



ADAPTATION FUND

AFB/B.15/5  
September 8, 2011

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Adaptation Fund Board  
Fifteenth Meeting  
Bonn, September 15-16, 2011

## **CONSIDERATION OF COUNTRY CAP IN THE CONTEXT OF REGIONAL PROJECTS/PROGRAMMES**

## I. Note by the secretariat

1. The strategic priorities, policies, and guidelines of the Adaptation Fund adopted by the CMP includes a provision for regional projects and programmes:

*13. Funding for projects and programmes will be available for projects and programmes at national, regional and community levels.*

2. The operational policies and guidelines of the Adaptation Fund specifies that:

*10. [...] Adaptation projects can be implemented at the community, national, and transboundary level. [...]*

3. The strategic priorities, policies, and guidelines of the Adaptation Fund adopted by the CMP also states that:

*16. The decision on the allocation of resources of the Adaptation Fund among eligible Parties shall take into account: [...]*

*(e) Securing regional co-benefits to the extent possible, where applicable [...]*

This is the only statement on a regional dimension in funding allocation in the strategic priorities, policies, and guidelines, and neither that document, nor the operational policies and guidelines, give any preference to funding regional projects and programmes compared to single-country projects and programmes. In its work, the Board has not made any decisions to such effect, either.

4. In its 13<sup>th</sup> meeting, the Adaptation Fund Board decided, *as a temporary measure to:*

*(a) Approve a cap of US \$10 million for each country funded for support by the Adaptation Fund; and*

*(b) Request the secretariat to present a proposal to the Ethics and Finance Committee on how regional projects or programmes would be considered within the cap of US \$10 million per country funded for support.*

(Decision B.13/23)

5. In the 14<sup>th</sup> meeting, the secretariat presented the document AFB.EFC.5.6 “Consideration of country cap in the context of regional projects and programmes”. Following discussions, having considered the recommendation of the Ethics and Finance Committee, as orally revised, the Board decided to:

*(a) Establish an ad hoc working group, composed of the Chair and Vice-Chair, four members from the Ethics and Finance Committee and four members from the Project and Programme Review Committee, to consider the issues of regional criteria, country caps and the definition of regional projects/programmes;*

*(b) Name the following members and alternate members to the ad hoc committee: Ms. Ana Fornells de Frutos (Spain) and Mr. Luis Santos (Uruguay), respectively Chair and*

Vice-Chair of the Board, Ms. Kate Binns (United Kingdom), Mr. Yutaka Matsuzawa (Japan), Mr. Santiago Reyna (Argentina) and Mr. Peceli Vocea (Fiji) from the Ethics and Finance Committee; and Mr. Cheikh Ndiaye Sylla (Senegal), Mr. Jeffery Spooner (Jamaica), Ms. Angela Churie-Kallhauge (Sweden) and Mr. Amjad Abdulla (Maldives) from the Project and Programme Review Committee;

- (c) Request the secretariat to send a letter to any accredited regional implementing entities informing them that they could present a country project/programme but not a regional project/programme until a decision had been taken by the Board, and that they would be provided with further information pursuant to that decision;
- (d) Defer consideration of the proposal contained in document AFB/EFC.5/6 until the 15th meeting of the Board, noting the importance of a decision at the 16th meeting so that regional programmes can be approved;
- (e) Request the secretariat to revise the document, elaborating on the following issues:
  - (i) The interim nature of the country cap, and relationship to the cap on Multilateral Implementing Entities;
  - (ii) Added value of regional approaches; and
  - (iii) Quality considerations in regional projects and programmes, and related project/programme review criteria.

(Decision B.14/25)

6. During the intersessional period, the secretariat sent a letter as mandated by Decision B.14/25 (c). The secretariat also sought guidance from the ad hoc working group regarding the revisions that were expected following Decision B.14/25 (e), and received valuable inputs. The current document has been prepared as guided by those inputs.

