



## ADAPTATION FUND

AFB/B.21/8/Rev.1  
11 October 2013

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### ADAPTATION FUND BOARD

Twenty-first Meeting  
Bonn, Germany, 3-4 July 2013

### REPORT OF THE TWENTY-FIRST MEETING OF THE ADAPTATION FUND BOARD

#### Introduction

1. The twenty-first meeting of the Adaptation Fund Board (the Board) was held at the 'Langer Eugen' United Nations Campus, in Bonn, Germany, from 3 to 4 July 2013, back-to-back with the twelfth meetings of the Project and Programme Review Committee (PPRC) and the Ethics and Finance Committee (EFC) of the Adaptation Fund Board.
2. The meeting was broadcast live through the websites of the Adaptation Fund (the Fund) and the United Nations Convention to Combat Desertification (UNCCD). The UNCCD also provided logistical and administrative support for the meetings of the Board and its committees.
3. The full list of the members and alternate members who participated at the meeting is attached as **Annex I** to the present report. A list of all accredited observers present at the meeting can be found on the Fund website in document AFB/B.21/Inf.3.

#### Agenda Item 1: Opening of the meeting

4. The meeting was opened at 9.05 a.m. on Wednesday, 3 July 2013 by Mr. Hans-Olav Ibrekk (Norway, Western European and Others Group), who greeted the members and alternates of the Board, and welcomed all the participants. He expressed appreciation for the previous day's Adaptation Fund NGO Network/Germanwatch conference on "Adaptation to climate change for the most vulnerable: Lessons learnt from the Adaptation Fund and beyond", and for the high attendance of Board members and alternate members at it.
5. The Chair welcomed the following new members and alternates to the Board:
  - (a) Amb. Peceli Vocea (Fiji, Small Island Developing States) (member);
  - (b) Dr. Mohamed Shareef (Maldives, Asia) (member);

- (c) Dr. Margarita Caso Chávez (Mexico, Non-Annex I Parties) (member);
- (d) Mr. Alamgir Mohammed Monsurul Alam (Bangladesh, Asia) (alternate member);
- (e) Mr. Paul Elreen Philip (Grenada, Small Island Developing States) (alternate member).

## **Agenda Item 2: Organizational matters**

### *(a) Adoption of the agenda*

6. The Board considered the provisional agenda contained in document AFB/B.21/1, as well as the provisional annotated agenda and provisional timetable contained in document AFB/B.21/2. Two issues were raised for discussion under agenda item 14, "Other Matters": the need for capacity-building in National Implementing Entities (NIEs); and the frequency and duration of future Board meetings.

7. The Board adopted the agenda, which is contained in **Annex II** to the present report.

### *(b) Organization of work*

8. The Board adopted the organization of work proposed by the Chair, as amended to allow a video presentation from Washington, DC on 3 July.

### *(c) Declarations of conflicts of interest*

9. The following members and alternates declared conflicts of interest:

- (a) Mr. Boubacar Sidiki Dembele (Mali, Africa);
- (b) Mr. Zaheer Fakir (South Africa, Africa).

### *(d) Oath of service*

10. The Chair informed the newly appointed members and alternates that the secretariat would distribute the text of the oath of service for their signature, and requested them to make themselves familiar with the Board's Code of Conduct, which was distributed.

## **Agenda Item 3: Report on activities of the Chair**

11. The Chair remarked that he had spent the intersessional period following up on several issues from the previous Board meeting. He also had conducted meetings with the CEO of the Global Environment Facility, various ministers, senior staff from the World Bank and the United Nations Framework Convention on Climate Change (UNFCCC), and from non-governmental organisations and members of civil society. He noted that he had also participated in a number of teleconferences with the fundraising task force.

12. The Chair noted that since the last Board meeting, the Adaptation Fund had received a commitment from the Government of Sweden (SEK 100 million) and a contribution from the

Brussels-Capital Region (EUR 1.2 million). He observed that the Government of Australia had informed the Board that they could not meet their pledge of AU\$ 15 million.

