



ADAPTATION FUND

AFB/B.24/5
30 September 2014

Adaptation Fund Board
Twenty-fourth meeting
Bonn, Germany, 9-10 October 2014

Agenda item 10 b)

OPTIONS TO FUND THE PIPELINE

Background

1. At its twenty-second meeting the Adaptation Fund Board (the Board) held a discussion on the status of the projects and programmes in the pipeline of proposals that could not be readily funded since multilateral implementing entities had reached the ceiling of 50 per cent of the Fund's cumulative resources available to them. Though recognizing that it was important to ensure enough funds would be available for projects and programmes to be implemented through National Implementing Entities (NIEs) and Regional Implementing Entities (RIEs) when these entities were ready to submit proposals, some Board members were nonetheless of the view that it may be more useful to fund the projects and programmes currently in the pipeline. This would demonstrate that the Fund was committing its resources to concrete adaptation activities rather than having to place them on hold, and would demonstrate the need for additional resources to flow into the Fund in order to fund the adaptation activities being proposed through the direct access modality.

2. Following the discussion, the Board decided *to continue deliberations at its twenty-third meeting on the implications of a number of options to fund the pipeline based on a document prepared by the secretariat, including inputs provided by Board members and alternates during the intersessional period.*

(Decision B.22/25)

3. The present document addresses the Board decision by outlining a number of options to fund the pipeline, based on informal inputs provided by Board members and alternates during the intersessional period between the twenty-second and the twenty-third meetings.

4. It was previously submitted to the Board at its twenty-third meeting and the Board discussed the different options presented in the document. There was general agreement that the cap should not be lifted at the present time but also that there was a need to find additional sources of funding to clear the projects in the pipeline. The cap sent a clear message to the MIEs about the importance that the Fund attached to the direct-access mechanism. However, after projects had been in the pipeline for over two years there might be a need to review them before they could be approved. It was also a matter of concern that two of the projects in pipeline, and thus not being funded, were to aid least-developed countries and it was pointed out that those countries might have approached MIEs because they did not have the capacity to create their own NIEs.

5. It was thought that it might be possible to create a contingency fund financed by donations from the private sector which would also help the private sector have a sense of ownership in the Fund. A staged approach might be possible so that the issue of funding could be addressed while the Board continued to consider the options before it.

6. It was also suggested that the Board was in a difficult position as it was drawn toward two different policy goals: the support of the direct-access mechanism and the need to support the concrete adaption proposals of the countries themselves while respecting their choice to use MIEs if they wished to.

7. The Adaptation Fund Board agreed to defer further consideration of the matter until its twenty-fourth meeting.

Resubmission of the options

8. Challenges and opportunities related to each option are presented. The *status quo* option, i.e. maintaining the 50 per cent cap for Multilateral Implementing Entities (MIEs), is not discussed. The relevant information relating to the current practice is outlined in document AFB/EFC.15/Inf.1 *“Joint report of the trustee and the secretariat on the status of the pipeline”*.

9. The present document does not provide a specific recommendation. The options outlined in this document are intended to assist the Board in its discussion on how to fund the pipeline and subsequently make a decision on this matter. The document considers as the pipeline only the fully-developed and technically cleared proposals that have been included in the pipeline through Board decisions. It does not include endorsed concepts.¹

Option 1 “An Efficient Fund”: Permanent lifting of the 50 per cent cap established by the Board

10. Under this option, the 50 per cent cap set through Decision B.12/9 would be lifted following a decision by the Board, and projects and programmes in the pipeline would be approved by the Board in line with the current availability of funds for those projects and programmes. The remaining funds in the Adaptation Fund Trust Fund would be subsequently available to fund projects and programmes submitted invariably by National Implementing Entities (NIEs), Regional Implementing Entities (RIEs) and Multilateral Implementing Entities (MIEs) in the future. Once the Adaptation Fund’s resources reach depletion, a pipeline of projects and programmes for all access modalities would be created, unless the Board decides that no more proposals should be submitted in such an event.

Pros: This would allow for immediate funding of projects and programmes in the current pipeline and subsequent funding of proposals submitted by MIEs.

Cons: This option would accelerate the depletion of the Fund’s resources and soon limit access of current and future NIEs to funding, thus undermining the direct access modality. Also, as lifting of the cap could encourage MIEs to submit a large number of proposals (cf. situation before the 50 per cent cap was reached in December 2012) it is possible that the proposals would not only deplete all available resources in the Adaptation Fund Trust Fund, but also create a need for a new pipeline of projects since resources would not be available.

Option 2 “Safeguarding Direct Access”: Cap temporarily lifted to clear the pipeline as of the twenty-third Board meeting

11. Under this option the Board may decide to temporarily lift the cap of 50 per cent in order to allow for funding the four projects and programme currently in the pipeline, worth a total of US\$ 32.35 million. If the single fully-developed proposal submitted by an MIE to the twenty-third meeting were to be approved, the number of projects and programmes in the pipeline would rise to five, for a total amount of US\$ 38.34 million. As of 31 January 2014, funds available for new funding decisions amounted to US\$ 172.47 million. Since then, four projects were approved by the Board, for a total amount of US\$ 25.85 million.

