



ADAPTATION FUND

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Adaptation Fund Board  
Twenty-seventh meeting  
Bonn, Germany, 17-18 March 2016

Agenda Item 12 c)

## **ANALYSIS OF THE POSSIBLE MODIFICATION OF THE COUNTRY CAP**

## Background

1. The operational policies and guidelines of the Adaptation Fund (the Fund), initially approved by the Adaptation Fund Board (the Board) at its seventh meeting in September 2009, state that a “*cap in resource allocation per eligible host country, project and programme will be agreed by the Board based on a periodic assessment of the overall status of resources in the Adaptation Fund Trust Fund and with a view to ensuring equitable distribution.*”<sup>1</sup>

2. In its thirteenth meeting the Board decided “*as 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)

3. The Board has not made a separate decision on a cap per project or programme. Therefore, for single-country projects, the country cap of US\$ 10 million has effectively served also as the maximum funding request for an individual project or programme. Following decision B.13/23, the country cap of US\$ 10 million was included in the project/programme proposal review criteria. It should be noted that while four projects and programmes were approved for funding in meetings preceding the thirteenth meeting, before the cap was put in place, none of them had a funding request exceeding US\$ 10 million.

4. Following the decision B.13/23 the Board discussed, in a number of meetings<sup>2</sup>, how regional projects and programmes would be considered vis-à-vis the country cap but did not make a universal policy decision on it. However, when deciding, in its twenty-fourth meeting, to initiate steps to launch a pilot programme on regional projects and programmes (Decision B.24/30), the Board decided:

[...]

(b) *That the pilot programme on regional projects and programmes will be outside of the consideration of the 50 per cent cap on multilateral implementing entities (MIEs) and the country cap; [...]*

5. Between its thirteenth and twenty-sixth meetings, the Board did not revisit the country cap decided upon in decision B.13/23. In the twenty-sixth meeting, the Chair of the Board reminded the meeting<sup>3</sup> that the cap had been set up as an interim measure to ensure that all countries would be treated equitably during the initial period of project submissions. According to him, that equity had been achieved in principle and the country cap might instead be having the unintended effect of

<sup>1</sup> Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund. This statement has been present since the earliest version of the document approved on 16 September 2009 (Decision B.7/2). In the most recent version (amended in October 2015), this statement is contained in paragraph 26.

<sup>2</sup> The Board previous discussions on regional projects, including their relation to the country cap, between the thirteenth and twenty-fourth meetings have been summarized in document AFB/B.24/Inf.6 “Consideration of Issues Related to Regional Projects/Programmes” and its annexes.

<sup>3</sup> AFB/B.26/7: Report of the Twenty-sixth Meeting of the Adaptation Fund Board.

discouraging new applicants for accreditation as NIEs. By the twenty-sixth meeting, ten countries had reached the country cap limit and another six were approaching it. Therefore, according to the Chair, sixteen countries were essentially precluded from asking for additional support from the Fund and those with NIEs found that the NIEs they had put so much effort into creating were unable to support additional projects in their countries. Some countries had come to question whether it was an effective use of resources to go through the burden of the process of accreditation when the country cap was limited to US\$ 10 million. To encourage countries to continue with the process of the accreditation of their NIEs, he suggested that the Board might wish to raise the country cap to US\$ 20 million. In the discussion that followed the Chair's proposal, it was noted that it would be useful to have a document from the secretariat that provided an analysis of how the country cap might be modified and the implications of making such a change. Some of the other themes that members and alternates raised, included<sup>4</sup>:

- (a) The numbers of Least Developed Countries (LDCs) and Small Islands Developing States (SIDSs) that had accessed the Fund;
- (b) The problem with caps was that they generally encouraged applicants to seek the maximum amount of funding so that a higher cap could simply mean larger projects without increasing the number of projects being funded;
- (c) Raising the country cap might also encourage the MIEs to make additional proposals as well;
- (d) Many other Funds had a replenishment process; something that was missing for the Adaptation Fund;
- (e) The Fund held some US\$ 130 million that had not yet been allocated to support projects and programmes, which was of concern to donors and it had been hard to demonstrate that the Fund required additional donations when it continued to hold such large amounts; and
- (f) The PPRC was considering projects and programmes that would need to be funded when approved, and the Fund had to make provision for funding those projects and programmes.

