medium projection by dozens of percent.

	Number of countries that could access the Fund until the end of 2010 <sup>1</sup>	Number of countries that could access the Fund until the end of 2012
Option 1.a – uniform cap = \$5M	30	78
Option 1.b – uniform cap = \$10M	15	39
Option 1.c – uniform cap = \$15M	10	23

12. Under option 1.a, half of the eligible countries (149) might access the Fund until the end of 2012. Under option 1.b, one-quarter of the eligible countries might access the Fund until the end of 2012. Under option 1.c, 15% of the eligible countries might access the Fund until the end of 2012.

### *Option 2*

13. Variable caps taking into account the specific circumstances of certain groups of countries. With this option, the Board may want to take into account the specific vulnerability of Small Islands Developing States, Least Developed Countries, and African countries. These groups of countries could have a higher cap to allow projects with higher impact. The Board may consider the following system to define the caps:

- Basic cap per each eligible country = \$8M
- Additional value if the country is a SIDS = + \$2M
- Additional value if the country is an LDC = + \$1M
- Additional value if the country is an African country = + \$1M

14. For example, a SIDS that is neither an LDC, nor in Africa, would have a \$10M cap. An African LDC, non SIDS, would have a \$10M cap. A country in Africa, both SIDS and LDC, would have a \$12M cap. A country that is neither a SIDS, nor a LDC, and not in Africa, would have an \$8M cap. As a consequence, the caps would be between \$8M and \$12M.

15. LDCs are already targeted by a Fund of the Convention (LDCF). If LDCs would get a higher cap under option 2, priority could be given only to projects in sectors that are not funded by the LDCF, according to 5/CMP.2, paragraph 1.g.<sup>2</sup>

16. Based on these figures, which the Board may want to adjust, a numerical simulation shows how many countries would be able to access the Fund until the end of 2010 (based on the medium projection calculated by the Trustee, \$146M) or until the end of 2012 (based on preliminary information from the Trustee, \$388M).

	Number of countries that could access the Fund until the end of 2010 <sup>3</sup>	Number of countries that could access the Fund until the end of 2012

<sup>1</sup> This figure is calculated under the assumption that each country accessing the Fund proposes projects and programs up to its cap, and eligibility as defined in paragraph 4.

<sup>2</sup> 5/CMP.2: "1. The Adaptation Fund shall be guided by the following principles... (g) No duplication with other sources of funding for adaptation in the use of the Adaptation Fund."

Option 2 - variable caps taking into account the specific circumstances of certain groups of countries	16	42
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17. Under option 2, one-quarter of the eligible countries would be able to access the Fund until the end of 2012.

18. In addition to a discussion on this option and its parameters, the Board may want to consider other categories of countries. Moreover, some countries could be assigned lower caps.

### *Option 3*

19. Variable caps taking into account the specific circumstances of each country. With this option, the Board may want to take into account the national circumstances of each country. The individual cap of each country would be defined through a numerical combination of indexes reflecting the criteria outlined in the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*, adopted by the CMP, including the level of vulnerability, the level of adverse impacts, and the level of urgency and risks arising from delay. For example, an index of GDP per capita may be used.

20. At this stage, no simulation has been made. The Board may want to provide further guidance on this option and the indexes that could be used and combined.

21. It is worth noting that such an option has been used under the GEF Trust Fund through a resources allocation framework (RAF). In November 2008, the GEF Evaluation Office submitted a Mid-Term Review of the RAF. This review concluded that the system presented some drawbacks. In particular, the report stated:

*Conclusion 6. The RAF design and rules are too complex for a network partnership such as the GEF, and the guidelines and support provided have not succeeded in making the RAF transparent and accessible.*

22. As a consequence, the Board is invited to note that according to this experience it might be time consuming to define the right indexes in order to create a simple and transparent system. Scientific assistance may be needed to guarantee the soundness of these indexes.

### *Allocation per region*

23. Finally, decision 5/CMP.2 states that the Adaptation Fund shall be guided by the following principle: *(b) Access to the fund in a balanced and equitable manner for eligible countries.*

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<sup>3</sup> Same assumption as in footnote 1. These are average and rounded values, based on the calculation of an average cap (the caps per category as defined in paragraph 13 were weighted by the number of countries within each category).