13. The Vice Chair reported on activities he had undertaken during the intersessional period on behalf of the Chair. These included but were not limited to participating in an event with donors during the thirty-eighth session of the Subsidiary Bodies of the UNFCCC, and at the finance group meeting of G77. He was assisted in both meetings by the secretariat and Board members.

14. The Adaptation Fund Board took note of the report on the activities of the Chair and Vice-Chair.

#### **Agenda Item 4: Report on activities of the secretariat**

15. The Manager of the secretariat reported on the activities of the secretariat during the intersessional period. These are more fully described in document AFB/B.21/3. She reported that as a result of a competitive recruitment process conducted in April 2013, Ms. Cathryn Poff was hired on 14 May 2013 as a new Short Term Consultant for communications and fundraising.

16. The secretariat participated and made presentations in the Seventh Conference on Community-based Adaptation (CBA7) in Dhaka, Bangladesh; PROVIA workshop in London on research priorities for vulnerability, impacts and adaptation to climate change; the First Forum of the UNFCCC Standing Committee on Finance and tenth Anniversary Edition of Carbon Expo in Barcelona; the Forum of the Standing Committee on Finance in Barcelona; the ICLEI's Fourth Global Forum on Urban Resilience and Adaptation "Resilient Cities 2013 Congress" in Bonn; the Thirty-eighth session of the Subsidiary Bodies of the UNFCCC in Bonn; and the Fourth Standing Committee on Finance Meeting in Bonn.

17. In collaboration with the Government of Sweden, the secretariat co-hosted a seminar on supporting climate change adaptation, held on May 22 at the House of Sweden in Washington, DC.

18. The secretariat, in consultation with the Board Chair and Vice-Chair, prepared and circulated a decision that was approved by the Board in the intersessional period, "Report on project programme implementation: CSE" (Decision B.20-21/1).

19. The secretariat, as requested by the Board, developed a project/programme delay and extension request policy, which was approved by the EFC at its twelfth meeting (Decision B.21/16).

20. In line with Decision B.20/17, the secretariat supported the fundraising task force in developing a fundraising and outreach strategy outline, and provided to the Board project-level results in a format accessible to a general audience and/or donors.

21. The secretariat completed the review and cleared the first Project Performance Reports (PPRs) for the projects implemented in Pakistan (United Nations Development Programme, inception date: 15 November 2011) and Ecuador (World Food Programme, inception date: 29 November 2011), and the fourth mid-year PPR for the programme implemented in Senegal (Centre de Suivi Ecologique, inception date: 21 January 2011). The

secretariat posted these reviews on the website. The secretariat received the second PPR for the project implemented in Honduras (United Nations Development Programme, inception date: 27 June 2011), and the first PPR for the project implemented in Turkmenistan (United Nations Development Programme, inception date: 22 May 2012). These reports were submitted on time, i.e. within two months after the end of the reporting year, and both reports are under review.

22. In line with Decision B.20/21, the secretariat was advised by the Program on International and Comparative Environmental Law of American University, Washington College of Law in the preparation of the *Proposal of environmental and social policy* (document AFB/B.21/6). This consultancy work was done on a pro-bono basis.

23. The Adaptation Fund Board took note of the report by the secretariat.

#### **Agenda Item 5: Report of the Accreditation Panel**

24. The Chair of the Accreditation Panel, Mr. Philip Weech (Bahamas, Latin America and Caribbean Countries) introduced the report of the Panel's thirteenth meeting, which is more fully described in document AFB/B.21/4.

25. The Panel had held its thirteenth meeting in Washington, DC, on 20-21 May 2013. The Panel had not received any new applications for that meeting and had continued its review of applications from nine National Implementing Entities (NIEs), four Regional Implementing Entities (RIEs) and two Multilateral Implementing Entities (MIEs). By the time of finalization of the present report the Panel had concluded its review of the Sahara and Sahel Observatory (OSS) and recommended its accreditation as a Regional Implementing Entity. It had also concluded that it was not in a position to recommend the accreditation of National Implementing Entity NIE028 nor of NIE035. Twelve applications, seven of them for potential NIEs, three for potential RIEs and two for potential MIEs, were still under review.

