



ADAPTATION FUND

AFB/EFC.5/6  
June 9, 2011

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Adaptation Fund Board  
Ethics and Finance Committee  
Fifth Meeting  
Bonn, June 20, 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. The present document has been developed upon this request.

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

### *Presentation of options*

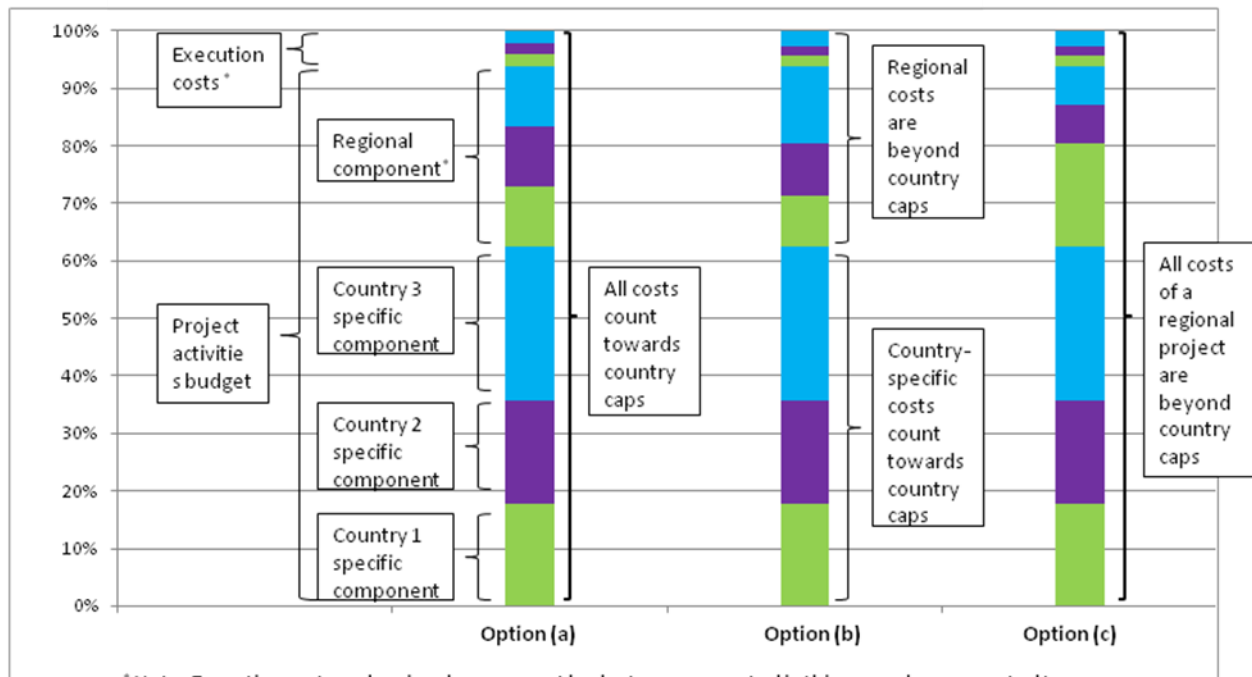
6. The main question in considering application of country caps in the context of regional projects and programmes is whether allocations within regional projects and programmes are equated to national projects and programmes or not.

7. 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.

8. 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;
- (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.

9. 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.

10. 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.

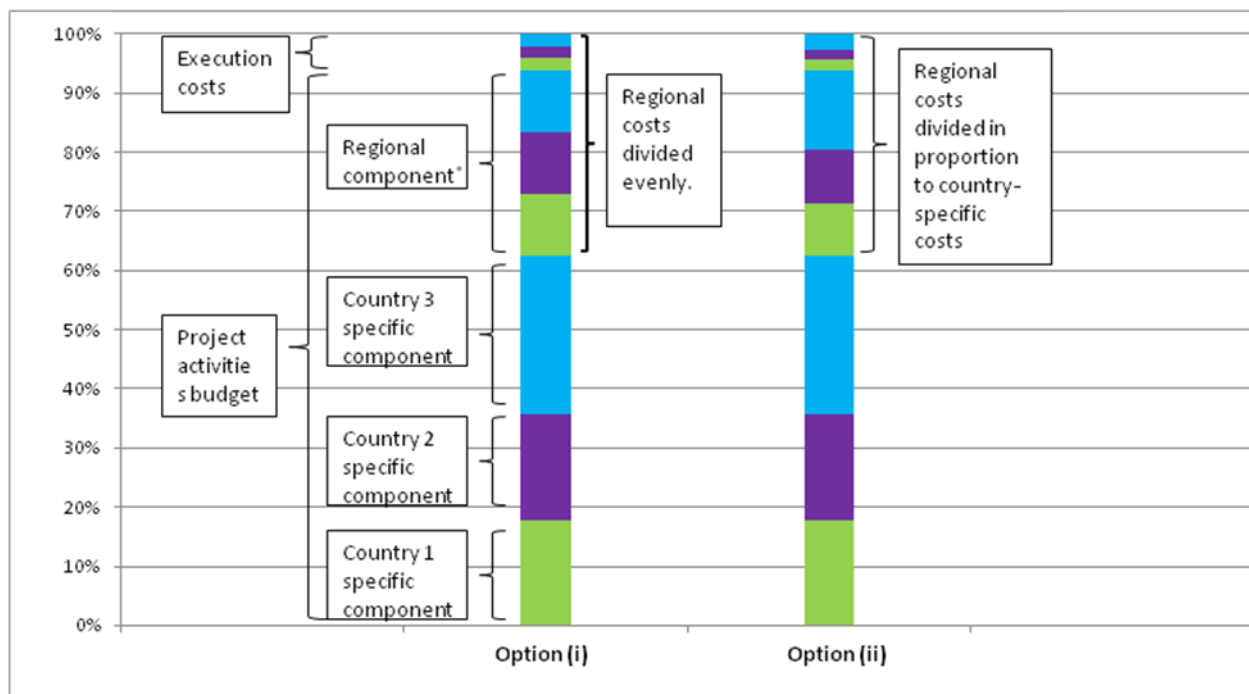
11. In the options (b) and (c), the most equitable way of setting an additional cap for regional activities might be through using country-specific additional caps, rather than regional additional caps.

12. 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.

13. These options are presented below in Figure 2.

Figure 2: Options for dividing regional costs



*Evaluation of options*

14. 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..

15. 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 straight-forward 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).

16. 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.

17. 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*

18. 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 divide them within participating countries proportional to their funding from the project or programme.

*Regional projects and programmes budget and Implementing Entity capacity*

19. 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.

### III. RECOMMENDATION

20. The EFC may wish to consider the above outlined options, identified by the secretariat, and recommend to the Board to take a decision on those issues, accordingly. Specifically, the EFC may recommend to the Board to:

- (a) 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.

- (b) 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;

- (c) 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.

- (d) 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; and

- (e) Consider setting a separate cap (independent from country caps) for an individual regional project or programme.