## **II. Value added of regional approaches**

7. The experiences on success of regional adaptation projects and programmes continue to be scarce. The IPCC Fourth Assessment Report (AR4) does not analyze in depth the options for regional projects and programmes. The Nairobi Work Programme Note by the secretariat “Synthesis of information and views on adaptation planning and practices submitted by Parties and relevant organizations” (FCCC/SBSTA/2007/9) states that “Relatively few regional initiatives on adaptation were identified in the submissions. [...] Most projects are at an early stage of development or implementation, and centre on climate observation and monitoring, assessment, capacity building and awareness-raising.” While the synthesis note does not elaborate on specific benefits of regional approaches, it states that “At the regional level, barriers commonly identified by Parties include the need for political commitment, data access and compatibility, and ongoing support. It is especially important to harmonize climate monitoring and prediction and the development of global and regional data sets.”

### *Transboundary issues*

8. The added value of implementing an adaptation project or programme regionally rather than nationally is most evident in cases where the adaptation challenge itself is a transboundary one. Such transboundary adaptation challenges can be related e.g. to international waters (sea areas, lakes, rivers, ground water), mountain systems and agro-ecological zones. In other cases, a regional approach may be most suited to collecting or distributing information that is relevant at a higher geographical scale, such as regional remote-sensed data, hydro-meteorological stations, etc.

### *Economies of scale*

9. A regional project or programme may bring about cost savings through the development and application of solutions that can be replicated in a number of countries simultaneously. The level of such economies of scale depends on how similar or different the countries in the region are, including in terms of their adaptation challenges and their national adaptation priorities. A variety of factors influences how easily the same solutions can be applied in different countries. The size of countries is a factor, too: the added value of regional approach may be relatively greater for groups of smaller countries in a region, or LDCs.

### *Strengthening cross-learning and regional cooperation*

10. Participation in regional projects and programmes can bring about indirect benefits that extend beyond the scope and duration of the individual project or programme. Networks can function as media for cross-learning and facilitate further cooperation activities, including South-South cooperation.

### *Additional challenges for regional projects and programmes*

11. While regional activities can have above benefits, implementing them may be more challenging than that of national activities because of having to reconcile different national adaptation challenges and priorities, levels of readiness and implementation arrangements. Even if countries are able to harmonize their priorities for the regional project or programme at the development stage, coordination may require more funds for travel, communication, etc.

## **III. Specific value added of Adaptation Fund financing to regional approaches**

12. It was suggested by the ad hoc working group that given the nature of Adaptation Fund funding to projects and programmes as grants covering full costs of adaptation, and the scale of resources available to countries, there might be some types of investment that the Adaptation Fund funding would be more relevant for, as compared to other types of investment.

13. It was also suggested by the working group that given the overall objective of the Adaptation Fund to increase resilience at community, national and regional level, and the focus on vulnerable communities and groups, it might be possible to identify specific areas where the Fund could have a ground-breaking role. The Fund could identify priorities for adaptation investments, fill key gaps, and promote best practice.