26. The Chair of the Panel brought to the Board's attention the technical assistance provided to some NIEs by various sources, including multilateral, bi-lateral, and non-governmental organizations, to build the necessary capacity required by the fiduciary standards. The capacity building efforts range from assistance in preparing and completing the accreditation application to providing technical assistance on governance and project management matters to the development of policies and procedures. The Panel welcomed and encouraged this development but observed that a number of these activities do not achieve the intended outcome. This could be due to the lack of consultation with the secretariat and the Panel and contributes to disappointment on the part of the technical assistance providers and applicants when these efforts do not result in an eventual recommendation for accreditation from the Panel.

27. The Board briefly discussed the need for capacity-building to assist potential implementing entities in reaching the Board's high fiduciary standards. Mr. Kotaro Kawamata (alternate, Japan, Annex I countries) described the capacity-building programme that the Government of Japan is funding in Asia and the Pacific region. At the suggestion of the Chair, further discussion was postponed for an in-depth treatment under Agenda Item 14: "Other Matters".

28. The Chair of the Panel also told the Board about the Panel's discussion of the difficulty some smaller entities, often from smaller countries, have had with meeting the Fund's fiduciary

standards. Given the limited human resources of these entities (some with fewer than 10 staff) and the current level of resources available to the entity (running projects with a value less than \$50K), it may be difficult for such entities to divert a substantial part of their resources for developing new capabilities.

29. While some smaller entities may make special efforts to develop capabilities in line with the fiduciary standards, the whole process would require extraordinary commitment and effort on the part of the entity, and also a long period of time to develop the required capabilities and demonstrate effective implementation of the policies, systems and procedures.

30. The current fiduciary standards do not provide for a differentiated standard for channeling smaller funding amounts through a “Small Grant Window.” The Chair of the Panel concluded that as the Fund continues to evolve, grow, and learn from its current accreditation process, the Board may wish to discuss such a possibility in the future as part of a larger strategic discussion.

31. Finally the Chair of the Panel extended an invitation to hold the fourteenth Accreditation Panel meeting in the Bahamas.

32. The Chair of the Board then closed the meeting so the Chair of the Panel could provide additional details on the Panel’s deliberations. Members and alternates with conflicts of interest left the room, along with all observers.

33. Following the closed session, the Chair of the Accreditation Panel presented the recommendations of the Panel for consideration by the Board.

#### *Accreditation of the Sahara and Sahel Observatory*

34. After considering the conclusions and recommendation of the Accreditation Panel, the Adaptation Fund Board decided to accredit the Sahara and Sahel Observatory (OSS) as a Regional Implementing Entity (RIE).

**(Decision B.21/1)**

#### *Non-accreditation of National Implementing Entity NIE028*

35. After considering the conclusions and recommendation of the Accreditation Panel, the Adaptation Fund Board decided to request the secretariat to communicate the observations of the Accreditation Panel as contained in Annex II to the report of the thirteenth meeting of the Accreditation Panel (AFB/B.21/4) to the applicant.

**(Decision B.21/2)**

#### *Non-accreditation of National Implementing Entity NIE035*

36. After considering the conclusions and recommendation of the Accreditation Panel, the Adaptation Fund Board decided to request the secretariat to communicate the observations of the Accreditation Panel as contained in Annex III to the report of the thirteenth meeting of the Accreditation Panel (AFB/B.21/4) to the applicant.

**(Decision B.21/3)**

*Requests from Implementing Entities on audit clarifications*

37. After considering the conclusions and recommendation of the Accreditation Panel, the Adaptation Fund Board decided to instruct the secretariat to respond directly to routine questions as they relate to the audit of projects/programmes and to keep the Board informed.

