



ADAPTATION FUND

AFB/B.36/5  
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Adaptation Fund Board  
Thirty-sixth meeting  
Bonn, Germany (Virtually held), 6-8 April 2021

**PROVISION OF FINANCIAL RESOURCES FOR 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 at its seventh meeting in September 2009 and most recently amended in October 2017 by the Adaptation Fund Board (the Board), states 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 led to a discussion on the issue at 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 (OPG), paragraph 26. This statement has been maintained since the earliest version of the document approved on 16 September 2009 (Decision B.7/2).

4. 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 concrete policy decision on it until 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:

[...]

(a) *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 had not revisited the country cap decided upon in decision B.13/23. At the twenty-sixth meeting, the Chair of the Board reminded the Board<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, such 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, 10 countries had reached their country cap and another six were approaching it, meaning they had accessed more than US\$ 8 million. Therefore, according to the Chair, 16 countries were essentially precluded from asking for additional support from the Fund, and those with NIEs found that after their significant efforts for achieving accreditation, the NIEs 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;
- (c) Many other funds had a replenishment process; something that was missing for the Adaptation Fund;

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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.

- (d) The Fund held some US\$ 130 million in resources 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 provisions 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 there were four options being proposed to address the country cap: (i) maintaining the status quo; (ii) increasing the country cap by US\$ 5 million; (iii) increasing the country cap by US\$ 10 million; or (iv) increasing the country cap by US\$ 20 million. It might also be possible to create a minimum threshold for 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 argued 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 issues and until they were resolved, it was not feasible to raise the cap. 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.

10. 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)*

11. 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 issue of the 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 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 out to create additional funding windows on enhanced direct access, innovation, learning and scaling-up grants in addition to the existing funding windows.

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<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”

<sup>7</sup> AFB/B.30.5/Rev.1, Annex I, Section 6.1 “Niche”

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

12. 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 analysed that the initial pilot programme 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 both FY19 and FY20. The funding allocations that followed the pilot programme continued to be outside of the country cap but for MIEs counted towards the 50 per cent cap on MIEs.<sup>9</sup> Overall, the total funding for proposals under this window had reached US\$ 143.2 million, covering 30 countries or 80 per cent of the potential funding available since the launching of the pilot programme, as at 30 June 2020.

13. Apart from the consideration and decisions on the annual allocations for regional projects and programmes, at its thirty-second meeting, 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)*

14. In 2020, during the exceptional and uncertain near-term circumstances caused by the COVID-19 pandemic, and with a view to the pending discussion by the Board on allocation of resources for single-country and regional projects and programmes at the second-part of the thirty-fifth meeting, as well as the recent trends in the availability of funds to support new funding decisions, the Board decided, intersessionally to:

- (a) Include in its work plan for fiscal year 2021 the provision for an amount of US\$ 30 million to be provisionally set aside for the funding of regional project and programme proposals, including project formulation grant requests for preparing regional project and programme concept or fully-developed project documents; and*
- (b) Consider the need for additional funding for regional project and programme proposals in the second half of fiscal year 2021.*

*(Decision B.35.a-35.b/75)*

15. It should also be noted that, in parallel with PPRC's discussion on lessons learned from the pilot programme for regional projects and programmes, the Board had included on the agenda of its thirty-second meeting a discussion on the country cap, which could not take

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<sup>9</sup> Decision B.28/1

place due to a lack of time.<sup>10</sup> The Board had again included the item in the agenda of its thirty-third meeting but, owing again to a lack of time, did not take up the item.<sup>11</sup>

16. The Board took up the item at its thirty-fourth meeting, based on document AFB/B.34/7, “Options for criteria for the provision of financial resources between single-country and regional concrete adaptation projects and programmes” but agreed to defer consideration of the issue until its thirty-fifth meeting.<sup>12</sup>

17. The Board again took up the item at the second session of its thirty-fifth meeting, based on document AFB/B.35.b/5, “Options for criteria for the provision of financial resources between single-country and regional concrete adaptation projects and programmes” but did not conclude on the matter and decided *to conclude its discussion on the issue at its next meeting* (decision B.35.b/20).<sup>13</sup>