#### **IV. Options for consideration of country cap in the context of regional projects and programmes**

##### *Presentation of options*

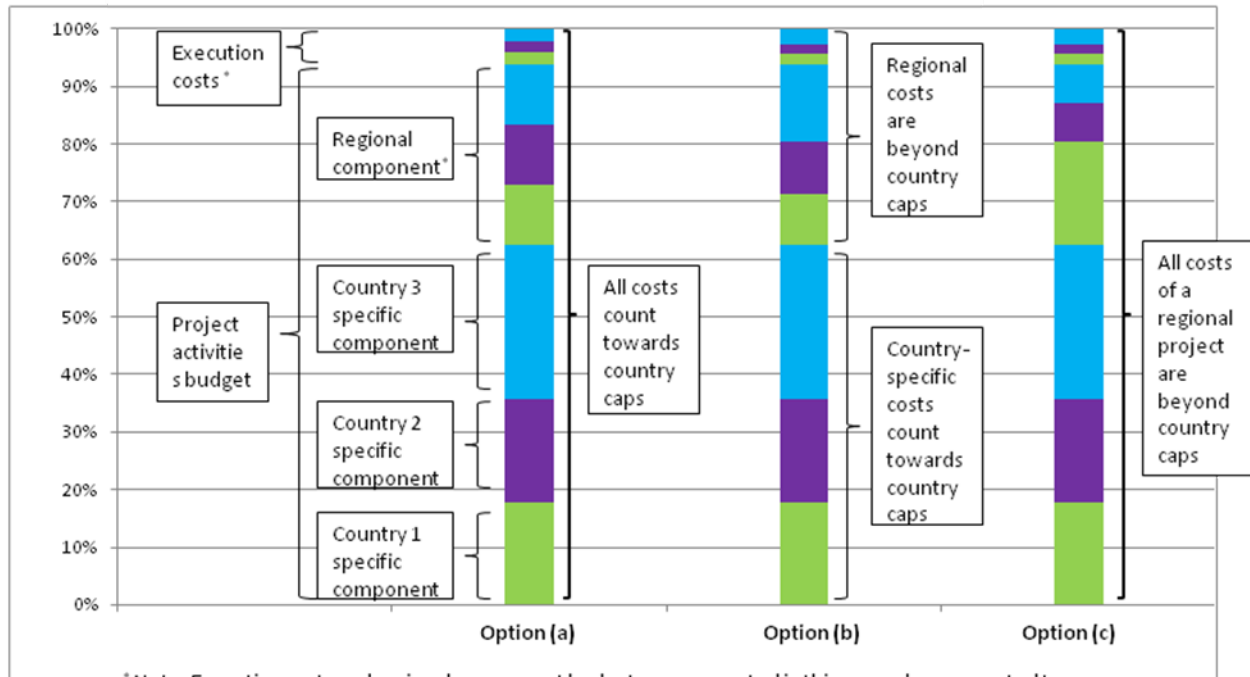
14. The main question in considering application of country caps in the context of regional projects and programmes is whether allocations within regional projects and programmes are equated to national projects and programmes or not.

15. In a regional project or programme, there would typically be two types of costs, ones that can be clearly assigned to activities in a given participating country, hereafter “country-specific costs”, and ones that cannot, “regional costs”. The way that the latter category of general or multi-country costs is dealt with influences how the above mentioned question on equating with single-country projects is addressed.

16. Regarding the question how country caps could be applied in the context of regional projects and programmes, the following options have been identified by the secretariat and illustrated in Figure 1 below:

- (a) All costs of regional projects and programmes, both country-specific and regional ones, are divided among participating countries, and those shares are counted towards the cap of that country;
- (b) The country-specific costs within a regional project or programme are counted towards the cap of that country but an additional allocation is granted for regional costs; and
- (c) An additional allocation for all costs of regional projects and programmes is made possible by instituting a separate cap for regional projects and programmes. Such projects and programs could also include country-specific and regional costs.

Figure 1: Options for consideration of country cap for regional projects and programmes



\* Note: Execution costs and regional component budgets are presented in this example as pro-rated to respective country specific component budgets. Alternatively, equal shares can be used, or higher shares for a given country chosen as the lead or coordinating country.

17. There are two types of costs within the budget of a regional project or programme, which might be considered regional costs. First, costs arising from the need for general project or programme coordination at the regional level, which would be budgeted under execution costs. Second, costs arising from regional activities that address several countries simultaneously, e.g. arrangement of a regional workshop, or setting up a regional early warning system, and in which it might not be possible to differentiate the share of the participating countries. These latter activities would be budgeted under the project activities budget.