**(Decision B.21/4)**

**Agenda Item 6: Report of the twelfth meeting of the Project and Programme Review Committee**

38. The Chair of the PPRC, Ms. Laura Dzelzyte (Lithuania, Eastern Europe), introduced the report of the PPRC's twelfth meeting (document AFB/PPRC.12/12). A summary of the PPRC funding recommendations is presented in **Annex III** to the present report.

*Report of project and programme proposals*

**Concept proposals**

*Concept proposals from National Implementing Entities*

Costa Rica – Reducing the Vulnerability by Focusing on Critical Sectors (Agriculture, Water Resources and Coastlines) in order to Reduce the Negative Impacts of Climate Change and Improve the Resilience of these Sectors. (Programme Concept; Fundecooperación para el Desarrollo Sostenible; CRI/NIE/Multi/2013/1; US\$ 9,970,000)

39. The Chair of the PPRC introduced the project concept, which sought to reduce climate vulnerability by focusing on three critical sectors (agriculture, water resources, and coastal zones) in order to reduce the negative impacts of climate change and improve the resilience of vulnerable populations.

40. Having considered the comments and recommendation of the Project and Programme Review Committee, the Adaptation Fund Board decided to:

- a) Not endorse the programme concept, as supplemented by the clarification response provided by Fundecooperación para el Desarrollo Sostenible (Fundecooperación) to the request made by the technical review;
- b) Suggest that Fundecooperación reformulates the proposal taking into account the observations in the review sheet annexed to the notification of the Board's decision, as well as the following observations:
  - (i) The proposal should clearly describe the specific activities of the proposed programme as well as explaining how these activities are commensurate with the scale of the challenge.

- (ii) The proposal should demonstrate the cost effectiveness and sustainability of the investment in the proposed programme by providing a logical explanation of the selected scope and approach.
  - (iii) The proposal should articulate how the programme is designed to ensure that the adaptation benefits achieved would be sustained after its end, including how these would be replicated and scaled up.
- c) Not approve the Programme Formulation Grant of US\$ 30,000.
- d) Request Fundecooperación to transmit the observations under item (b) above to the Government of Costa Rica.

**(Decision B.21/5)**

South Africa: Building Resilience in the Greater uMngeni Catchment, South Africa (Project Concept; South African National Biodiversity Institute (SANBI); ZAF/NIE/Water/2013/1; US\$ 7,947,625)

41. The Chair of the PPRC introduced the project concept, which sought to reduce climate vulnerability and increase the resilience and adaptive capacity of rural and peri-urban settlements and small-scale farmers in productive landscapes in the uMgungundlovu District Municipality (UMDM), KwaZulu Natal Province, South Africa, that were threatened by climate variability and change.

42. Having considered the comments and recommendation of the Project and Programme Review Committee, the Adaptation Fund Board decided to:

- (a) Endorse the project concept, as supplemented by the clarification response provided by South African National Biodiversity Institute (SANBI) to the request made by the technical review;
- (b) Request the secretariat to transmit to SANBI the following observations:
  - (i) The project document should explain in greater detail the activities devoted to supporting the choice of appropriate location for building and infrastructure through improved land-use planning.
  - (ii) The project document should reflect, to the degree possible, the lessons learned from the small-scale pilot project on testing disaster risk reduction activities such as construction of sustainable permeable drainage systems in a steep informal settlement.
  - (iii) The project document should explain in greater detail how project activities would enable the maintenance of project outcomes beyond the project's end.
- (c) Approve the Project Formulation Grant of US\$ 30,000;

- (d) Request SANBI to transmit the observations under item (b) above to the Government of South Africa; and
- (e) Encourage the Government of South Africa to submit through SANBI a fully-developed project proposal that would address the observations under item (b) above.

**(Decision B.21/6)**

South Africa: Taking adaptation to the ground: A Small Grants Facility for enabling local-level responses to climate change (Project Concept; South African National Biodiversity Institute (SANBI); ZAF/NIE/Multi/2013/2; US\$ 1,985,007.50)

43. The Chair of the PPRC introduced the project concept, which sought to increase resilience of vulnerable communities by facilitating integrated grassroots adaptation responses to climate variability and change which was already affecting both of the targeted Districts of Mopani and Namakwa.

