



ADAPTATION FUND

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Adaptation Fund Board  
Thirty-third meeting  
Bonn, Germany, 14-15 March 2019

## **OPTIONS FOR CRITERIA FOR THE PROVISION OF FINANCIAL RESOURCES BETWEEN SINGLE-COUNTRY AND REGIONAL CONCRETE ADAPTATION PROJECTS AND PROGRAMMES**

## Introduction

1. The operational policies and guidelines (OPG) 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. Following the Board’s call for submissions of project proposals and the first approvals of proposals which occurred during its eleventh meeting, there had been a large number of projects that had been submitted especially by Multilateral Implementing Entities (MIEs). This had been a concern of the Board which discussed the issue in its twelfth meeting during which it was observed that the purpose of the Fund was to facilitate direct access to the Fund. It was a matter of concern that only three National Implementing Entities (NIEs) had been accredited at that time, and that only one project from an NIE had been approved. The Board then 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)*

3. Addressing the issue of equitable distribution of resources of the Fund across eligible countries, the Board in its thirteenth meeting 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)*

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<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.

4. Since the Board had not made a separate decision on a cap per project or programme, the country cap of US\$ 10 million has therefore effectively served also as the maximum funding that could be requested for an individual single-country project or programme.

5. Following decision B.13/23 the Board had discussed, in a number of meetings<sup>2</sup>, how regional projects and programmes would be considered vis-à-vis the country cap but had not made a universal policy decision on it before the twenty-fourth meeting. At that meeting, when deciding 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 discouraging new applicants for accreditation as National Implementing Entities (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, the Chair 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. It was also inquired about the number of Least Developed Countries (LDCs) and Small Islands Developing States (SIDS) that had had accessed the Fund so far. Some of the other issues that members and alternates raised, included<sup>4</sup>:

(a) 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;

(b) Raising the country cap might also encourage the MIEs to make additional proposals as well;

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<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.

<sup>4</sup> Ibid.

- (c) Many other Funds had a replenishment process; something that was missing for the Adaptation Fund;
- (d) 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
- (e) 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 secretariat prepared document AFB/B.27/8, following the request made in decision B.26/39, for discussion by the Board at its twenty-seventh meeting. The representative of the secretariat presented the analysis of the possible modification of the country cap. He said that at the time of its preparation, 153 countries had been eligible to apply to the Fund, among which 45, or 29.4 per cent of those eligible, had received funding for approved concrete climate-change adaptation projects; 17 of those had accessed over US\$ 8 million in funding from the Fund. He said that there were four options being proposed to address the country cap: maintaining the status quo or increasing the country cap by US\$ 5 million, US\$ 10 million or US\$ 20 million. It might also be possible to create a threshold for the countries by requiring them to have received approval of funds worth at least US\$ 8 million before applying for more funds.

8. During the discussion that followed, it was pointed out that it was difficult to make the case to donors for more resources when the Fund had unallocated resources. The accreditation process was demanding, and it might be useful to raise the country cap to US\$ 15 million to allow those NIEs already accredited to continue performing in their function by implementing more projects. That said, it was pointed out that representatives of the civil society had made the useful suggestion that implementing entities should demonstrate that they had completed a project worth at least US\$ 8 million before requesting additional funding, although one Board member suggested that it might be possible to allow implementing entities to submit such a request once they had been given a positive mid-term review on a project. It was also pointed out that the important point was that the implementing entity only needed to demonstrate its capacity to implement a project. Some of them might have started with smaller projects, in which case the US\$ 8 million threshold would be unfair.

9. Other members felt that, if the cap was also increased for the MIEs they would put forward more projects. While all countries would welcome more money, the unpredictability of resources meant that the country cap should not be raised at the present time. Some members felt that a number of countries in Africa and Least Developed Countries have yet to access the Fund. The country cap issue seemed to be a flash point for a number of unresolved problems and until they were resolved, it was not feasible to raise the cap.

10. Some were of the view that there should be no change in the cap until the Fund had an assured, and predictable source of funding and the document should be used to make the case to the CMP for more funding. They felt that any further consideration of raising the country cap should wait until between 75 and 80 per cent of the countries that were eligible to receive funding from the Fund had done so.

11. The Board *decided* to:

a) *Maintain, for the time being, the cap per country established by decision B.13/23; and*

b) *Request the secretariat to prepare, for consideration by the Board at its twenty-eighth meeting, options for a framework for a medium-term strategy for the Fund, that would reflect the strategic priorities of the Fund approved by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) and take into account the findings of the Phase I of the Overall Evaluation of the Fund, as well as, inter alia, the following matters:*

(i) *The financial situation of the Adaptation Fund, including the work done for resource mobilization for the Fund;*

(ii) *The progress being made on accreditation of implementing entities and developing readiness to access adaptation finance;*

(iii) *Allocation of funds, including the cap of 50 per cent set for proposals submitted by multilateral implementing entities by decision B.12/9, the cap per country set by decision B.13/23 and consideration of regional projects and programmes within and beyond the pilot programme for regional projects and programmes set up by decision B.25/28; and*

