



ADAPTATION FUND

AFB/EFC.11/Inf.1  
25 March 2013

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Ethics and Finance Committee  
Eleventh Meeting  
Bonn, Germany, 2-3 April 2013

**JOINT REPORT BY THE SECRETARIAT AND THE  
TRUSTEE ON THE STATUS OF THE PIPELINE**

## Background

1. In its 12<sup>th</sup> meeting, the Adaptation Fund Board (the Board) decided:
  - (a) *That the cumulative budget allocation for funding projects submitted by MIEs, should not exceed 50 per cent of the total funds available for funding decisions in the Adaptation Fund Trust Fund at the start of each session. That cumulative allocation would be subject to review by the Board on the recommendation of the Project and Programme Review Committee at subsequent sessions;*
  - (b) *To request the Trustee to provide an update on the amount of funds that have been approved for projects implemented by NIEs and MIEs at each meeting of the Adaptation Fund Board; and*
  - (c) *To review the implementation of this decision at the fourteenth meeting of the Adaptation Fund Board.*

*(Decision B.12/9)*
  
2. In its 17<sup>th</sup> meeting, having considered the recommendation of the Ethics and Finance Committee (EFC), the Board decided to:
  - (a) *Maintain the 50 per cent cap on the funding of projects/programmes implemented by MIEs established by decision B.12/9, and exclude project/programme concepts from the 50 per cent calculation;*
  - (b) *Establish a pipeline of fully developed projects/programmes that have been recommended by the PPRC for approval by the Board, but exceeding the 50 per cent cap;*
  - (c) *Prioritize the projects/programmes in the pipeline by sequentially applying the following criteria:*
    - (i) *Their date of recommendation by the PPRC;*
    - (ii) *Their submission date; and*
    - (iii) *The lower “net” cost.*
  - (d) *Consider fully developed projects/programmes in the pipeline for approval, subject to availability of resources and respecting the 50 per cent cap; and*
  - (e) *Request that the EFC consider at its 9th meeting the suspension of project/programme submissions as the last measure and elaborate on a clear threshold that indicates when the measure should be applied (e.g. 60 per cent excess of the cap).*

*(Decision B.17/19)*
  
3. In its 18<sup>th</sup> meeting, considering the comments and recommendations of the EFC, the Board also decided to:
  - (a) *Request the secretariat and trustee to provide a consolidated report on the status of the pipeline at every EFC meeting, including overall allocated and*

*unallocated AF resources, relative funding allocations made for MIEs and NIEs, projections on projects/programmes entering the pipeline, projections of overall funds available, the status of NIE applications and project preparations, and the status of the submission of project/programme concepts; and the secretariat to propose options to implement the 50 percent cap; and*

*(b) On the basis of this report and the recommendation of the EFC, consider appropriate measures to implement the cap, including through the suspension of MIE project/programme submissions as appropriate.*

*(Decision B.18/28)*

4. The trustee and the secretariat prepared in advance of the 10<sup>th</sup> meeting of the EFC the first such consolidated report (AFB/EFC.10/Inf.3) referred to in Decision B.18/28 (a). The current document is the second consolidated report.

5. In its 19<sup>th</sup> meeting, having considered the comments and recommendations of the Projects and Programme Review Committee (PPRC), the Board decided to *define the submission date referred to in paragraph (b) of Decision B.17/19 as the date of the submission of the fully-developed project/programme document to the particular meeting in which it was recommended for approval by the Project and Programme Review Committee.*

*(Decision B.19/5)*

6. In its 19<sup>th</sup> meeting, the Board decided to approve two project proposals submitted by Multilateral Implementing Entities (MIEs) for which funding was available below the 50 per cent cap established through Decision B.12/9. The Board also decided to:

*(a) Note the recommendation of the Project and Programme Review Committee to approve the following projects/programmes:*

*(i) Guatemala (GTM/MIE/Rural/2010/1);*

*(ii) Cuba (CUB/MIE/Coastal/2012/1/);*

*(iii) Seychelles (SYC/MIE/Multi/2011/1);*

*(iv) Myanmar (MMR/MIE/Rural/2011/1);*

*(b) Place in the pipeline the project/programmes listed in paragraph (a) above;*