18. The current document is revised and updated based on document AFB/B.35.b/5.

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

19. As of 30 June 2020, total resources received by the Fund cumulatively amounted to US\$ 978.3 million.<sup>14</sup> Total funding decisions for concrete projects and programmes amounted to US\$ 732.7 million, including US\$ 589.6 million for single-country projects and programmes, as of 30 June 2020. Table 1 below presents the amounts of funding approved and the amounts of funding requested by proposals that have been considered by the Board but not yet approved (active pipeline). It indicates that while there has been marked interannual variation, the Fund’s ability to programme funding has remained high, exceeding US\$ 160 million at the end of the fiscal year since FY16. However, Table 1 also indicates that the high volume of programming in recent years has not, until now, led to decrease in demand, as highlighted by the fact requested funding in the active pipeline has remained high.

Table 1: Funds approved and funds available by Fiscal Year

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Number of projects approved	10	15	5	5	11	5	12	10	11	23
Grant amount approved (US\$ million)	60.6	105.8	32.3	35.2	75.7	21.7	84.9	57.9	86.6	179.9
Funds available at year-end (US\$ million)	171.6	112.8	115.8	150.7	129.9	168.6	185.9	225.7	265.1	167.2
Active pipeline at year-end (US\$ million)						145.0	147.9	272.3	242.2	204.5

<sup>10</sup> AFB/B.32/12

<sup>11</sup> AFB/B.33/15

<sup>12</sup> AFB/B.34/20

<sup>13</sup> AFB/B.35.b/8

<sup>14</sup> <http://fiftrustee.worldbank.org/Pages/adapt.aspx>

## Trends in resource mobilization and projected targets and funding

20. Since 2012, the Board has been setting resource mobilization targets, including its initial fundraising target of US\$ 100 million for the period from 16 March 2012 to 31 December 2013, which was met and surpassed, followed by 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 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. At its thirty-first meeting in March 2018, the Board decided to set a fourth 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 a record-breaking single-year resource mobilization of about US\$ 129 million in pledges received, while the target for 2019 was just met, with ca. US\$ 90 million mobilized during that year. At the second session of its thirty-fifth meeting, which had been postponed to October 2020 due to the COVID-19 pandemic, the Board decided to set a fifth resource mobilization target of US\$ 120 million per year for the biennium 2020-2021. The target for 2020 was nearly met, with ca. US\$ 116 million pledged or contributed during the calendar year.

21. Although the Board has been, over the last nine years, generally successful in reaching, and in some years surpassing, its resource mobilization target, the sustainability and predictability of the Fund's financial resources are an enduring issue due to the reliance mainly on voluntary contributions from developed countries. However, new developments under the framework of the Paris Agreement during the last two years might help mitigate this issue in the long run in a more holistic and coordinated manner. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) made the historic decision 13/CMA.1 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. 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) at 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>15</sup>

22. It should be noted, however, that the timeline for the establishment of the mechanism under Article 6 paragraph 4 of the Paris Agreement referred to in decision 13/CMA.1 and for the effective receipt of share of proceeds from the mechanism, as well as the expected level of revenue from that mechanism, remain unclear. Also, among the shares of proceeds from the Kyoto Protocol mechanisms referred to in the CMP decisions above, only those under the Clean Development Mechanism (Article 12 of the Protocol) have been effectively received and they are currently monetized at a very low price due to the market conditions.

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<sup>15</sup> Decision 1/CMP.14



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

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

24. As of 30 June 2020, a total of 151 countries were eligible to apply for funds from the Adaptation Fund<sup>16</sup>. Among these countries, 72 countries had received funding for approved single-country concrete climate change adaptation projects. In other words, 48 per cent of the eligible countries have accessed resources through that funding window. Of these 72 countries, 45 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 2 below. The US\$ 8 million threshold has been used since the twenty-sixth meeting of the Board, as mentioned above, since the majority of the projects funded by the Fund has been larger than that, and only a small percentage of projects have been smaller.<sup>17</sup>

25. When considering only the 32 countries with accredited NIE as of 30 June 2020, 26 countries or 81 per cent had received funding for approved single-country concrete climate change adaptation projects, and 20 (63 per cent of NIE countries) had accessed over US\$ 8 million from the Fund and therefore had less than US\$ 2 million left under the current US\$ 10 million cap.