6. Following the above mentioned discussion, the Board decided *to request the secretariat to prepare, for consideration by the Board at its 27th meeting, an analysis on how the country cap may be modified and the potential implications of that, taking into account the discussion at the present Board meeting. (Decision B.26/39)*

7. The present document has been developed following the request made in decision B.26/39.

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<sup>4</sup> Ibid.

### General considerations related to the level of the country cap

8. As noted above, the Board has not set a cap per project or programme. If the Board were to decide to increase the country cap, it might also want to consider, whether it would be necessary to set such a per-project cap or not.

9. A  
 At the time of writing of this document, there were altogether 153 countries that were eligible to apply for funds from the Adaptation Fund<sup>5</sup>. Among these countries, 45 countries had received funding for approved concrete climate change adaptation projects. In other words, 29.4 per cent of the eligible countries had accessed resources. Among the countries that had received project support, 12 were LDCs and 10 SIDSs.<sup>6</sup> It should be noted, though, that the Board has never favored or disfavored any particular group of eligible countries based on their classification and that, in fact, the decision at the thirteenth meeting to set a uniform cap of US\$ 10 million for all eligible countries followed a discussion in which such options were considered but were not adopted by the Board.

10. At the time of writing of this document, 17 countries had accessed over US\$ 8 million from the Fund so that they had less than US\$ 2 million left under the current US\$ 10 million cap, as presented in Table 1 below. 11 countries had less than US\$ 1 million left, and nine of those 11 countries were ones with an accredited NIE.

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<sup>5</sup> Non-Annex I Parties to the UNFCCC that are parties to the Kyoto Protocol are eligible to apply for funds from the Adaptation Fund. List of such countries is available at [http://unfccc.int/kyoto\\_protocol/status\\_of\\_ratification/items/2613.php](http://unfccc.int/kyoto_protocol/status_of_ratification/items/2613.php).

<sup>6</sup> Lists of LDCs and SIDS have been accessed on the website of the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS), <http://unohrls.org/>. It should be noted that one additional country, Samoa, was listed as an LDC when the project in that country was approved and had its inception but has since graduated from the LDC status.

<b>Countries that have accessed in excess of US\$ 9 million of AF funding (11 countries)</b>		
<b>Country</b>	<b>Funding accessed</b>	<b>Has NIE? (yes/no)</b>
Argentina	\$9,966,817	yes
Chile	\$9,990,000	yes
Costa Rica	\$10,000,000	yes
Jamaica	\$9,995,000	yes
Jordan	\$9,255,500	yes
Kenya	\$9,998,302	yes
Mauritius	\$9,119,240	no
Morocco	\$10,000,000	yes
Nepal	\$9,527,160	no
Rwanda	\$9,999,619	yes
Uruguay	\$9,997,678	yes
<b>Countries that have accessed between US\$ 8 M and US\$ 9 M of AF funding (6 countries)</b>		
<b>Country</b>	<b>Funding accessed</b>	<b>Has NIE</b>
Colombia	\$8,518,307	no
Ghana	\$8,293,972	no
Maldives	\$8,989,225	no
Mali	\$8,533,348	no
Samoa	\$8,732,351	no
Senegal	\$8,619,000	yes

**Table 1:** Countries that have accessed more than US\$ 8 million from the Adaptation Fund.

### **Options for modifying the country cap and a brief analysis of their potential implications**

11. Based on the discussion that took place at the twenty-sixth meeting of the Board, two main questions have been put forward, and their potential implications analyzed below: 1) whether and how much to increase the cap from the current level of US\$ 10 million, and 2) if the cap is increased,

does it apply to all countries or only those that have accessed close to the current cap, and whether other conditionalities should be put in place. This document has not considered the possible third question of whether different caps should be set based on certain characteristics of different countries: when approving the current interim cap in its thirteenth meeting, the Board had discussed but eventually decided not to make decisions on such distinctions between countries.

#### *Level of the country cap*

12. Four possible options were considered for increasing the cap:

- |                                            |                          |
|--------------------------------------------|--------------------------|
| (a) Not to increase the cap                | (cap of US\$ 10 million) |
| (b) To increase the cap by US\$ 5 million  | (cap of US\$ 15 million) |
| (c) To increase the cap by US\$ 10 million | (cap of US\$ 20 million) |
| (d) To increase the cap by US\$ 20 million | (cap of US\$ 30 million) |

13. These options represent increasing levels that a country could access from the Fund. Option (a), or status quo, is the one that emphasizes most the even allocation of resources among a high number of countries, and emphasizes least the opportunity to scale up resources in individual countries that have been granted funding the earliest. The other options increasingly provide opportunities for individual countries that are able to present feasible project or programme proposals, to access higher amounts of funding.