44. Having considered the comments and recommendation of the Project and Programme Review Committee, the Adaptation Fund Board decided to:

- (a) Endorse the project concept, as supplemented by the clarification response provided by South African National Biodiversity Institute (SANBI) to the request made by the technical review;
- (b) Request the secretariat to transmit to SANBI the following observations:
  - (i) Based on the vulnerability assessment to be undertaken during project preparation, the sectors covered by projects to be supported and the possible adaptation activities to be funded through the Community Adaptation Small Grant Facility should be identified for each site.
  - (ii) The fully-developed proposal should provide detailed expected benefits, including the economic benefits and the approximate number of expected direct beneficiaries should also be included.
  - (iii) To better assess the project's cost effectiveness, further analysis of the costs of establishing and operationalizing the small grant mechanism should be provided.
  - (iv) A more detailed presentation of the synergies to be sought and lessons to be learned from current and past initiatives should be provided in the fully developed document.
  - (v) A more comprehensive consultation process, including local communities and vulnerable groups, should be undertaken, demonstrating full participation of these stakeholders in the vulnerability assessment and identification of adaptation actions.
- (c) Approve the Project Formulation Grant of US\$ 30,000;



- (d) Request SANBI to transmit the observations under item (b) above to the Government of South Africa; and
- (e) Encourage the Government of South Africa to submit through SANBI a fully-developed project proposal that would address the observations under item (b) above.

**(Decision B.21/7)**

*Concept Proposals from Multilateral Implementing Entities*

Indonesia: Adapting to Climate Change for Improved Food Security in West Nusa Tenggara Province (Project Concept; World Food Programme; IDN/MIE/Food/2013/1; US\$ 5,989,335)

45. The Chair of the PPRC introduced the project concept, which sought to secure community livelihoods and food security against climate change-induced rainfall variability leading to more intense and frequent climate events.

46. Having considered the comments and recommendation of the Project and Programme Review Committee, the Adaptation Fund Board decided to:

- (a) Not endorse the project concept, as supplemented by the clarification response provided by the World Food Programme (WFP) to the request made by the technical review;
- (b) Suggest that WFP reformulates the proposal taking into account the observations in the review sheet annexed to the notification of the Board's decision, as well as the following observations:
  - (i) The project reasoning should be considerably strengthened, with a strategic analysis of drivers and problems, and the justification of choices that are made, to ensure that the project activities would together form a coherent design of adequate scale that could address the watershed level issues.
  - (ii) The approach to tackling the issue of forest encroachment should be stronger and consider ways to protect the forests that more actively involve the local communities and other stakeholders, and include a more detailed explanation of the barriers to halt deforestation in the past and how the proposed project and any external interventions would be able to sustainably overcome those barriers.
  - (iii) The revised proposal should shift focus to include, and better illustrate, visible and tangible adaptation activities.
  - (iv) The activity to train national-level government officers, which does not contribute to the project objective, should be justified or removed.
  - (v) The explanation for the sustainability mechanism for each activity should be aligned with the description of those activities and the rationale for the sustainability of the activities at the farm/household level should be strengthened.

(c) Request WFP to transmit the observations under item (b) above to the Government of Indonesia.

**(Decision B.21/8)**

## Fully-developed proposals

### *Fully-developed proposals from National Implementing Entities*

Benin: Adaptation of the Cotonou Lagoon ecosystems and human communities to sea-level rise and extreme weather events impacts (Fully-developed project document; Fonds National pour l'Environnement (FNE); BEN/NIE/Coastal/2012/1; US\$ 9,056,000)

47. The Chair of the PPRC introduced the project proposal, which sought to reduce the vulnerability to climate risks of Cotonou's lagoon, which was already subject to major environmental problems that were likely to worsen with climate change and climate variability.