¹ Note: apart from one previously endorsed MIE concept which has been submitted as a fully-developed project document to the twenty-third meeting (AFB/PPRC.14/12), the other previously endorsed MIE concepts, listed in Table 5 of the document AFB/EFC.14/Inf.1, have not been re-submitted since the eighteenth meeting of the Board (28-29 June 2012)

Pros: This option would allow the funding of the projects and programme in the pipeline, which aim at addressing urgent adaptation challenges in vulnerable countries. At the same time, the remaining funds available for funding decisions would still be sufficient to fund proposals submitted by existing NIEs as of the twenty-third meeting, excluding RIEs, and therefore would not undermine the Board's efforts to operationalize direct access as it relates to existing NIEs.

Cons: If the number of proposals submitted by the existing RIEs were to increase significantly within the next Board meetings or, in the same line, if the number of accredited NIEs were to increase, the funds available for funding decisions may soon be insufficient to cover the number of proposals to be submitted in the near future.

Option 3 “Adaptive Management of the Fund’s Resources”

Option 3.1: Modify the percentage of cumulative resources of the Fund to be set aside for NIEs and review on an annual basis

12. Under this option the cap could be lifted from 50 per cent to 70 or 75 per cent of cumulative resources of the Fund available for MIEs. The Board could make a decision to that effect and review such a decision on an annual basis, following assessment of NIE projects and programmes submission flows and number of NIEs accredited. In case the cap of funding available for MIE proposals is reached again, a new pipeline of projects and programmes for which resources are not available would be established.

Pros: This would help clear the current pipeline and fund additional proposals to be submitted by MIEs in the future, up to the reaching of a new cap. This would also ensure that sufficient funds are available for funding proposals submitted by NIEs, based on the annual assessment made by the Board.

Cons: This option would present some challenges for the Board, to inform its decision making, in assessing and monitoring at the same time and on an annual basis (i) the MIEs' own pipeline of projects and programmes in countries, (ii) NIEs' and RIEs' pipeline of proposals, (iii) the number of NIEs that could be accredited and (iv) potential additional resources to the Fund.

Option 3.2: Enhancing predictability of MIE funding through the development of a work programme for MIE submissions

13. This is a slight variation of option 3.1, with an additional process of assessment of MIE submissions on an annual basis. The secretariat would engage with MIEs and develop a “work programme” based on an estimate of proposal submissions from MIEs throughout a fiscal year. Once the Board decides on the percentage of cumulative resources of the Fund that would be available for MIEs, i.e. 70 to 75 per cent, and based on the actual amount that would be made available for potentially funding MIE proposals, the secretariat would request MIEs to submit a list of potential proposals that they intend to submit by the end of the target fiscal year. The total amount of requested funding estimated by MIEs may go beyond the actual funding available to fund proposals submitted by those entities. Fully-developed proposals submitted by MIEs throughout the target year would be reviewed as per current practice. In the case of positive decisions, proposals for which funding was available would be approved. Once the revised cap established for MIE funding is reached, proposals recommended for approval would be placed in the pipeline.

14. This option particularly demonstrates the need for the Board to set up a new fundraising target for 2014 as it would support the work programming exercise.

Pros: In addition to the information under option 3.1, an estimate of MIE submissions would help a better management of the pipeline with an enhanced predictability of its size on an annual basis. This option would also help the Board in defining its annual fundraising target.

Cons: The work programming exercise with MIEs may trigger a high level of MIE proposal submissions, hence extending the pipeline of projects and programmes and raising expectations from countries on behalf of which those proposals were developed, while funding may not be immediately available to fund all of them.

Temporary closure of the pipeline

15. In addition to the three options listed above, the Board may want to discuss the possibility of temporarily closing the pipeline and in such case, consider the types of events that could trigger a temporary closure or reopening of the pipeline.

16. Under all three options described above, once the current pipeline has been cleared, it would eventually be reconstituted with time. The Board may want to establish rules on a maximum size for that pipeline, since allowing an exceeding number of projects and programmes in the pipeline may raise expectations from countries on behalf of which those proposals were submitted. Examples of events that could trigger a temporary suspension of MIEs submission include, but are not limited to:

- The total amount of funding requested by projects and programmes under the pipeline reaches a certain amount, i.e. US\$ 50 million;
- The amount of funding available to fund NIEs is reaching a floor amount under which a pipeline for NIE projects and programmes may be created. In such case, any future funding to the Fund would be prioritized for direct access projects and programmes;
- The number of accredited NIEs has reached a certain level which, combined with an estimate of potential submissions by NIEs and actual availability of funds, would trigger the closure of the pipeline for MIEs by the Board;
- Unmet fundraising target in a given year, which would trigger the prioritization of NIE funding over MIE.

17. Under each case above, the closure of the pipeline could be lifted by the Board once it has estimated that the situation described has improved.