14. As noted by the Chair of the Board in his remarks at the twenty-sixth meeting referenced above, one positive effect of increasing the cap would be that it would enable the Fund to remain relevant and attractive for the growing number of countries that have already accessed funds up to a level near the current cap. It might also enable building on the already funded Adaptation Fund projects and, if the country so wishes and if the request is justified, scaling them up. On the other hand, raising the cap can be expected to offer more opportunities for countries to submit proposals, which may lead to accelerated allocation of funding and hence, accelerated depletion of the Fund's resources. The calculations below illustrate the possible effects.

	Maximum amount of funds allocated (US\$ M)		Funds allocated by end 2015 (US\$ M)		Maximum funds yet to be allocated (US\$ M)	
	All countries	Countries with NIEs	All countries	Countries with NIEs	All countries	Countries with NIEs
(a) Cap of US\$ 10 million (current)	1,530	200	331	121	1,199	79
(b) Cap of US\$ 15 million	2,295	300	331	121	1,964	179
(c) Cap of US\$ 20 million	3,060	400	331	121	2,729	279

(d) Cap of US\$ 30 million	4,590	600	331	121	4,259	479
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**Table 2:** Effect of country caps at different levels for availability of funds for all countries and for countries with accredited National Implementing Entities as of February 2015. The first pair of columns shows how much funds the Fund could potentially allocate if it funded projects up to the cap, in all eligible countries and in all countries currently with NIEs, respectively. The second pair shows the current actual situation of funding, again for all eligible countries and NIE countries. The third pair of columns shows the difference of the two previous ones, i.e. how much more the Fund could potentially continue to allocate, taking into account the projects and programmes already approved.

15. The illustrative calculation on maximum total funds that countries can access from the Fund (Table 2) shows that even when keeping the current level of current level of country cap of US\$ 10 million, the Fund could continue allocating 3.6 times as much as it has done so far (i.e. US\$ 1,199 million compared to the current allocation of US\$ 331 million) to eligible countries before all countries would have reached their US\$ 10 million cap. However, when looking at countries that have invested in having an NIE accredited, those 20 countries have jointly accessed more than half of the funds available to them. Furthermore, if all the NIE proposals that were submitted for consideration at the twenty-sixth and twenty-seventh meeting of the Board but were not yet approved, with the total funding request of ca. US\$ 53.7 million, were to be eventually approved with their current funding request, the allocated funds for countries with NIEs would stand at ca. US\$ 175 million, i.e. at 87 per cent of their total available funding. This, and the representation of countries with NIEs among the countries that have accessed more than US\$ 8 million from the Fund (Table 1), highlights the fact that countries with NIEs will be particularly impacted by the level of the country cap.

16. At the time of writing this document, following contributions that were made during and after the twenty-first session of the Conference of the Parties of UNFCCC (COP21) in Paris, funds available for new project funding decisions totaled ca. US\$ 177.6 million. While ca. US\$ 34.5 million of this amount was available for MIEs under the 50 per cent cap set by the Board in its twelfth meeting (decision B.12/9), for NIEs and RIEs there is no similar cap and the whole amount of available funds was available to them. In addition, the Board had at its twenty-fifth meeting approved the launching of a pilot programme for regional activities, with an anticipated total funding of US\$ 30 million, which the Board decided to fund outside of the MIE cap. Therefore, if the MIEs were able to swiftly access the available funds under their cap, and if the Board would approve projects under the pilot programme for regional activities up to the preliminarily reserved US\$ 30 million, there would be ca. US\$ 110 million available for NIEs and RIEs. Until the twenty-seventh meeting, RIEs had represented a small share of the total allocated resources, with no approved projects and only one approved project formulation grant. Recently, however, the proportion of RIE proposals has increased, and the total funding request of RIE concepts and full proposals submitted to the twenty-sixth and twenty-seventh meetings of the Board amounted to ca. US\$ 59.6 million. Therefore, the “active pipeline” of NIE and RIE proposals submitted to the twenty-sixth and twenty-seventh meetings, if approved, could in principle deplete all those available project funds in the Fund that are not subject to the MIE cap.