*(c) Consider the projects/programmes in the pipeline for approval at a future Board meeting, or intersessionally, in the order of rank in which they are listed in paragraph (a) above, and subject to the availability of funds; and*

*(d) Request the secretariat to continue to explore innovative ways through which the Board can address funding constraints and the implications of paragraph (b) of Decision B.18/28.*

*(Decision B.19/18)*

## **Allocated and unallocated AF resources**

7. The document “Adaptation Fund Trust Fund: Financial Report prepared by the Trustee” (AFB/EFC.11/4) presents the allocated and unallocated resources as of December 31, 2012. Since that date, the Fund has received additional proceeds from the monetization of Certified Emission Reductions (CERs) and investment income, while cash transfers for approved projects have been made as summarized in the Trustee Summary Status Report as of February 28, 2013<sup>1</sup>.

<b>Table 1: Allocated and unallocated resources, in US\$ million (unless indicated)</b>	
	At 28 February 2013
Cumulative Receipts	324.83
Total Projects and Programmes	(178.76)
Projects and Programmes (MIE)	(150.09)
Projects and Programmes (NIE)	(28.67)
Operational expenses	(19.23)
Unallocated resources	126.84
Restricted Funds	(3.00)
<b>Funds available for decisions</b>	<b>123.84</b>

### Relative funding allocations made for MIEs and NIEs

8. The document “Adaptation Fund Trust Fund: Financial Report prepared by the Trustee” (AFB/EFC.11/4) presents funding decisions made for Multilateral and National Implementing Entities<sup>2</sup> as of December 31, 2012. Between that date and the date of this report, there have been no new funding decisions for implementing entities.

9. In the 19<sup>th</sup> meeting, the Board placed four project/programme proposals submitted by MIEs in the pipeline, as the cap for funding to MIEs had been reached, and decided to consider those proposals for approval at a future Board meeting, or intersessionally, in the order of rank in which they were listed, and subject to the availability of funds within the cap for MIEs. The pipeline is presented in Table 2. In the intersessional period between the 19<sup>th</sup> meeting and 28 February 2013, funding availability from the Adaptation Fund Trust Fund increased by just USD 0.12 million; which does not provide the additional flexibility within the MIE cap to fund any of the four projects in the pipeline.

<sup>1</sup> <http://fiftrustee.worldbank.org>

<sup>2</sup> As of date of this report, no funding decisions have been made in support of Regional Implementing Entities (RIEs).

Order of priority	Country (MIE)	Recommendation date	Submission date	Net cost, US\$ M	Request, US\$ M	Cumulative, US\$ M
1	Guatemala (UNDP)	12/14/2012	10/8/2012	5.00	5.43	5.43
2	Cuba (UNDP)	12/14/2012	10/8/2012	5.59	6.07	11.49
3	Seychelles (UNDP)	12/14/2012	10/8/2012	5.95	6.46	17.95
4	Myanmar (UNDP)	12/14/2012	10/8/2012	7.29	7.91	25.86

10. Based on Decision B.12/9, the percentage of cumulative funding decisions for projects and programmes submitted by MIEs is calculated by comparing those funding decisions to the sum of all project and programme funding decisions and funds available for new funding decisions ("Project and Programme Resources"). Table 3 provides the percentages considering the cumulative receipts as of February 28, 2013. The pipeline of projects, though not allocated by the Board, is included to illustrate the funding shortfall.

		Received	%
a	Total project and programme resources (for purpose of calculating the cap)	302.60	100%
b	Level of MIE cap = (a) x 50% (Decision B.12/9)	151.30	50.0%
c	Total project and programme decisions to date (d+e)	178.76	59.1%
d	Projects and programmes (MIE)	150.09	49.6%
e	Projects and programmes (NIE)	28.67	9.5%
f	Funds available for new funding decisions	123.84	40.9%
g	Funds available for MIEs under cap (b-d)	1.21	0.4%
h	MIE projects and programmes in the pipeline	25.86	8.5%
i	Shortfall within the cap to approve all projects in pipeline (g-h)	(24.65)	-8.1%
j	Additional funds required for approval of all MIE projects in pipeline = (i) / 50%	(49.30)	

### **Projections on projects/programmes entering the pipeline**

#### *Projects/programmes placed in the pipeline at the 19<sup>th</sup> meeting*

11. The four projects placed in the pipeline in the 19<sup>th</sup> meeting amount to US\$ 25.86 million. The availability of funding under the 50 per cent cap for MIE projects was US\$ 1.15 million at the time of the 19<sup>th</sup> meeting. By February 28, 2013, that funding availability had increased to US\$ 1.21 million, which is still well below the amount that would be needed to approve funding for the first project in the pipeline, which has a budget of US\$ 5.43 million.