48. Having considered the comments and recommendation of the Project and Programme Review Committee, the Adaptation Fund Board decided to:

(a) Not approve the project document, as supplemented by the clarification response provided by Fonds National pour l'Environnement (FNE) to the request made by the technical review;

(b) Suggest that FNE reformulates the proposal taking into account the observations in the review sheet annexed to the notification of the Board's decision, as well as the following observations:

- (i) The technical justification and references regarding the choice of rocky coating should be provided, especially as it is noted that the option chosen may have an impact on the hydraulic regime and may destabilize the upstream shore.
- (ii) Quantitative information should be given on how the proposed activities would reduce the pressure on the lagoon ecosystem, as the rationale for addressing fisheries management is weak.
- (iii) The proposal should provide information on the alternative livelihoods that could be developed. Even at this early stage, a list of potential activities could be provided.
- (iv) The proposal to support 75 people by giving them US\$ 2,000 should be clarified and the objective and framework for providing grants to people provided.
- (v) Overall, the project should focus on a set of activities which have a robust ability to counter the adverse effects of climate change.
- (vi) Given the importance of mobilizing the relevant stakeholders in ensuring the sustainability of the project outcomes, an indicator to measure the

effectiveness of the establishment of the network of stakeholders should be included in the project results framework.

- (vii) The total project budget should be revised to take into account the following issues: the number of workshops and related consultants under Component 1 (sub-components 1 to 5) and the costs of mid-term and final evaluations.
  - (viii) A completed Adaptation Fund results framework alignment table should be provided and output targets of the project's results framework should be aligned with the indicators, to allow for an effective monitoring of its achievement.
  - (ix) The amount requested in the disbursement schedule for year 1, US\$ 4,552,600, to be disbursed upon signature of the agreement, seems very high and needs to be justified, or reduced to a more realistic amount.
- (c) Request FNE to transmit the observations under item (b) above to the Government of Benin.

**(Decision B.21/9)**

*Fully-developed proposals from Multilateral Implementing Entities*

Mali: Programme Support for Climate Change Adaptation in the vulnerable regions of Mopti and Timbuktu (Fully-developed programme document; United Nations Development Programme; MLI/MIE/Food/2011/1; US\$ 8,533,348)

49. The Chair of the PPRC introduced the project proposal, which sought to implement concrete measures for water control and retention in vulnerable water buffer zones and promote a range of climate resilient practices in the agro-pastoral, fisheries and forestry sectors, to reduce the vulnerability of those sectors and the communities involved in them, to the adverse effects of climate change.

50. Having considered the comments and recommendation of the Project and Programme Review Committee, and taking note of the response provided by UNDP to the request made by the Board in its Decision B.18/19, the Adaptation Fund Board decided to:

- (a) Note the recommendation that the Adaptation Fund Board, subject to the availability of funds:
  - (i) Approve the programme document as supplemented by the clarification response provided by the United Nations Development Programme (UNDP) to the request made by the technical review;
  - (ii) Approve the funding of US\$ 8,533,348 for the implementation of the programme, as requested by UNDP; and
  - (iii) Request the secretariat to draft an agreement with UNDP as the Multilateral Implementing Entity for the programme.

- (b) Note that the project had been placed in the project/programme pipeline pursuant to Decision B.21/12.

**(Decision B.21/10)**

Nepal: Adapting to Climate-Induced Threats to Food Production and Food Security in the Karnali Region of Nepal (Fully-developed project document; World Food Programme; NPL/MIE/Food/2012/1; US\$ 8,964,925)

51. The Chair of the PPRC introduced the project proposal, which sought to increase the adaptive capacity of the climate vulnerable and food insecure poor by improved management of livelihood assets in the Karnali mountain districts of Nepal, an area where the rural agricultural livelihoods depended on the health of forest, land and water resources, by enhancing agro-ecosystem services that increased production, reduced food insecurity and directly generated income and energy for rural people

52. Having considered the comments and recommendation of the Project and Programme Review Committee, the Adaptation Fund Board decided to:

(c) Not approve the project document, as supplemented by the clarification response provided by the World Food Programme (WFP) to the request made by the technical review;