(iv) *The discussion on potential linkages between the Adaptation Fund and the Green Climate Fund (GCF).*

*(Decision B.27/39)*

12. The Board, supported by the secretariat, developed a medium-term strategy (MTS) for the Fund following a stepwise process that spanned from the twenty-eight to the thirtieth meeting. The strategy<sup>5</sup> was approved at the thirtieth meeting, through decision B.30/42. The strategy does not directly address the level of country cap. However, regarding the size of individual projects and programmes, it recognizes that the Fund has a “well-recognised niche supporting smaller (typically less than US\$10 million), country-driven adaptation projects/programmes” which the strategy builds on<sup>6</sup>, and that as part of its success strategy, the Fund will “maintain its specialized niche within the evolving architecture of international climate finance, characterized by its focus on [...] small-scale (‘starter’) projects/programmes, typically under US\$ 10 million for a single-country project or US\$ 15 million for a regional

<sup>5</sup> Document AFB/B.30.5/Rev.1

<sup>6</sup> AFB/B.30/5/Rev.1, Annex I, Section 5.1 “Strategic Focus 1: Action”

programme”<sup>7</sup>. An implementation plan for the MTS<sup>8</sup> was approved by the Board at its thirty-first meeting through decision B.31/32: it set to create additional funding windows on enhanced direct access, innovation, learning and readiness grants additional to the existing ones.

13. During the thirty-second meeting of the Board the secretariat had prepared, at the request of the Board, document AFB/PPRC.23/3 reporting on the progress and experiences of the pilot programme for regional projects and programmes. The document analyzed that the funding window for regional projects and programmes had been established outside of the country cap and outside of the consideration of the 50 per cent cap on MIEs. Initially provisioned with US\$ 30 million, the pilot programme was followed by an annual provision of US\$ 30 million in FY18 and US\$ 60 million in FY19. Overall, the total funding for proposals under this window had reached US\$ 54.9 million or 46% of the potential funding available since the launching of the pilot programme, as of 16 July 2018. This amount was however likely to increase within the following Board meetings.

14. Given the increased interest in regional projects and programmes, which was demonstrated by the size of the pipeline, the increase of the provisional amount dedicated to the funding window for FY19, to up to US\$ 60 million, was deemed necessary by the Board. However, as the pipeline was increasing, the document noted that there might be competing priorities in the allocation of funding between the windows for single-country and regional projects and programmes, hence the need for an eventual adjustment by the Board. It was also noted that, as part of the implementation plan of the medium-term strategy (MTS) of the Fund, additional funding windows on enhanced direct access, innovation, learning and readiness grants additional to the existing ones were planned to be created, which might further increase the need for adjustment of allocation by the Board.

15. Following the discussion, the Board *decided to request the secretariat to prepare, for consideration at the thirty-third meeting of the Board, a document presenting options for criteria for the provision of financial resources between single-country and regional concrete adaptation projects and programmes, including options to establish a country cap on regional projects and programmes and review the country cap on single-country projects and programmes.*

*(Decision B.32/3)*

16. It should also be noted that, in parallel with the discussion taking place at the PPRC on lessons learned from the pilot programme for regional projects and programmes, the Board had included in the agenda of its thirty-second meeting a discussion on the country cap, which unfortunately did not take place due to a lack of time.<sup>9</sup>

17. The present document has been developed following the request made in decision B.32/3.

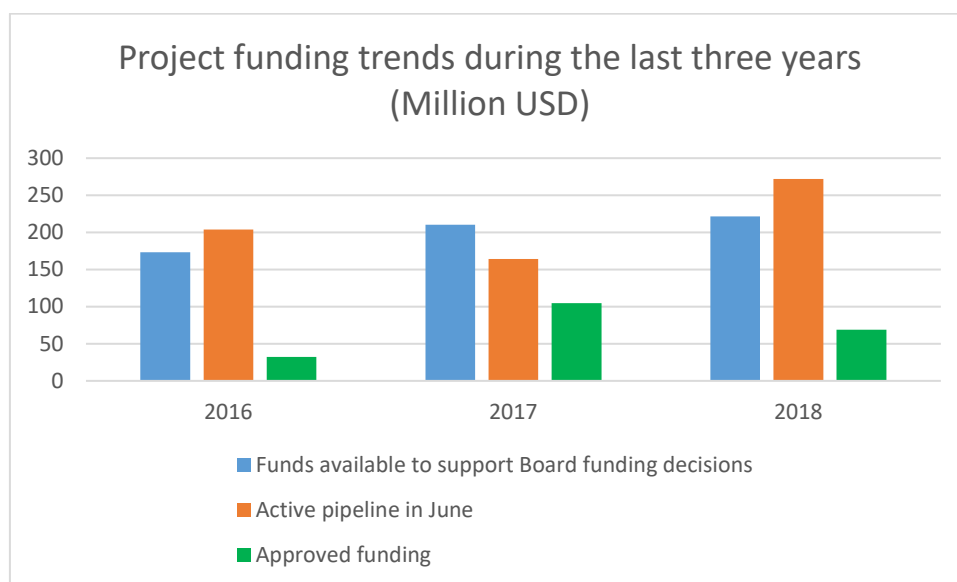
### **Trends in project/programme funding throughout Board meetings**

<sup>7</sup> AFB/B.30/5/Rev.1, Annex I, Section 6.1 “Niche”

<sup>8</sup> AFB/B.31/5/Rev.1

<sup>9</sup> AFB/B.32/12

18. As of January 7, 2019, total contributions to the Fund received cumulatively amounted to US\$ 841.5 million.<sup>10</sup> Total funding decisions for concrete projects and programmes amounted to US\$ 521.6 million, including US\$ 466.7 million for single-country projects and programmes, as of October 15, 2018. An analysis of the trends in funding decisions during the last three years shows that the amounts approved within a year have never reached more than 50% of the available resources in the Fund at that time (Fig.1).