Country	Agency	Financing requested	Stage (AFB27)
<b>NIE proposals</b>			
Antigua and Barbuda	ABED	\$9,401,275	Concept
Belize	PACT	\$4,000,000	Concept
India	NABARD	\$3,227,400	Concept
Micronesia	MCT	\$1,000,000	Concept
Namibia	DRFN	\$750,000	Concept
Namibia	DRFN	\$750,000	Concept
Panama	Fundación Natura	\$9,952,131	Concept
Benin	FNE	\$8,913,255	Full proposal
Namibia	DRFN	\$6,000,000	Full proposal
Namibia	DRFN	\$1,500,000	Full proposal
Peru	PROFONANPE	\$6,950,239	Full proposal
Senegal	CSE	\$1,256,983	Full proposal
<b>Total, NIEs</b>		<b>\$53,701,283</b>	
<b>RIE proposals</b>			
Ecuador	CAF	\$2,489,373	Concept
Guinea Bissau	BOAD	\$9,979,000	Concept
Peru	CAF	\$2,897,053	Concept
Togo	BOAD	\$10,000,000	Concept
Marshall Islands	SPREP	\$7,560,000	Concept
Micronesia (F.S. of)	SPREP	\$8,967,600	Full proposal
Niger	BOAD	\$9,911,000	Full proposal
Uganda	OSS	\$7,751,000	Full proposal
<b>Total, RIEs</b>		<b>\$59,555,026</b>	
<b>Total, NIEs and RIEs</b>		<b>\$113,256,309</b>	

**Table 3:** The “active pipeline” of NIE and RIE proposals submitted to AFB26 and AFB27 but not yet approved as fully-developed proposals.



17. In light of the currently available funds and the project proposals submitted to the twenty-sixth and twenty-seventh meeting described above (Table 3), lifting the country cap to a higher figure may not be necessary for ensuring that large amounts of funds do not remain unallocated. However, with the increasing number of countries with NIEs that have accessed funds up or near the US\$ 10 million level, lifting the cap might be useful for providing NIEs additional opportunities to access the Fund, and thereby for maintaining their interest in the Fund. It might also encourage countries that have accessed funds near the current cap but do not yet have an NIE, to apply for accreditation.

18. It is not possible to deduce the ideal level of modified country cap from the availability of funds alone. The current pipeline of already proposed NIE and RIE projects, together with the funds available for MIEs and the funds tentatively programmed for the pilot programme of regional projects, could essentially deplete the currently available funds<sup>7</sup>. Therefore, the prospect of raising the country cap should be viewed in conjunction with a view on typical project size and possibly, on the foreseen ambition of resource mobilization.

19. **Project size.** The average funding request of an approved project in the Fund has been US\$ 6.5 million, with practically no difference in the *mean* between MIEs and NIEs. However, the *distribution* of sizes of NIE projects differs from that of MIE projects: while no MIE has proposed two projects for the same country, several NIEs have done so, quoting learning and diversification of approaches as benefits. Two of those NIEs have had two or more projects already approved, and if those projects are not considered, the average project size of the remaining 10 NIEs with approved projects is US\$9.3 million, that is, considerably higher than that of MIEs, and near the current country cap. It might even be concluded that countries have two alternative “strategies” to access funding from the Fund: one which favors multiple projects with diversified approaches by sector, by subnational region or by project type (and sometimes by type of implementing entity), and the other which focuses on individual, substantially large projects or programmes.<sup>8</sup>

20. **Resource mobilization.** As proposals are already being developed for a total amount worth essentially all of the currently available resources outside the MIE cap, it is useful to consider the potential impacts of raising the cap in relation to the Board’s resource mobilization efforts. The resource mobilization target set by the Board at its twenty-third meeting in March 2014 was US\$ 80 million per year for the biennium 2014-2015. Including both paid contributions and pledges made at the time of the COP21, the Board was able to raise ca. US\$eq. 140 million during these two years from voluntary contributions, i.e. on average ca. US\$ 70 million annually. Using this figure as a conservative estimate, and also assuming that the 50 per cent MIE cap will be kept in place and that MIEs continue to submit proposals to utilize funding below the cap as they have done in the past, NIEs and RIEs may be left with as little as US\$ 35 million dollars additional resources per year.<sup>9</sup>