Table 2: 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>	105	81	72	45
<b>% eligible countries *</b>	70%	54%	48%	20%
<b>Number, NIE countries only**</b>	30	28	26	20
<b>% NIE countries**</b>	94%	88%	81%	63%

\* Developing country Parties to the Kyoto Protocol (N=151)

\*\* Developing country Parties to the Kyoto Protocol with accredited NIE (N=32)

26. In addition to the existing portfolio of projects and programmes, if countries for which proposals had been previously submitted to the Fund but had not been approved as of 30

<sup>16</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).

<sup>17</sup> According to document AFB/EFC.26.b/3: "Annual Performance Report for the Fiscal Year 2020", as of 30 June 2020, of the 105 concrete adaptation projects funded by the Fund, 94 projects (90 per cent) had an approved funding of more than US\$ 2 million, and 11 projects (10 per cent) were smaller than it.

June 2020 are accounted for, this raises the total number of countries that had submitted proposals to the Fund to 105 countries, or 70 per cent of the eligible countries. Of the 32 countries with NIEs, 30 countries (or 94 per cent) had submitted proposals to the Fund as of 30 June 2020.

27. The geographical distribution of the 72 countries that had accessed the fund through single-country projects is presented in Table 3 below. Of these, 16 are LDCs (out of a total of 46) and nine are SIDS (out of a total of 38).

Table 3: Geographical distribution of approved single-country projects

Region	Countries with approved 1-country projects	Of which LDCs	Of which SIDS	NIE countries with approved 1-country projects	Of which LDCs	Of which SIDS
Asia and Pacific	24	6	7	5	-	2
Eastern Europe	3	-	-	1	-	-
Latin America and Caribbean	19	-	6	10	-	4
Africa	26	17	3	10	6	-
<b>Total</b>	<b>71</b>	<b>23</b>	<b>16</b>	<b>26</b>	<b>6</b>	<b>6</b>

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

28. As of 30 June 2020, there was a total 32 NIEs that had been accredited to the Fund. The accreditation pipeline of applicant NIEs included 9 that were under review by the Fund's Accreditation Panel. Out of 26 countries which have an accredited NIE and had accessed funding from the Fund for single-country projects, 20 countries (63 per cent of NIE countries) had already reached or almost reached the cap for funding per country, as shown in Table 2. In terms of the time elapsed since those countries with active NIEs had effectively reached their cap, 15 of them had reached it by October 2016, i.e. more than 4 years ago (Table 4). This raises the issue of whether those countries with NIEs can continue to access resources from the Fund.

Table 4: Time lapse since project/programmes have been approved in countries with an NIE

NIE Country	Project grant amount, US\$	Date of approval	Time lapse between funding of country with NIE and AFB35.b (years)
Antigua and Barbuda	9,970,000	10/5/2016	4
Argentina	5,640,000	4/4/2013	7
Argentina	4,296,817	12/14/2012	7
Armenia	1,435,100	10/12/2018	2
Armenia	2,506,000	3/15/2019	1
Belize	6,000,000	8/18/2014	6
Chile	9,960,000	10/9/2015	5
Cook Islands	2,999,125	3/22/2018	2
Cook Islands	5,381,600	12/14/2011	8
Costa Rica	9,970,000	10/10/2014	6