24. This criterion was further emphasized in the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund* and during the discussion on Agenda Item 8: Initial Funding Priorities during the eight session of the Adaptation Fund Board:

*According to some members, the Adaptation Fund should be open to all eligible countries while taking into account the regional distribution of funded projects, the population criterion, as well as the funding priorities of other major entities financing adaptation.*

25. To take into account this discussion, the Board may want to consider the principle of an allocation per region (Africa, Asia, Latin America and Caribbean, Europe). Projects and programmes could be presented by countries in a region within the regional allocation. These regional allocations would guarantee an equitable distribution of the resources among the different regions. This system would be additional to the caps per country and projects / programmes described above.

26. The allocation could be based on a two factor approach:<sup>4</sup> the regional population and the number of countries in the region (the two factors having the same weight). A numerical simulation shows what would be the allocation per region in this case, and how many countries per region may access the fund under option 1.b and option 2 above.

	Number of eligible countries		Population of eligible countries (millions)		Allocation	Nb countries to access the Fund - option 1.b <sup>5</sup>		Nb countries to access the Fund - option 2	
						Until 2010	Until 2012	Until 2010	Until 2012
Asia (including Pacific)	58	38.9 %	3726	70.2 %	55%	8	21	8	23 to 24
Africa	53	35.6 %	995	18.8 %	27%	4	11	4	10 to 11
Latin America and Caribbean	32	21.5 %	567	10.6 %	16%	2 to 3	6 to 7	2 to 3	7
Europe	6	4%	21	0.4%	2%	0 to 1	0 to 1	0 to 1	1
Total	149	100 %	5309	100 %	100%	15	39	16	42

27. The Board may provide further guidance on the principle of regional allocations and on the way to define these allocations.

<sup>4</sup> The criteria "funding priorities of other major entities financing adaptation" appears difficult to use in this allocation, especially because it would give a lower allocation to regions with LDC and SIDS, because they are a priority for LDCF and PPCR.

<sup>5</sup> Same assumption as in footnote 1. These are average and rounded values, based on the calculation of an average cap per region (the caps per category as defined in paragraph 13 were weighted by the number of countries per region within each category).

#### IV. Prioritization among projects

28. Finally, the Board may want to consider concrete technical criteria to prioritize among different projects presented under the same call for proposals. This would be necessary if, for example, the amount of a call for proposals were \$40M<sup>6</sup> and the total amount of funding requested by the projects under this call were \$80M. Which criteria would be used to decide that certain projects be funded and not others?

29. First, these criteria would be used to prioritize, if necessary, among projects meeting the eligibility criteria defined in paragraph 15 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*.

30. The Board is invited to consider the following criteria and decide on how to use them to prioritize among eligible projects:

- a. Implementing Entity: priority could be given to projects presented through National Implementing Entities.
- b. Host country: priority could be given to projects presented by SIDS and LDCs. Since LDCs have access to resources from the LDCF, priority could be given to projects presented by LDCs only if the LDCF does not fund the same sector in the country, according to 5/CMP.2, paragraph 1.g.<sup>7</sup>
- c. Concreteness (based on Decision 10/CP.7): priority could be given to projects better identifying the scope, space, time and executing entity of the actions, and having a higher ratio of investment.
- d. Non-duplication of funding sources (based on 5/CMP.2, paragraph 1.g): priority could be given to projects in sectors that are not funded by other sources of funding in the same country, or, if it is the case, to projects that are strongly complementary with projects funded by other sources of funding in the same country.
- e. Level of vulnerability: level of urgency and risks arising from delay (based on criteria outlined in the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*): priority could be given to projects presenting a stronger scientific evidence of meeting these criteria.
- f. Regional co-benefits, multi-sectoral or cross-sectoral benefits (based on criteria outlined in the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*): priority could be given to projects making a stronger case for these benefits.
- g. Lessons learned (based on criteria outlined in the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*): priority could be given to projects

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<sup>6</sup> This is a theoretical value.

<sup>7</sup> See footnote 2.

developing stronger mechanisms to capture lessons learned in project and programme design and implementation.

- h. Adaptive capacity to the adverse effects of climate change (based on criteria outlined in the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*): priority could be given to projects demonstrating a stronger adaptive capacity to the adverse effects of climate change.

## **V. Recommendation**

31. The Board may wish to consider the issues outlined in the present document and, based on the views expressed during the discussion, to decide on:

- Cap per eligible country,
- Allocation per region,
- Criteria to prioritize among eligible projects.