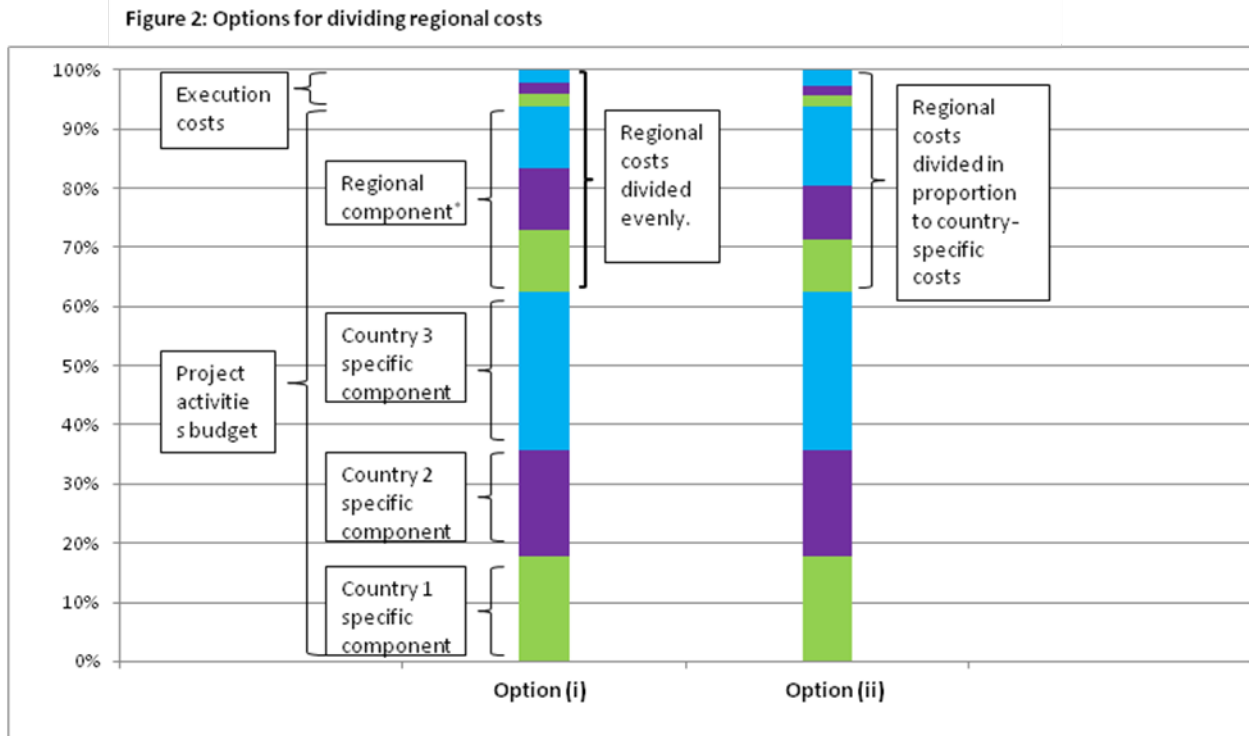
18. In the option (b), the additional allocation for regional costs can be made to allow higher execution costs, or higher project activities budget for regional activities, or both.

19. In the options (b) and (c), the most equitable way of setting an additional cap for regional activities might be through using country-specific additional caps, rather than regional additional caps.

20. In all of the options, there are two possible ways of dividing the regional costs.

- (i) The regional costs can be divided in equal shares among the participating countries; or
- (ii) The regional costs can be divided as shares proportionate to the countries' country-specific cost allocation in the project or programme.

21. These options are presented below in Figure 2.



*Additional allocation for regional projects and programmes*

22. It was suggested by the ad hoc working group that if the Board would prefer to have an additional allocation for regional and strategic interventions (along option (c) above), it could identify priority areas that should be financed with such additional funding, and where the Fund could build up its own experience, possibly also including strategic research and analysis.

*Evaluation of options*

23. The option (a) might be the simplest and clearest solution, unless the Board decides to promote regional projects and programmes through additional funding. The advantage of this option would be that as funding through single-country and regional initiatives would not affect the total amount of funding the country could receive, any potentially distractive speculation would be minimized..

24. The option (b) would acknowledge that it may be more costly to manage a regional project or programme than a national one, and that a separate budget could be accommodated for regional activities. Such additional allocation could be set depending on the number of participating countries, as a percentage of the project budget. This would be relatively straightforward if such additional budget is only allowed for execution costs. If an additional cap would be made available also for regional activities in the project activities budget, it might be difficult to ensure that activities funded under such additional cap are truly “regional” and not country-specific (presented as regional to tap the additional cap).

25. The option (c) might be preferred if the Board decided to specifically promote regional projects and programmes. However, as mentioned in the introductory note by the secretariat above, the Board has not made such a decision thus far.