(d) Suggest that WFP reformulates the proposal taking into account the observations in the review sheet annexed to the notification of the Board's decision, as well as the following observations:

- (i) The project reasoning should seriously consider assigning the execution duties to the Government, in order to build the Government's ownership and capacity to manage adaptation activities for the long-term. If this is not possible and the Government wishes that WFP execute the project, the project design should nevertheless ensure that the project would build the Government's capacity and ownership, and include activities to that effect, even if that might increase the budget and time needed for the project's implementation.
- (ii) The proposal should seek to more strongly ensure that sustainable institutional and financial arrangements are made for the maintenance of proposed assets and, if necessary, include activities to that effect.
- (iii) The proposal should better explain the alignment, synergies and avoidance of duplication with the projects financed by the Pilot Program for Climate Resilience.

(c) Request WFP to transmit the observations under item (b) above to the Government of Nepal.

**(Decision B.21/11)**

*Prioritization of projects in the pipeline*

53. Having considered the comments and recommendation of the Project and Programme Review Committee, the Adaptation Fund Board decided to:
- (a) Note the recommendation of the Project and Programme Review Committee to approve the programme for Mali (MLI/MIE/Food/2011/1) with a recommendation date of 7/3/2013, a submission date of 4/24/2013 and a net cost of US\$ 7,864,837;
  - (b) Place the programme in sub-paragraph (a) above in the pipeline according to the prioritization criteria established in Decision B.17/19 and as clarified in Decision B.19/5; and
  - (c) Consider the projects/programmes in the pipeline for approval, subject to the availability of funds, at a future Board meeting, or intersessionally, in the order in which they are prioritized in the pipeline in accordance with Decision B.20/7 (c).

**(Decision B.21/12)***Consideration of issues related to regional projects/programmes*

54. The representative of the secretariat reminded the PPRC that the Board had previously discussed matters relating to funding regional projects and programmes, including in relation to the country cap and had decided in Decision B.18/42 to revisit the issue at its twenty-first meeting. Pursuant to that decision the topic had been placed on the agenda of the PPRC to facilitate that discussion the secretariat had prepared a paper "Consideration of issues related to Regional Projects/Programmes" (AFB/PPRC.12/11) containing the Board decisions relating to the issue as well as an analysis of regional projects and programmes, options for consideration of the country cap in the context of regional projects and programmes, a survey of the lessons learned and case examples or regional projects.

55. Having considered the comments and recommendations of the Project and Programme Review Committee, the Board decided to:
- a) Continue considering matters related to regional project and programme proposals, including the possibility of funding such projects/programmes, at a future date;
  - b) Resume the working group originally set up in Decision B.17/20, including Ms. Ana Fornells (coordinator), Mr. Philip S. Weech, Ms. Angela Churie-Kallhauge and Mr. Mamadou Honadia; and
  - c) Request the working group to report to the Board at its twenty-fourth meeting on the progress of its discussions.

**(Decision B.21/13)****Agenda Item 7: Report of the twelfth meeting of the Ethics and Finance Committee**

56. The Chair of the Ethics and Finance Committee (EFC), Ms. Medea Inashvili (Georgia, Eastern Europe), introduced the report of the EFC's twelfth meeting (document AFB/EFC.12/11).

*Investigative procedure*

57. The Chair of the EFC recalled that the secretariat had prepared a proposal for general principles and guidelines for investigations into allegation of corruption or misuse of funds. The World Bank legal counsel advising the secretariat had discussed with the Committee some potential language for amendments to the legal agreement between the implementing entity and the Board, as well as in the *Operational Policies and Guidelines*. Members of the Committee proposed that implementing entities with existing legal agreements should be informed that all new projects financed by the Fund will be subject to the revised legal agreement.

58. Having considered the comments and recommendations of the Ethics and Finance Committee, the Adaptation Fund Board decided to adopt the related amendments to the Fund's *Operational Policies and Guidelines*, appended as **Annex IV** to the present report.