Dominican Republic	9,173,910	3/15/2019	1
Ethiopia	9,987,910	3/17/2017	3
India	2,556,093	10/7/2016	4
India	1,790,500	4/10/2015	5
India	969,570	10/9/2015	5
India	1,344,155	10/9/2015	5
India	2,510,854	10/10/2014	6
India	689,264	10/10/2014	6
Indonesia	835,465	8/7/2019	1
Jamaica	9,965,000	6/28/2012	8
Jordan	9,226,000	4/10/2015	5
Kenya	9,998,302	11/1/2013	6
Micronesia, Federated States of	970,000	3/22/2018	2
Micronesia, Federated States of	9,000,000	3/17/2017	3
Morocco	9,970,000	10/7/2014	6
Namibia	4,999,674	10/13/2017	3
Niger	9,911,000	7/5/2016	4
Panama	9,977,559	10/5/2016	4
Peru	2,941,446	3/17/2017	3
Peru	6,950,239	10/9/2015	5
Rwanda	9,969,619	11/1/2013	6
Senegal	1,351,000	7/5/2017	3
Senegal	8,619,000	9/17/2010	10
South Africa	2,442,682	10/10/2014	6
South Africa	7,495,055	10/10/2014	6
United Republic of Tanzania	5,008,564	12/15/2010	9
United Republic of Tanzania	1,200,000	6/1/2020	0
United Republic of Tanzania	1,000,000	6/1/2020	0
Uruguay	9,967,678	12/14/2011	8
<b>Total</b>	<b>218,979,181</b>		

### Options for modifying the country cap and potential implications

29. 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, would 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.

30. 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) |

31. The document concluded that options (b) and (c) were considered the most adequate and had different advantages and disadvantages.

- a) Option (b), of a cap of US\$ 15 million in total, 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 a similar 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.
- b) Option (c), of a cap of US\$ 20 million, would allow maintaining the past level of funding requests per proposal from countries that have already accessed up to US\$ 10 million. However, this option would quickly deplete the funding availability, and hence limit the number of countries accessing funding if the Fund's resource mobilization turns out modest.

32. 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 4 above. The possible effects of increasing the cap were presented in document AFB/B.27/8 and illustrated through Table 5 below which has been updated with current data.

33. It is noteworthy that as 20 out of 32 countries with NIEs as of 30 June 2020 had accessed funding near the level of the US\$ 10 million cap, i.e. more than US\$ 8 million, only US\$ 101 million remained to be accessed by countries that had NIEs. This included six NIE countries which had not accessed funding for concrete single-country projects at all (representing US\$ 60 million of possible allocation), and a number of countries that had smaller amounts of funding available under their cap (representing US\$ 41 million of possible allocation).

34. In its discussions on the country cap, the Board has considered which countries have been especially affected by the existing cap and has identified countries that have accessed funding "near" the level of the US\$ 10 million cap as one such group. While few countries have accessed exactly up to US\$ 10 million, many others have accessed amounts approaching that level, and it has been considered that the availability of funding for the latter group under the current cap might not be adequate to support a concrete project that would be relevant for the country's adaptation needs and to justify an investment in project design and development. Under the Fund's policies there are no objective criteria for assessing a "minimum" project size, and indeed some concrete adaptation projects funded by the Fund have had a funding request of less than US\$ 1 million<sup>18</sup>. However, considering that the vast majority of projects and programmes have had a higher funding request, the Board has, since its twenty-sixth meeting, used the level of US\$ 8 million of accessed funding to calculate, for illustrative purposes, the number of countries that are "close to reaching" the country cap. Subsequently, that level has also been used as a possible threshold to determine which countries would be

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<sup>18</sup> As of the thirty-sixth meeting of the Board, the Board had approved four projects with a funding request less than US\$ 1 million.

able to access resources beyond the initial country cap. The application of such a threshold would have some merits from a resource management perspective:

- (a) Equity: Any country that had accessed up to or beyond the threshold would be eligible to access funding up to the level of the “raised” cap, and since the threshold is designed to encourage countries to access such amount before requesting the additional funding under the raised cap, and the ‘raised cap’ evenly applies to all countries, it could be considered to treat eligible countries equitably;
- (b) Incentive for additional programming: Providing access to additional funding under the raised cap for countries that have previously accessed funding up to or beyond the threshold would provide an incentive to countries that have been “early movers” and ironically had to face the risk becoming disinterested in the Fund due to the lack of availability of resources for them; and
- (c) Fund’s resource management: Compared to an alternative option where all eligible countries could instantly access funding up to the raised cap, the use of a threshold could balance numbers of funding requests and available resources in the Fund.