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<sup>7</sup> It is worth noting that this would not be instant but could happen during the next 12-18 months. According to the latest Annual Performance Report for the Fiscal Year 2015 (AFB/EFC.17/6/Rev.1), during that fiscal year it took on average 18.4 months for 14 projects to be approved, between the first submission of a concept and the approval of a fully developed proposal. The current active pipeline includes proposals that range from the first to the fifth submission

<sup>8</sup> Among NIEs whose proposals have not been approved yet (Table 3), Antigua and Barbuda, Benin and Panama are countries whose NIEs have opted for a single project near the US\$ 10 million dollar cap. India and Namibia follow a diversified approach with 5-6 projects by the NIE, and Belize and Peru are submitting proposals through both their NIE and another type of implementing entity. Senegal’s first project was approved before the cap was put in place and the second is aimed to access what is left below the cap for another project.

<sup>9</sup> This estimate does not take into account administrative costs of the Fund or the revenue from the sale of CERs.

21. **Conclusion.** Of the options for an increased cap described above (b through d), it may be safe to say that option (d), of a cap of US\$ 30 million, would not foster equitable distribution of resources given the current levels of revenue, as with the current levels of revenue most available funds each year could be allocated to one or two countries. Options (b) and (c) have different advantages and disadvantages. Option (b), of a cap of US\$ 15 million, would allow supporting a larger number of countries at that increased level. However, it would not enable the majority of current NIE countries that have in the past opted for an individual larger project, to maintain that level of funding request nor to significantly scale up existing Adaptation Fund projects but would only allow them to submit proposals for smaller projects at the magnitude of ca. US\$ 5 million. Option (c), of a cap of US\$ 20 million, would allow maintaining the past level of funding requests in proposals from countries that have accessed up to US\$ 10 million already. However, if the outcome of the Board's resource mobilization efforts would not increase in the coming years, the number of countries that could be funded might be lower.

#### *Application of country cap*

22. As mentioned above, the Board has not made a separate decision on a maximum funding request for a project or programme but the country cap has in fact served also as the project/programme cap. Therefore, if increasing the cap, the Board may wish to consider whether it would welcome projects or programmes larger than the US\$ 10 million level, which might be proposed under an increased country cap. The higher budget might enable implementing larger and more complex projects and programmes<sup>10</sup> but on the other hand, as reflected in the account of the discussion that took place in the Board's twenty-sixth meeting, above, it might also contribute to faster resource depletion.

23. It would be possible to apply a revised country cap in two ways: either so that a country has to be "already near" the current cap of US\$ 10 million to qualify for an increased cap, or so that all eligible countries would immediately be subject to the revised cap. The first option would reward countries that have been early movers, compared to countries that did not propose projects or only proposed projects of lower total funding request. However, this option would call for some subjective definitions, such as what level of accessed funding would be considered to be "near enough" the current cap. During the discussion that took place in the twenty-sixth meeting of the Board, the level of US\$ 8 million was indicatively used as such threshold. Another definition the Board could make, if choosing this option, would be whether the qualifying criterion of being at the threshold level would be applied on a rolling basis, i.e. whenever a country would reach that level, or whether it would perhaps be only applied to those that are already at that level during the time of the decision. The other option of setting a revised cap that would immediately apply to all eligible countries would not reward early movement but it would potentially enable programming of funding for the full amount of the revised cap, in cases where the country has not previously accessed funding from the Fund.

#### **Recommendation**

24. The Board may wish to consider the analysis contained in this document and decide to:

- (a) Revise the cap per country established by decision B.13/23, so that either:

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<sup>10</sup> It should be noted that when approving the pilot programme for regional projects and programmes as contained in document AFB/B.25/6/Rev.2 (decision B.25/28), the Board endorsed the plan to eventually finance one regional project or programme with a funding request up to US\$ 14 million, with the goal of fostering a diversified approach.

- i. Option1: Eligible countries can access a total of up to US\$ [15] [20] million from the Adaptation Fund, or
- ii. Option 2: Once the country has accessed US\$ 8 million or more from the Adaptation Fund, it would become eligible for a total of up to US\$ [15] [20] million;

(b) Review the experience gained with the cap referred to in sub-paragraph (a) above in the [thirty-third] meeting of the Board; and

(c) Inform the designated authorities and accredited implementing entities about this decision.

25. The Board may also want to consider, if approving a revised cap, whether it is necessary to set a cap for the funding allocation for each single-country project or programme funded for support by the Adaptation Fund.