19. Also, comparing the size of the active pipeline of projects and programmes in a given year with the total funding decisions in the following year, the trend has been so far that the total amount of approvals has never reached more than 55% of the pipeline of the previous year. This is also explained by the fact that non-approved fully-developed proposals, which are most likely to be approved the following year, usually represent less than 30% of the active pipeline. If the current trend continues, the total amount of approvals for 2019 should not be higher than US\$ 116 million, if the total set aside for regional projects and programmes, i.e. US\$ 60 million, was allocated and no more than 55% of the active pipeline of single country proposals was approved.

### **Trends in resource mobilization and projected targets and funding**

20. Since 2012, the Board had been setting resource mobilization targets including its initial fundraising target of USD 100 million for the period from 16 March 2012 to 31 December 2013, which was met and surpassed, followed with a target of US\$ 80 million per year for the biennium 2014-2015, for which the Board was able to raise US\$ 64.4 million and US\$ 74.1 million over the two years, respectively. At its twenty-seventh meeting, in March 2016, the Board had set a third resource mobilization target of US\$ 80 million per year for the biennium 1 January 2016 to 31 December 2017, which was met during both years, with US\$ 81.4 million and US\$ 95.9 million mobilized during the two years, respectively.

<sup>10</sup> <http://fiftrustee.worldbank.org/Pages/adapt.aspx>

21. At its thirty-first meeting in March 2018, the Board decided to set a new resource mobilization target of US\$ 90 million per year for the biennium 1 January 2018 – 31 December 2019. The target for 2018 was surpassed with another record-breaking single-year resource mobilization of about US\$ 129 million in pledges received during the 2018 United Nations Climate Change Conference (COP 24) in December 2018 in Katowice, Poland.

22. Although the Board has been highly successful in meeting, and lately surpassing, its resource mobilization target over the last five years, the sustainability and predictability of the Fund's financial flows is an enduring issue due to the reliance mainly on voluntary contributions from developed countries. However, there are some new developments which might in the long run help mitigate this issue in a more holistic and coordinated manner under the framework of the Paris Agreement. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) made a historic decision at the third part of its first session (CMA 1-3) in conjunction with COP 24 that the Fund shall serve the Paris Agreement under the guidance of, and be accountable to, the CMA with respect to all matters relating to the Paris Agreement, effective 1 January 2019.<sup>11</sup> The CMA decided at the same time that, when the Fund serves the Paris Agreement, "it shall be financed from the share of proceeds from the mechanism established by Article 6, paragraph 4, of the Paris Agreement and from a variety of voluntary public and private sources." The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in its fourteenth meeting during COP 24 also decided that "the Adaptation Fund shall continue to receive the share of proceeds, if available, from activities under Articles 6, 12 and 17 of the Kyoto Protocol."<sup>12</sup>

23. It should be noted, however, that a timeline for the establishment of the mechanism under article 6 paragraph 4 of the Paris Agreement referred to in the CMA 1-3 decision above and for the effective receipt of share of proceeds from the mechanism, as well as the expected level of revenue from that mechanism are still unclear. Also, among the shares of proceeds from the Kyoto Protocol mechanisms referred to in the CMP decisions above, only ones under the Clean Development Mechanism (Article 12 of the Protocol) are effectively received and those are currently monetized at a very low price due to market situation.

### **Analysis of the portfolio and pipeline of single-country projects and programmes against the country cap**

24. As noted in document AFB/B.27/8, unlike for regional projects and programmes, the Board has not set a cap for single-country projects or programmes. 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.

25. As of October 2018, there were altogether 151 countries that were eligible to apply for funds from the Adaptation Fund<sup>13</sup>. Among these countries, 58 countries had received funding for approved single-country concrete climate change adaptation projects. In other words, 39

<sup>11</sup> Advanced unedited versions of decisions adopted at the Climate Change Conference in Katowice, Poland, 2-14 December 2018, available at <https://unfccc.int/katowice>.

<sup>12</sup> Ibid.

<sup>13</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: [https://unfccc.int/process/parties-non-party-stakeholders/parties-convention-and-observer-states?field\\_national\\_communications\\_target\\_id%5B514%5D=514&field\\_partys\\_partyto\\_target\\_id%5B512%5D=512](https://unfccc.int/process/parties-non-party-stakeholders/parties-convention-and-observer-states?field_national_communications_target_id%5B514%5D=514&field_partys_partyto_target_id%5B512%5D=512).



per cent of the eligible countries had accessed resources through that funding window. Of these 58 countries, 30 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.