35. A possible downside of the use of a dollar-amount threshold exists related to a situation where countries have accessed funding below but relatively close to the threshold. In this situation, unless specifically addressed, hypothetically, a country that has accessed e.g. US\$ 7.5 million dollars from the Fund under an US\$ 8 million threshold scenario, would need to access funding for a relatively small project proposal, i.e. with a funding request between US\$ 0.5 and 2.5 million, to reach the threshold and to “unlock” access to the raised cap.

36. A possible alternative to the dollar-amount based threshold could be a time-of-access based threshold, in which a country could access resources to the level of the raised cap, if a certain period of time has passed since first accessing funding for a concrete adaptation project from the Fund, regardless of the level of resources accessed at that time. Options for this time period could be 3 or 5 years since the country’s first concrete project was approved. This approach would have many of the same merits as the dollar-amount based threshold described in paragraph 34 above, but it would not have the same downside reflected in paragraph 35: even if a country would have relatively recently accessed funding for the first time and not yet qualify for the raised cap, this situation would resolve itself with time, and typically such country would be, in the interim, implementing the previous project/programme and therefore, engaging with the Fund.

**Table 5:** 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 30 June 2020

	Maximum amount of funds allocated (US\$ M)		Possible to allocate further under cap (US\$ M)	
	All eligible countries	Countries with NIEs	All eligible countries	Countries with NIEs
<b>(a) Cap of US\$ 10 million (current)</b>	1,510	320	920	101
<b>(b) Cap of US\$ 15 million</b>	2,265	480	1,675	261
<b>(c) Cap of US\$ 20 million</b>	3,020	640	2,430	421

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 of columns shows how much more funding could be potentially allocated, given that US\$ 589.6 million has been allocated to single-country projects, and US\$ 219.0 to single-country projects in countries with NIEs.

37. The illustrative calculation on maximum total funds that countries can access from the Fund (Table 5) for single-country projects shows that at the current level of country cap of US\$ 10 million, the Fund would theoretically be able to allocate US\$ 920 million more for single-country projects. However, it is worth noting that this amount includes all eligible countries, including ones that have not nominated a Designated Authority to the Fund.<sup>19</sup> The active pipeline of single-country projects and programmes submitted by implementing entities for consideration by the Board but not yet approved as of 30 June 2020, amounted to US\$ 103,466,166, including US\$ 50,696,776 from countries with NIEs.<sup>20</sup>

38. It should be noted that the cap of 50 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 periods when that level had been reached, such as during 2012-2015, and from mid-2020 to early 2021.

39. It would be difficult to determine 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 at least theoretically deplete the currently available funds. This applies particularly to funds available for MIEs, which at the time of this document are close to being depleted. The Fund has never been depleted of funds available for NIEs and RIEs, which is a combination of successful resource mobilization efforts by the Board and the smaller total volume of project proposals submitted by those two types of entities. Also, the current active pipeline of proposals is at different stages of maturity, which allows for a phased approval rate.

40. 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

<sup>19</sup> According to document AFB/B.35.a-35.b/23, "Report of the Thirty-fourth Meeting of the Accreditation Panel", as of 1 October 2020 there were 132 countries (out of 151 countries) that had nominated a Designated Authority.

<sup>20</sup> Document AFB/EFC.26.b/3: "Annual Performance Report for the Fiscal Year 2020"

instance, many countries that have submitted proposals through MIEs had requested funding below the country cap and have not necessarily requested additional funding through new proposals despite the remaining availability of resources under the current country cap.

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

- **Country decision not to submit funding request to the Fund.** It should be noted that of the eligible countries, several countries have not nominated a designated authority, which may signal many things, including a political decision not to access funds from the Adaptation Fund.
- **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 and regional levels, respectively, 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 some countries may still 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 and resource availability or availability of different funding instruments.

42. In light of the above, it is unlikely that lifting the country cap would rapidly deplete the Fund's resources through a potential increase in the number of proposals that would be submitted to the Board.

43. Considering the increasing number of countries that have accessed funding up to or near the US\$ 10 million level, i.e. more than US\$ 8 million, lifting the cap might be useful,

especially for those countries with NIEs, and especially for countries which have already accessed funding near the US\$ 10 million, 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.