26. Whichever option would be chosen, it might be the most equitable solution to divide the regional costs in a pro-rated manner (Option 2). This would help to ensure that the benefit from the project or programme to the country would be in the correct proportion to how much of the potential funding under the cap it would be calculated to consume. To enable such a division to be done accurately, the project or programme budget should distinguish clearly and accurately, which part of the project activities budget is assigned to which country, and which part is for regional costs.

#### *Implementing Entity management fee*

27. As implementing entity management fees are calculated towards the country cap in the case of a single-country project or programme, in a regional project or programme it might be simplest to consider them regional costs, and divide them among the countries similar to other regional costs.

## **V. Additional considerations related to allocations**

#### *Definition of a region*

28. The only established definition of “region” in the Adaptation Fund context is that of the UN regions/constituencies. However, this definition might be too rigid to be used as the framework for regional projects in the Adaptation Fund. Alternative possible definitions might include:

- (a) Countries grouped together based on an existing classification; or
- (b) Countries that share a border; or
- (c) Countries that are within the same continent/broad geographic area and that share similar adaptation challenges. Note: No two countries have exactly similar adaptation challenges. Therefore, some countries might be grouped together for a regional project in one sector where they share challenges but not in another. The justification of countries as sharing the same adaptation challenges could be considered at the project/programme stage, with an additional review criterion for this purpose.

29. If the Board would decide to use an existing classification for regions, (a) above, the Board may want to decide whether a project or programme would be eligible if not all of the countries in that region participated in the proposal. If so, the Board may want to decide whether the same “region” could put forward more than one proposal with different constellations of countries.

#### *Minimum number of countries in a regional project or programme*



30. The Board may decide on a minimum number of countries to be considered sufficient to together implement a regional project or programme.

*Regional projects and programmes budget and Implementing Entity capacity*

31. Based on the Board Decision B.13/23 which set the country cap at US \$10 million for each country, a regional project or programme could have a budget in the multiples of this figure, unless the participating countries have already received funding for other projects from the Fund. Such large regional project or programmes could pose a challenge for the management capacity of an Implementing Entity. Also, such regional project or programme budget could consume a major proportion of the total available funding, e.g. a five-country programme with a budget of US \$50 million. Therefore, the Board may want to consider whether there is need to set a separate cap (independent from country caps) for a regional project or programme, such as US \$20 million for projects involving up to 4 countries and US \$30 million for projects involving more countries.

*Possible restrictions on allocation of resources to regional projects and programmes*

32. It was suggested by the ad hoc working group that the Board may decide whether a country would be able to access resources both for a single-country activity and through participation in a regional activity, or whether these would be mutually exclusive. Similarly, it was suggested that the Board may decide on whether a country could participate in more than one regional activity.

*Temporal dimension of caps*

33. It was suggested by the ad hoc working group that the Board might consider the timeframe of the current interim country cap or “funding cycles”, as those would have relevance on decisions on the possible regional cap decisions and their duration, too. It was also suggested that the Board continue to assess the demand and projected pipeline for regional activities as well as to work further on monitoring and evaluation of the effectiveness of such activities.

34. As overall available resources in the Adaptation Fund are decreasing, and as it may take more time to develop regional projects and programmes compared to single-country proposals, the Board may want to consider providing added assurances regarding availability of funds for developers of such regional projects and programmes. Possibilities for this might include:

- (a) Setting aside a temporary allocation for regional projects and programmes that would not be considered available for single-country projects and programmes; and/or
- (b) Providing additional assurance for proponents of regional projects or programmes at concept endorsement stage, so that funds would be set aside for such proposal for a fixed duration of time, e.g. one year, during which a fully-developed proposal should be submitted and approved; and/or
- (c) Providing the opportunity for project/programme formulation grants for the proponents of regional activities.

## **VI. Quality considerations in regional projects and programmes, and related project/programme review criteria**

### *Additional review criteria for regional projects and programmes*

35. All regional project and programme proposals should meet the normal review criteria for single-country proposals, for each of the participating countries. In addition there could be additional criteria that only apply to regional proposals. Such criteria could include:

#### *Project / programme eligibility*

- (a) Does the regional project / programme provide added value to addressing adaptive capacity to the adverse effects of climate change and building in climate resilience, compared to implementing similar activities in each country individually?
- (b) Is implementing the project at the regional level more cost effective than implementing similar activities at the country level?