12. Three fully-developed project/programme proposals submitted by MIEs and previously not recommended for approval are presented to be discussed in the 20<sup>th</sup> meeting of the Board. **The outcome of the technical review of these proposals is not discussed in the current report.** The proposals are presented in the order in which they would be entered into the pipeline, should they all be recommended for approval, based on review prioritization criteria approved by the Board.

	Country (MIE)	Submission date	Net cost, US\$ M	Request, US\$ M	Cumulative, US\$ M
1	Uzbekistan (UNDP)	1/28/2013	4.99	5.42	5.42
2	Belize (WB)	1/28/2013	5.53	6.00	11.42
3	Ghana (UNDP)	1/28/2013	7.64	8.29	19.71

*Projects/programmes potentially entering the pipeline after the 20<sup>th</sup> meeting*

13. The PPRC may or may not recommend placing in the pipeline all the fully developed project and programme documents presented to the 20<sup>th</sup> meeting. It is likely that those not placed in the pipeline would be later resubmitted by their proponents to a later meeting, if the Board were to continue accepting MIE proposals. In addition to the above-noted proposals, there are proposals that have been either endorsed as concepts or submitted as full proposals without endorsement to an earlier meeting but not submitted to the 20<sup>th</sup> meeting. Table 5 below lists such proposals.

	Country (MIE)	Endorsement date	US\$ million	Submitted as full proposal
<b><i>Endorsed concept</i></b>				
1	El Salvador	12/15/2010	5.43	Yes
2	Fiji (UNDP)	6/22/2011	5.73	Yes
3	Paraguay (UNEP)	6/29/2012	7.13	No
4	Peru (IDB)	6/29/2012	6.95	No
Total (endorsed concepts)			25.24	
<b><i>Not endorsed, submitted as full proposal</i></b>				
1	Mali (UNDP)	N/A	8.53	Yes
2	Mauritania (WMO)	N/A	2.16	Yes
Total (non-endorsed full proposals)			10.69	
<b>Total (all)</b>			<b>35.93</b>	

14. It is worth noting that the above proposals may not represent all proposals being developed by MIEs for consideration by the Board for future meetings after its 20<sup>th</sup> meeting: it has been common for MIEs to submit fully-developed proposals without any earlier notification to the secretariat. In addition, an increasing proportion of proposals have been submitted to the secretariat for technical review and subsequently withdrawn by their proponents. Such proposals that have not reached the Board have not been included in the above figures.

**Projections of overall funds available**

15. The document "Adaptation Fund Trust Fund: Financial Report prepared by the Trustee as at 31 December 2012" (AFB/EFC.11/4) presents a projection on the overall funds available in the Adaptation Fund up to the end of December 2020, based on an

average of independent analysts' estimates of CER issuance from 2013 to 2020 (approx. 2.4 billion issued CERs), and current pledges. These estimates are presented below in Table 6. Total potential funding available to the Adaptation Fund to end-2020, including the current funding available, is now estimated at US\$ 146-149 million.

	Scenario		
	Low	Medium	High
Funding Availability as at 31 December 2012	123.82	123.82	123.82
Pledges	17.19	17.19	17.19
Total potential CER Proceeds from 2013-2020	4.56	6.33	8.35
Total Potential Funding Availability to 2020	145.57	147.34	149.36

16. The estimated funding available would permit only approximately US\$ 18 million in new project and programme funding approvals annually, not taking into consideration amounts required for the administrative budgets of the Board, its secretariat and the Trustee. This may be contrasted to past revenue from CER monetization of approximately US\$ 50 million per year, and to the scale of the initial fundraising target approved by the Board Decision B.17/24, of US\$ 100 million by end-2013 (donations to date have averaged approx. US\$ 30 million per year). **Unless CER prices recover significantly from current levels, or other sources of revenue are added to Adaptation Fund, the amounts available for additional funding decisions are expected to be severely constrained.** It may be illustrative to note that having funds available under the 50 per cent cap to finance the first MIE project in the pipeline would require additional US\$ 8.44 million of funds available for new decisions. Additional potential resources from the addition of AAUs and ERUs to the AF Share of Proceeds cannot be estimated at this time, and in any event are not expected to be available to the AF until after 2013<sup>3</sup>.