44. Related to the possible lifting of the cap for countries with NIEs is a consideration of potentially enabling eligible countries to have a second NIE accredited. During the lifetime of the Fund, some countries have highlighted that being allowed to achieve accreditation for only one NIE is rather restrictive considering the diverse needs they have for adaptation. This did not occur in other funds, such as the Green Climate Fund, which allows accreditation of multiple NIEs per country. The limitation to one NIE has led, on some occasions, to a situation where the government has communicated their wish to change from the originally accredited to another NIE but because of the complications related to losing the accreditation for the first NIE, they have ultimately decided not to do so. In this context, the Board may want to consider whether it would be preferable to allow countries, if they so wish, to pursue accreditation for a second applicant NIE to apply for accreditation. Technically the latter would require a minor revision of the Operational Policies and Guidelines, but this would not represent major challenges for the Fund's policy coherence or technical work. If the Board should decide to allow the accreditation of a second NIE, it might be best to leave it for the countries with NIEs to decide, how they would apply for the available funding for projects implemented by those NIEs, respectively.

Possible options:

- (a) *Raise the cap per country up to US\$ [15] [20] million for all countries.*
- (b) *Raise the cap per country up to US\$ [15] [20] million for those countries that have accessed up to US\$ 8 million or more for concrete adaptation project(s).*
- (c) *Raise the cap per country up to US\$ [15] [20] million for those countries that have accessed funding for concrete adaptation project(s), when [3] [5] years have passed since their first access to funding for such project(s).*
- (d) *Raise the cap per country up to US\$ [15] [20] million for those countries that have an NIE and that have accessed up to US\$ 8 million or more.*
- (e) *Raise the cap per country up to US\$ [15] [20] million for those countries that have an NIE and that have accessed funding for concrete adaptation project(s), when [3] [5] years have passed since their first access to funding for such project(s).*

45. Separately, the Board may wish to consider enabling the accreditation of a second NIE for countries that already have an NIE accredited.



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

46. As of 30 June 2020, the total funding decisions for regional projects and programmes amounted to US\$ 143.2 million, covering 30 countries. This represents 80 per cent of the potential funding made available for regional projects and programmes since the launching of the initial pilot programme.

47. Regional projects and programmes in the active pipeline amounted to US\$ 167.4 million and cover 43 countries in total. The proposals for these projects and programmes represented different stages of the project development cycle, as illustrated in 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, as described above.

Table 6: Status of the active pipeline of regional project and programme proposals (as of 30 June 2020)

<b>Status</b>	<b>Total number of proposals</b>	<b>Total value (USD million)</b>
<b>Full Proposals: Regional</b>	4	<b>42.4</b>
<b>Concepts: Regional</b>	6	<b>72.4</b>
<b>Pre-concepts: Regional</b>	4	<b>52.5</b>
<b>TOTAL</b>	<b>14</b>	<b>167.4</b>

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

48. As indicated in document AFB/PPRC.23/3, a few countries have 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.

49. The previous and current amounts set aside to fund regional projects, i.e. up to US\$ 60 million per fiscal year, have been generally 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 existing processes of increasing the annual set aside and the establishment of the waitlist may have helped manage countries' expectations. 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.

50. To address the issue of equitability mentioned above, two possible options could be explored: (i) to put in place a cap 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 in regional projects would present some important 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>21</sup> To avoid technical difficulties in enforcing that cap, the option of setting a cap on the number of proposals in which a country can participate 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. Based on the analysis of the current portfolio and pipeline, the Board could consider whether each country can only participate in a limited number of regional projects and programmes.

*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.*

*[Possible 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].]*

## **Conclusion**

51. This document presents an analysis of the current trends in project funding and resource mobilization, looking into 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 number of countries that have had access to the Fund, either for single-country or regional projects, currently amounts to over half of the total eligible countries, and there are many reasons that may explain why some of the other countries have yet to do so.