Table 1: Country access to the Fund

	Countries that have submitted proposals to the AF (portfolio and pipeline)	Countries that have accessed funding (single-country and regional projects)	Countries that have accessed funding through single-country projects	Countries that have accessed in excess of US\$ 8 million of funding (single-country projects)
<b>Number</b>	81	63	58	30
<b>% eligible countries *</b>	54	42	39	20

\* Developing countries parties to the Kyoto Protocol

26. In addition to the existing portfolio of projects and programmes, if countries for which proposals have been previously submitted to the Fund but have not been approved as of October 2018 are accounted for, this raises the total number of countries that have submitted proposals to the Fund at 81 countries, or 54% of the eligible countries.

27. The geographical distribution of the 58 countries that have had access to the fund through single-country projects is presented in table 3 below. Of these, 16 (out of a total of 47) are LDCs and nine (out of a total of 28) are SIDS.

Table 2: Geographical distribution of approved single-country projects

Region	Number of approved Projects	Approved projects from LDCs	Approved projects from SIDS
Asia and Pacific	30	5	5
Eastern Europe	2	-	-
Latin America and Caribbean	20	-	2
Africa	22	11	2

#### *Access of NIEs to the Fund*

28. As of January 2019, there was a total number of 28 NIEs that had been accredited to the Fund. The current pipeline of applicant NIEs includes 28 national institutions that are active applicants, and of which 12 are under review by the Fund's Accreditation Panel. There were 23 countries with an accredited NIE that had accessed funding from the Fund. Of those, 17 countries had already reached the cap for funding per country, which represent 61% of the total NIEs. Looking at the time elapsed since those countries with active NIEs have accessed maximum funding from the Fund, 14 of them had accessed funding between the last three and seven years (Table 3). This raises the issue of developing countries' access to the Fund in the context of absence of a replenishment process.

29. As a comparison, country access to the Least Developed Country Fund (LDCF) of the Global Environment Facility (GEF), which was established in 2001 and does not have a

replenishment process and relies on voluntary contributions from countries, has been raised periodically to reach US\$ 50 million per country cumulatively, as of December 2018.<sup>14</sup>

Table 3: Time lapse since project/programmes have been approved in countries with an NIE

Country/NIE	Project grant amount	Date of approval	Time lapse between funding of country with NIE and AFB33 (years)
Antigua and Barbuda	9,970,000	10/5/2016	2
Argentina	5,640,000	4/4/2013	6
Argentina	4,296,817	12/14/2012	6
Armenia	1,435,100	10/12/2018	0
Belize	6,000,000	8/18/2014	5
Chile	9,960,000	10/9/2015	3
Cook Islands	2,999,125	3/22/2018	1
Cook Islands	5,381,600	12/14/2011	7
Costa Rica	9,970,000	10/10/2014	4
Ethiopia	9,987,910	3/17/2017	2
India	2,556,093	10/7/2016	2
India	1,790,500	4/10/2015	4
India	969,570	10/9/2015	3
India	1,344,155	10/9/2015	3
India	2,510,854	10/10/2014	4
India	689,264	10/10/2014	4
Jamaica	9,965,000	6/28/2012	7
Jordan	9,226,000	4/10/2015	4
Kenya	9,998,302	11/1/2013	5
Micronesia, Federated States of	970,000	3/22/2018	1
Micronesia, Federated States of	9,000,000	3/17/2017	2
Morocco	9,970,000	10/7/2014	4
Namibia	4,999,674	10/13/2017	1
Niger	9,911,000	7/5/2016	3
Panama	9,977,559	10/5/2016	2
Peru	2,941,446	3/17/2017	2
Peru	6,950,239	10/9/2015	3
Rwanda	9,969,619	11/1/2013	5
Senegal	1,351,000	7/5/2017	2
Senegal	8,619,000	9/17/2010	9
South Africa	2,442,682	10/10/2014	4
South Africa	7,495,055	10/10/2014	4
Tanzania, United Republic of	5,008,564	12/15/2010	8
Uruguay	9,967,678	12/14/2011	7

## Options for modifying the country cap and potential implications

<sup>14</sup>[http://www.thegef.org/sites/default/files/council-meeting-documents/EN\\_GEF.LDCF\\_SCCF\\_25.03\\_Progress\\_Report.pdf](http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.LDCF_SCCF_25.03_Progress_Report.pdf)

30. Document AFB/B.27/8 had discussed the following options: 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.

31. Four possible options were considered in the document above 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) |

32. The document concluded that options (b) and (c) had 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 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.

33. 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, as indicated in table 3 above. The possible effects of increasing the cap were presented in document AFB/B.27/8 and illustrated through table 4 below which has been updated with current data.