#### *Implementation arrangement*

- (c) Is there adequate arrangement for project / programme management at the regional level, including coordination arrangements within countries and among them?

36. It was suggested by the ad hoc working group that the Board may want to set up an expert panel to help the Board to take a more strategic approach. The expert panel could help define where the Adaptation Fund could best make a real difference - identifying the priority sectors, themes, areas, etc. for investment.

## **VII. RECOMMENDATION**

37. The Board may wish to consider the above outlined issues and options, identified by the ad hoc working group and the secretariat, and recommend to the Board to take a decision on those issues, accordingly. Specifically, the Board may wish to:

- (a) Decide whether there are types of investment or specific areas which the Fund should prioritize in the context of regional approaches;
- (b) Decide on an option for considering contributions to a country through a regional project or programme, including:

Option (a): All costs of regional projects and programmes, both country-specific and regional ones, are divided among participating countries, and those shares are counted towards the cap of that country;

Option (b): The country-specific costs within a regional project or programme are counted towards the cap of that country but an additional allocation is granted for regional costs, and

Option (c): An additional allocation for all costs of regional projects and programmes is made possible by instituting a separate cap for regional projects and programmes. Such projects and programs could also include country-specific and regional costs but all would be outside of the single-country cap;

(c) If approving to have an additional cap for funding a country can receive through regional projects and programmes, decide on the level of such cap and what that additional finance can be used to cover, and whether there would be any areas that could be prioritized with such funding;

(d) Decide on a way of allocating regional costs in a regional project or programme among participating countries, as calculating towards the cap, either in the form of:

Option (i): Equal shares among the participating countries; or

Option (ii): Shares proportionate to the countries' country-specific cost allocation in the project or programme;

(e) Decide on a definition of region to be applied in the context of regional projects and programmes such as:

Option (a): Countries grouped together based on an existing classification; or

Option (b): Countries that share a border; or

Option (c): Countries that are within the same continent/broad geographic area and that share similar adaptation challenges.

(f) If deciding to use an existing classification for regions, option (a) above, decide whether a project or programme would be eligible if not all of the countries in that region participated in the proposal. If so, also decide whether the same "region" could put forward more than one proposal with different constellations of countries;

(g) Decide on a minimum number of countries to be considered sufficient to together implement a regional project or programme;

(h) Decide whether a country would be able to access resources both for a single-country activity and through participation in a regional activity, or whether these would be mutually exclusive;

(i) Decide on whether a country could participate in more than one regional activity;

(j) Decide on a separate cap (independent from country caps) for an individual regional project or programme;

(k) Decide on whether it would be necessary to providing added assurances regarding availability of funds for developers of such regional projects and programmes, such as:

Option (i): Setting aside a temporary allocation for regional projects and programmes that would not be considered available for single-country projects and programmes; and/or

Option (ii): Setting aside funds for a proposal at concept endorsement stage, for a fixed duration of time, e.g. one year, during which a fully-developed proposal should be submitted and approved; and/or

Option (iii): Providing the opportunity for project/programme formulation grants for the proponents of regional activities;

- (l) Decide on additional review criteria for regional project and programme proposals, such as:

*Project / programme eligibility*

(a) Does the regional project / programme provide added value to addressing adaptive capacity to the adverse effects of climate change and building in climate resilience, compared to implementing similar activities in each country individually?

(b) Is implementing the project at the regional level more cost effective than implementing similar activities at the country level?

*Implementation arrangement*

(c) Is there adequate arrangement for project / programme management at the regional level, including coordination arrangements within countries and among them?

- (m) Decide whether to set up an expert panel to help the Board to take a more strategic approach on issues such as priority sectors, themes and areas, or investment; and

- (n) Request the Implementing Entities proposing regional projects or programmes to include a breakdown of costs for activities per country within the budget, including both activities that are clearly assigned to a participating country, and activities that are not assigned in such a way.