52. The document presents and discusses different options for the cap per country for single-country projects, including for increasing that cap. Maintaining the status quo seems to be increasingly limiting for the Fund's efforts of increasing direct access to its resources and for countries' future opportunities to access funding to address their adaptation needs. In the particular case of NIEs, raising the cap would help maintain their interest in and support from 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. It might also encourage countries that have accessed funds near the current cap but do not yet have an NIE, to apply for accreditation.

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<sup>21</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.

53. In the context of the Fund serving the Paris Agreement and the foreseen ambition of resource mobilization, the options of a cap of (a) US\$ 15 million or (b) US\$ 20 million have their advantages and disadvantages and could support the Fund's mandate in different ways.

- (i) While option (a) would allow supporting a larger number of countries with increased amount of funding, 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 worth of around US\$ 5 million.
- (ii) Option (b) of a cap of US\$ 20 million, would allow maintaining the past level of funding requested in proposals from countries that have exhausted or almost exhausted the current country cap of US\$ 10 million. To limit the potential financial impact on the Fund, this option could, perhaps initially, be applied only to countries that have already accessed funding up to US\$ 8 million or more, and/or only to countries with NIEs. The Board could also allow for a second NIE per country, to provide more opportunities for the programming of the increased allocation. However, it might be advisable not to tie the ability apply for the funding under the increased cap to making use of the option of having a second NIE accredited.

54. To better monitor the provision of funds between single-country and regional projects and programmes, the analysis identifies the current process of allocating funding on an annual basis a specific amount of funding for regional projects and programmes as the best option.

### **Recommendation**

55. Following the discussion at the second session of the thirty-fifth meeting of the Board and subsequent consideration, the secretariat has revised the proposed recommendation and options. The previous version of the recommendation, as presented in document AFB/B.35.b/5, is included in Annex I to this document for reference.

56. The Board may wish to consider the analysis contained in document AFB/B.36/5 and decide:

- (a) To revise the cap per country established by decision B.13/23 from US\$ 10 million to US\$ 20 million for all eligible developing country Parties, so that any Party can access a total of up to US\$ 20 million from the Adaptation Fund [once it has accessed funding amounting to at least US\$ 8 million for concrete single-country adaptation projects or programmes] [once [3][5] years have passed since the first concrete single-country adaptation project(s)(programme(s) was approved by the Board];
- (b) [To set a maximum level of US\$ 10 million for an individual funding request for single-country concrete adaptation projects, provided that lower maximum

levels can be set by the Board in specific circumstances such as in the case of national implementing entities accredited through the streamlined process.]

- (c) 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;
- (d) To take stock of experience to be gained related to the caps referred to in subparagraphs (a) to (c) above at the [fortieth] meeting of the Board; and
- (e) To inform the designated authorities and accredited implementing entities about this decision.

57. The Board may also wish to consider and decide to allow eligible developing country Parties to pursue the accreditation of up to two national implementing entities, and to request the secretariat to reflect this in a revision of the Operational Policies and Guidelines and to submit the revision for consideration by the Board at its thirty-seventh meeting.

Annex I: Recommendation as presented in document AFB/B.35.b/5 (reproduced for reference)

The Board may wish to consider the analysis contained in document AFB/B.35.b/5 and decide:

- (a) To revise the cap per country established by decision B.13/23 from US\$ 10 million to US\$ [15] [20] million for [all eligible developing country Parties] [all eligible developing country Parties that have already accessed funding up to US\$ 8 million] [all eligible developing country Parties that have already accessed funding up to US\$ 8 million and that have an accredited NIE], so that they can access a total of up to US\$ [15] [20] million from the Adaptation Fund;
- (b) [To allow the eligible developing country Parties to pursue the accreditation of up to two National Implementing Entities (NIE), and to request the secretariat to reflect this in a revision of the Operational Policies and Guidelines and to submit the revision for consideration by the Board at its thirty-sixth meeting]
- (c) 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] [to three proposals provided that additional proposals are allowed if the Board has already approved or endorsed those additional regional proposals in which the country is participating];
- (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 experience to be gained related to the caps referred to in sub-paragraphs (a) to (c) above at the [fortieth] meeting of the Board; and
- (f) To inform the designated authorities and accredited implementing entities about this decision.