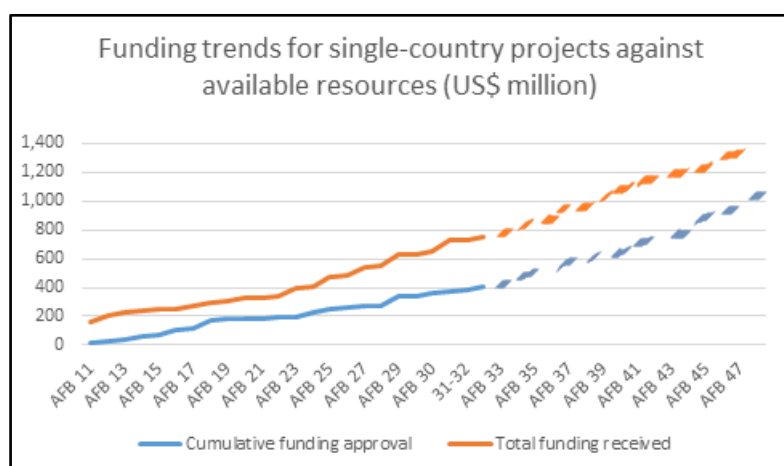
**Table 4:** Effect of country caps for single-country projects at different levels on availability of funds for all countries and for countries with accredited National Implementing Entities as of February 2019

	Maximum amount of funds allocated (US\$ M)		Funds allocated by end 2018 (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
<b>(a) Cap of US\$ 10 million (current)</b>	1,510	290	467	194	1,043	96
<b>(b) Cap of US\$ 15 million</b>	2,265	435	467	194	1,798	241
<b>(c) Cap of US\$ 20 million</b>	3,020	580	467	194	2,553	386

The first pair of columns shows how much funds the Fund could potentially allocate for single-country projects if it funded such 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 for single-country projects, 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 for single-country projects, taking into account the projects and programmes already approved.

34. The illustrative calculation on maximum total funds that countries can access from the Fund (Table 4) for single-country projects shows that at the current level of country cap of US\$ 10 million, the Fund would need to allocate just over double the amount it had so far (i.e. US\$ 1,043 million compared to the current allocation of US\$ 467 million) to eligible countries before all countries could reach their US\$ 10 million cap. If the cap was lifted to US\$ 15 million, the total eligible countries would be eligible to access as much as US\$ 1,798 million.

35. Current funding trends show that, assuming that new countries would access the Fund at the same rate as countries that have already done so, it could take at least 7 years to reach the current ceiling for all eligible countries with the present level of country cap (Fig. 2). It is not clear what effect lifting the cap per country to either US\$ 15 or US\$ 20 million would have on the funding trends and whether it could accelerate the depletion of resources available in the Fund leading to a situation where the funding rate is higher than the resource mobilization rate. Although more than 50% of eligible countries have not had access to the Fund yet, cumulative funding trends have never reached cumulative funding available in the Fund.



36. However, it should be noted that the cap of fifty per cent on cumulative funding for proposals submitted by MIEs, which was established in the twelfth Board meeting, might have had an effect on the funding decisions during the period of 2012-2015. This cap had started being implemented with the establishment of a pipeline in its seventeenth meeting, and the inclusion of the first projects in that pipeline in its nineteenth meeting in December 2012. This had had an effect on the level of submissions of proposals by the MIEs with a decline in submitted proposals which culminated in the twenty-fourth meeting during which no proposal was submitted by MIEs. This was evidently due to the fact that MIEs were aware of the implications of the pipeline and had held off from making submissions for that reason. The Board's fundraising efforts which had started with the fundraising of US\$ 100 million for 2012-2013, had had an effect to allow for the funding of all the proposals that were in pipeline by the time of the twenty-sixth meeting which was held in October 2015.

37. It would be difficult 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 periodically set aside for regional projects, could hypothetically deplete the currently available funds. However, the rate of project funding has

not exceeded the rate of resource mobilization since 2012. Also, the current active pipeline of proposals is at different stages of maturity, which allows for a phased approval rate with an average time from first submission to approval for two-step projects of 29 months over the last three fiscal years, according to the 2018 Annual Performance Report of the Fund.

38. So far, availability of funding has not been the only factor preventing countries, through implementing entities, from submitting proposals for amounts up to the cap per country. For instance, many countries that had submitted proposals through MIEs had requested funding below the country cap and had not necessarily requested additional funding through new proposals despite the availability of resources under the current country cap. Also, as the number of proposals submitted to the Board significantly increased over the last seven Board meetings, Table 5 below shows that the project approval amounts have not significantly varied during that period compared to the average of previous meetings over the years.

Table 5: Project funding trends throughout AFB meetings (Million USD)

Meeting	Funds available to support Board funding decisions	Number of fully-developed proposals submitted	Total number of proposals submitted	Approved funding	% of approved funding compared to Funds available
AFB 11	156	3	8	14.3	9.2
AFB 12	144	7	15	9.4	6.6
AFB 13	187	4	5	19.5	10.4
AFB 14	183	6	13	17.5	9.5
AFB 15	172	7	12	9.1	5.3
AFB 16	167	7	11	39.5	23.6
AFB 17	147	3	7	6.6	4.5
AFB 18	158	15	18	50.7	32.0
AFB 19	124	9	12	12.3	9.9
AFB 20	124	4	5	5.7	4.6
AFB 21	116	3	7	0.1	0.1
AFB 22	127	4	9	10.0	7.9
AFB 23	171	4	9	0.1	0.1
AFB 24	151	10	13	33.3	22.1
AFB 25	177	6	9	21.0	11.9
AFB 26	130	10	22	12.4	9.6
AFB 27	178	3	18	7.1	4.0
AFB 28	169	12	28	7.4	4.4
AFB 29	234	14	23	60.3	25.7
AFB 30	186	12	33	23.8	12.8
AFB 31	217	9	19	14.2	6.5
AFB 32	226	9	27	19.5	8.6