17. Without a significant increase in the price of CERs, and/or additional contributions from Parties, it will not be possible to approve any additional MIE projects for several years to come under the MIE 50 per cent cap.

### **Status of NIE applications and project preparation**

18. To the date of this report, the Board has accredited 15 National Implementing Entities. Three of those have received funding for a project or programme, and two additional NIEs have received project formulation grants (PFG), which has been possible upon concept endorsement since the 12<sup>th</sup> Board meeting. In the 20<sup>th</sup> meeting of the Board, one fully-developed NIE project, and one NIE project concept and PFG request are being considered.

<sup>3</sup> FCC/KP/CMP/2012/L.9. The UNFCCC Secretariat is presently reviewing the implications of the CMP decision for the AF. The Terms and Conditions of service agreed between the CMP and the Trustee do not provide for monetization of AAUs and ERUs by the trustee.

19. The development times of NIE proposals from accreditation to concept endorsement (including PFG approval when applicable) and to full project document approval are presented in Table 7. The table shows that there is wide variation between NIEs in terms of time needed to develop a concept and a full proposal. Some NIEs have been able to go through the process very quickly, e.g. six months needed for the development of the Senegalese proposal to full proposal approval, and four months needed for development of the Argentine concept. Since the Board decided to receive PFG applications together with NIE project and programme concepts, all NIEs that have submitted concepts have also applied for PFG. The maximum permitted duration for use of the PFG is one year before a fully-developed proposal must be submitted to the Board. While the numbers of NIEs are perhaps too low to draw conclusions on averages, it may be useful to note that for the two NIEs that had a project approved following a PFG approval, the process between the two milestones took ca. 9-12 months. It is also worth noting that there are two NIEs that were accredited in 2011 that have yet to submit project concepts.

**Table 7: Average project development times of accredited NIEs (in months)**

<b>Country</b>	<b>Accreditation</b>	<b>Approval of PFG and endorsement of concept</b>	<b>Months required for concept endorsement</b>	<b>Project approval</b>	<b>Months required for project approval</b>	<b>Total months required</b>
Senegal	3/25/2010	N/A	N/A	9/17/2010	N/A	<b>6</b>
Jamaica	9/17/2010	6/22/2011	9	6/29/2012	12	<b>22</b>
Uruguay	9/17/2010	3/18/2011	6	12/14/2011	9	<b>15</b>
Benin	6/22/2011	3/16/2012	9	N/A	N/A	
Argentina	3/16/2012	6/29/2012	4	N/A	N/A	
<b>Average</b>			<b>7</b>		<b>11</b>	<b>14</b>

20. Both NIEs that have received PFGs have submitted fully-developed project proposals. The proposal for Argentina was submitted before the deadline of the 20<sup>th</sup> meeting, and will be considered in the meeting, while the one for Benin was submitted later and will be considered in the 21<sup>st</sup> meeting. A conservative estimate is that altogether two to five NIE projects will be approved in 2013. The main reason for the low number are the project development times that are long on average, the fact that NIEs have without exception opted to apply for PFG since it became available, and the fact that currently there are only two endorsed NIE concepts / active PFGs. The number of NIE projects approved may be higher, if more recently accredited NIEs are able to submit proposals on an expedited schedule. This is possible in light of the Senegal and Argentina examples described above.

21. There are nine applicant NIEs and five applicant RIEs (as well as two applicant MIEs) whose applications are being considered by the Accreditation Panel. It is possible that some of these entities would be able to successfully apply for funding shortly after accreditation. However, taking into account the fact that the average time it takes from accreditation to approval of a fully-developed project proposal is upwards from one year, it is likely that for most of them, it would take longer than end of 2013 to submit a full project proposal and receive funding

22. As the history of direct access is still very short and as the modality is evolving through experience, it remains difficult to make longer-term projections.