39. Other reasons preventing countries from submitting proposals to the Fund may include:

- **A political decision to not access the Fund or lack of interest in doing so.** It should be noted that of the eligible countries, several countries have typically not accessed

international climate funds, which may be related to their overall status of economic development (in some cases making them contributors to major development or climate trust funds), either through a political decision or through the perceived lack of significance of the resources offered by the Fund compared to other available resources.

- **A pending NIE accreditation process.** Countries in the process of or intending to submit an NIE accreditation application may decide to go through that process to be completed in order to submit a proposal. There are currently 15 NIE applicants that have started the process of accreditation but have not yet submitted an application. For them, using the services of an MIE or RIE to access funds could be perceived as running counter to the purpose of the NIE accreditation process by depleting resources that the NIE could eventually access directly.
- **A challenging operational environment or low level of capacity to develop project proposals.** Despite the availability of MIEs and RIEs to support countries at the global level, some countries are in fragile situations or may not have the planning or technical capacities at the political level and/or coordination mechanisms in place that would help put forward project ideas.
- **A lack of awareness of the Fund's processes and opportunities.** Since the establishment and operationalization of the Fund, the secretariat, along with the UNFCCC secretariat, had organized awareness-raising seminars and workshops in all the regions. The readiness programme was also established to support enhanced access to the Fund's resources including through NIEs. However, from the secretariat's interactions with countries' delegates during the UNFCCC conferences, it appears that many countries may lack awareness of the Fund's processes and opportunities. This is, at least in some cases, linked to turnover at the high political level, and that awareness of the Fund is not always transferred to the incoming administration.
- **Focus on other climate finance mechanisms.** Some countries may prioritize access to other climate finance mechanisms, for example due to their higher level of potential allocation or for other reasons.

40. Therefore, it is not a given that lifting the country cap would deplete the resources available in the Fund through a potential increase in the number of proposals that would be submitted to the Board.

41. Considering the increasing number of countries that have accessed funding up to or near the US\$ 10 million level, lifting the cap might be useful, especially for those with NIEs, which would provide them additional opportunities to access the Fund and thereby maintain 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.

Suggested option: Raise the cap per country at up to US\$ [15] [20] million.

### **Proposal for the application of a cap for project funding requests**

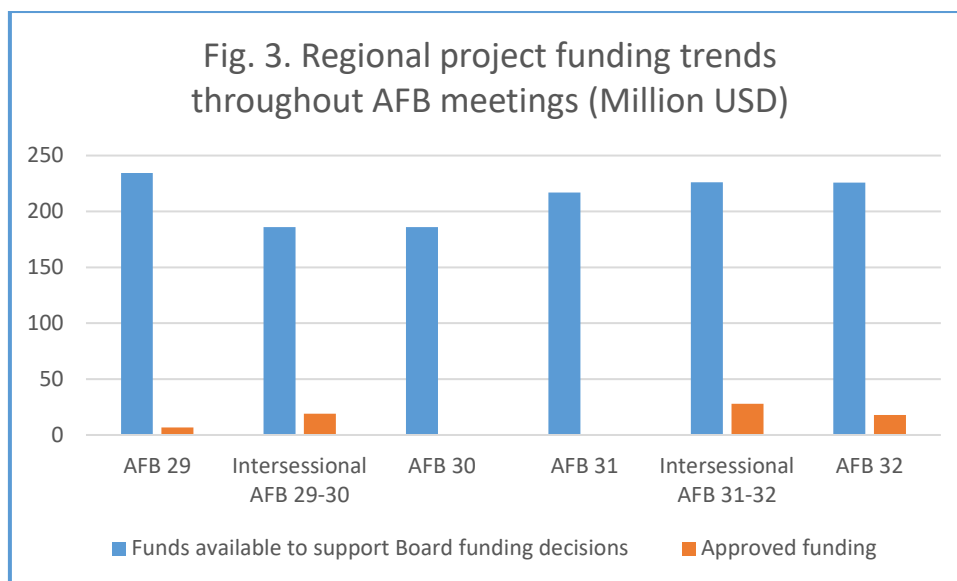
42. The average funding request of an approved project in the Fund has been US\$ 6.2 million, with practically no difference in the *mean* between MIEs and NIEs. However, the lack of difference between the average of the two types of entities masks the fact that countries with NIEs have had tendency to often apply for funding up to the level of US\$ 10 million country cap, either for an individual NIE project, a combination of smaller NIE projects (e.g. India, Senegal), or a combination of NIE project and MIE/RIE projects (e.g. Argentina, the Federated States of Micronesia, Peru). If the countries with NIEs that have approved projects are considered (see table 3 above), the average total project funding per country would nearly reach the current country cap, at US\$9 million, which is considerably higher than the average size of projects submitted by MIEs.

43. 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 the Board decides to increase the cap, it 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 but on the other hand, it might also contribute to faster resource depletion. An alternative option could be to set a cap for project funding requests at US\$10 million which would allow for either piloting or scaling up adaptation measures.

*Suggested option:* *Set a cap for project funding requests at US\$10 million per project.*

### **Analysis of the portfolio and pipeline of regional projects and programmes against the total amount set aside for that funding window**

44. As of October 15, 2018, the total funding decisions for regional projects and programmes amounted to US\$ 71.6 million, covering 19 countries. This represents 60% of the potential funding available since the launching of the pilot programme, as of October 2018. The rate of regional projects funding decisions throughout Board meetings or intersessionally showed that such decisions have never reached more than 12% of the available resources in the Fund at that time (Fig. 3).



45. Projects in the pipeline amounted to US\$ 260 million and covered in total 56 countries (Table 6). Although the size of the pipeline is important, it is worth noting that the Board had limited the amount of funding for regional projects and programmes for each fiscal year. For instance, the Board had approved for fiscal year 2019 the set aside of US\$ 59 million to fund regional projects and programmes (decision B.31/3). As of writing this document, funding decisions had not reached that amount yet, with US\$ 45.8 million allocated in FY19. However, some proposals might be recommended for approval during the thirty-third Board meeting in March 2019 and placed for the first time in the pipeline established by the Board for regional projects and programmes in decision B.28/1.

**Table 6:** Status of the active pipeline of regional project and programme proposals (as of October 15, 2018)

Status	Total number of proposals	Total value (million USD)
Pre-concept submitted, not endorsed	3	20
Pre-concept submitted, endorsed	6	77
Concept submitted, not endorsed	1	5
Concept submitted, endorsed	8	131
Full proposal submitted, not approved	3	27
<b>GRAND TOTAL</b>	<b>21</b>	<b>260</b>

### Options for the provision of financial resources and the establishment of a country cap for regional projects and programmes

46. As indicated in document AFB/PPRC.23/3, a few countries had been able to submit regional proposals multiple times, hence potentially (if all proposals in the pipeline were approved) benefitting from the Fund's support for concrete adaptation projects for amounts that could reach in some cases more than US\$ 20 million in total. This could raise the issue



of equitable allocation of resources, which was solved in the case of the single country proposals by the establishment of a country cap.

47. It is also presented above that the allocation of resources to fund regional projects was decided by the Board on an annual basis and that a pipeline for technically cleared proposals was established in case of insufficient resources allocated to fund regional proposals in a given fiscal year. If the Board decided to increase the country cap for single-country projects, it would be important to monitor the level of funding that would be set aside to fund regional proposals and other funding windows under the MTS.

48. The previous and current amounts set aside to fund regional projects, i.e. up to US\$ 60 million per fiscal year, have been sufficient to fund technically cleared fully-developed proposals submitted to the Board so far. With increased submissions of fully-developed proposals and their technical clearance, the options of increasing the annual set aside and the establishment of the pipeline could help manage the expectations from countries. Therefore, it is suggested to maintain the processes already put in place for the allocation of funding for regional projects and programmes, with the Board making a decision on the appropriate amount of funding to be set aside on an annual basis. This would be done following recommendations by the secretariat based on a review of the funds available for funding decisions in the Trust Fund and a review of the existing active pipeline of regional projects and programmes.

49. To address the issue of equitability mentioned above, two possible options could be explored: (i) to put in place a check on funding per country for accessing regional projects and programmes funding and/or (ii) to set a cap on the number of proposals in which one country can participate. The cap on funding per country would present some challenges as it would be particularly difficult to determine at the proposal submission stage, the portion of the budget that would be allocated to one participant country in regional projects that usually involve activities at national and regional levels, including execution tasks that could be devolved to national, regional or international institutions.<sup>15</sup> To avoid technical difficulties in enforcing that cap, the option of setting a cap on the number of proposals would therefore be more manageable. From the analysis of the pipeline of proposals done in document AFB/PPRC.23/3, some countries had been involved in up to four regional project/programme proposals submitted to the Board so far. Based on the analysis of the current portfolio and pipeline, it is suggested that one country can only participate in up to [three] regional projects and programmes. However, the challenge would be to avoid incentivizing access of maximum resources per regional project or programme (US \$14 million) for a minimum number of countries in a regional programme (two).

50. Indeed, putting in place a policy that would potentially encourage the design of regional projects and programmes that have the appropriate countries involved, whether it is two or more, and ensure country support and ownership, and that would not lead to an accelerated depletion of the funding available for regional programming, but rather a sustained use of its

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<sup>15</sup> The Board's 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, and those discussions had, on a number of occasions, also touched upon the complexity of taking into account execution costs and implementing entity fees in funding assigned from a regional project to a given country.

resources with access to all the countries who may wish to benefit from the regional project and program modality.

51. One possible way would be to institute a system of complementing the regional funding with the countries' funding from within the individual country caps. By allocating the funding from within the country cap to the regional project or program that they could otherwise program in standalone single-country projects, the country would indicate more compellingly the demand for a regional intervention if and when this is the case. In such cases, the Letters of Endorsement by countries should clearly indicate the amount of funding they intend to allocate from the funding still available under their country cap towards the regional project and programme they are endorsing.

52. The funding from the regional allocation (i.e. outside the country cap) would be still be limited to \$14 million per project or programme, however, ultimately the project/programme could be larger when the country-specific funding (from within the country cap) is included.

*Suggested option for the allocation of resources for regional projects and programmes: Maintain the processes already put in place for the allocation of funding for regional projects and programmes,*

*[Suggested option for ensuring equitable access to funding for regional projects and programmes: Set a cap on the number of proposals in which one country can participate [at three regional projects and programmes].*

*Suggested option for ensuring equitable access to funding for regional projects and programmes: Put in place a system of complementing the regional funding with the countries' funding from within the individual country caps, such that for each US \$1 from under the country cap, US \$[1, 2, 3, or 4] of regional funding can be accessed.]*

*Suggested option for ensuring equitable access to funding for regional projects and programmes: Set a cap on the number of proposals in which one country can participate [at three regional projects and programmes] and put in place a system of complementing the regional funding with the countries' funding from within the individual country caps, such that for each US \$1 from under the country cap, US \$[1, 2, 3, or 4] of regional funding can be accessed.*

## **Conclusion**

53. This document has analysed the current trends in project funding and resource mobilization, looking at the effect of the existing criteria for the provision of financial resources for single-country and regional concrete adaptation projects and programmes, including the country cap that was established at the twelfth meeting of the Board for single-country projects and programmes, and the annual provision of resources to fund regional projects and programmes. The analysis showed that, despite an increase in the number of proposals submitted to the Board, the amounts approved at each review session have never reached more than 50% of the resources available for funding decisions in the Trust Fund. The number

of countries that have had access to the Fund have surpassed the third of the total eligible countries and there are many reasons that could explain the lack of submission of proposals from the remaining eligible countries despite 10 years since the Fund has been operationalized.

54. Different options for the cap per country for single-country projects were discussed, including increasing that cap, and maintaining it at its current level seems to be increasingly limiting countries' opportunities to access funding to address their adaptation needs. In the particular case of NIEs, it would help maintain their interest in the Fund, following a lengthy process of accreditation and, most of the times, a single opportunity to implement a project or programme on behalf of their respective countries. Raising the cap might also encourage countries that have accessed funds near the current cap but do not yet have an NIE, to apply for accreditation.

55. In the context of the Fund serving the Paris Agreement and the foreseen ambition of resource mobilization, the options of a cap of US\$ 15 million (a) or US\$ 20 million (b) have their advantages and disadvantages and could serve different purposes. Option (a) would allow supporting a larger number of countries at that increased level. However, it would not enable the majority of countries, notably current NIEs 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 (b), 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, in conjunction with the Board's resource mobilization efforts, an alternative option could be to select option (b) and to review periodically the pipeline of proposals and the prospects of availability of funding in order to gradually increase the cap per country in the coming years, in the same model as the LDCF.

56. To better monitor the provision of funds between single-country and regional projects and programmes, the current process of provisioning on an annual basis a specific amount for funding regional projects and programmes has been identified as the best option, and, to ensure equitable access to funding for countries, a cap in the number of proposals in which a single country can participate has been proposed as well as complementing the regional finance with a limited amount of funding from funds available under an individual country's cap. Based on the analysis of the current portfolio and pipeline, it is suggested that one country can only participate in up to [three] regional projects and programmes and that the ratio of regional window funding to country cap funding should be [X:1].

## **Recommendation**

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

- (a) To revise the cap per country established by decision B.13/23, so that eligible countries can access a total of up to US\$ [15] [20] million from the Adaptation Fund;

(b) That project/programme funding requests cannot exceed US\$ 10 million including project/programme formulation grant funding;

(c) {[Option 1] To cap the number of regional project/programme proposals submitted for funding to the Adaptation Fund in which one country can participate [to three proposals];

[Option 2] To institute a system of complementing the regional funding with the funding from within the individual country caps, such that for each US \$1 from under the country cap of the countries involved in the regional project or programme, US \$[1, 2, 3, or 4] of regional funding can be accessed;

[Option 3] To cap the number of regional project/programme proposals submitted for funding to the Adaptation Fund in which one country can participate [to three proposals] and institute a system of complementing the regional funding with the funding from within the individual country caps, such that for each US \$1 from under the country cap of the countries involved in the regional project or programme, US \$[1, 2, 3, or 4] of regional funding can be accessed};

(d) To maintain the processes already put in place for the allocation of funding for regional projects and programmes, i.e. the provision on an annual basis (fiscal year) of a specific amount for the funding of regional project and programme proposals and the pipeline established through Decision B.31/3;

(e) To review the experience gained with the caps referred to in sub-paragraphs (a) to (c) above in the [fortieth] meeting of the Board; and

(f) To inform the designated authorities and accredited implementing entities about this decision.