**(Decision B.21/14)**

*Letter from World Bank (Decision B.19/28)*

59. The Chair of the EFC recalled that the Committee had considered proposals prepared by the secretariat to amend the standard legal agreement between the Board and implementing entities to take into account issues related to anti-terrorist financing and anti-corruption. .

60. Having considered the comments and recommendations of the Ethics and Finance Committee (EFC), the Adaptation Fund Board decided to approve the amendments to paragraphs 3.02 and 3.03 of the standard legal agreement between the Board and implementing entities, as contained in **Annex V** to the present report, and to request the secretariat to communicate to the implementing entities that the revised legal agreement would apply to all new project/programme approved in the future.

**(Decision B.21/15)**

*Project delays policy*

61. The Chair of the EFC recalled that the Board had requested the secretariat to prepare a procedure for dealing with project/programme delays throughout the project/programme cycle (Document AFB/EFC.12/3). In response to questions from the Committee, a representative of the secretariat had explained the durations between the various stages of the project cycle. In the event of delay, the policy was that any request for extension should be submitted as soon as it became clear that the project/programme would not close on time and no later than six months prior to the expected completion date. All extensions must be approved by the Board.

62. Having considered the comments and recommendations of the Ethics and Finance Committee, the Adaptation Fund Board decided to approve the policy on project/programme delays and extension procedures outlined within the document appended as **Annex VI** to the present report.

**(Decision B.21/16)**

*Overall evaluation of the Fund*

63. The Evaluation Office of the Global Environment Facility (GEF), in its capacity as interim evaluation function for the Fund, had submitted document AFB/EFC.12/4, which had been prepared in response to decision B.20/14. The document proposed that the interim evaluation function either carry out a comprehensive evaluation of the Fund or oversee the evaluation conducted by another entity. The Director of the Evaluation Office, Mr. Robert van den Berg, presented the document AFB/EFC.12/4 to the EFC via a Skype video call.

64. After the video presentation, there was general agreement in the Committee that the cost figures quoted were high (US\$ 300,000 to US\$ 600,000) and the proposed duration rather long (10 months), and that it would be advisable to obtain competitive bids and alternative timings. In particular, several members raised questions about the appropriate timing for a comprehensive evaluation of the Fund, taking into account that the Fund had no completed projects, and only one close to completion, and that it may be preferable to wait until more results and data were available. It was agreed that the secretariat should provide options for the scope and timing of such an evaluation so the Board could further examine the full range of options available.

65. Having considered the comments and recommendations of the Ethics and Finance Committee (EFC), the Adaptation Fund Board decided to request the secretariat to prepare for the EFC's fourteenth meeting a document containing:

- (a) options for terms of reference for possible evaluations of the Fund covering different scopes;
- (b) a proposal regarding the timing of each option taking into account the status of the Fund's active portfolio;
- (c) costs associated with each option; and
- (d) options for commissioning the evaluation.

**(Decision B.21/17)**

*International Aid Transparency Initiative (IATI) compliance:**(a) Open information policy;*

66. The Chair of the EFC said that the secretariat had prepared document AFB/EFC.12/5, which proposed a policy under which the Fund should disclose all relevant information, except for information in five categories of confidentiality. In terms of a licensing policy, the secretariat proposed to establish an Open Data Commons – Attribution License (ODC-BY), under which users could share and adapt Fund information, and create new works with it, provided that they gave proper attribution to the Fund.

67. Having considered the comments and recommendations of the Ethics and Finance Committee, the Adaptation Fund Board decided to approve the open information policy contained in **Annex VII** to the present report as the official disclosure and licensing policy for the Adaptation Fund.

**(Decision B.21/18)***(b) Implementation schedule for publishing International Aid Transparency Initiative (IATI) data*

68. The Chair of the EFC recalled also that the Board had instructed the secretariat to create an implementation schedule for the Fund to publish IATI-compliant data, with the goal of publishing by September 2013. At present, work was on track to meet that deadline: IATI required 24 specific items of information, some of which the Fund already had available, some of which would be available soon, and a small number of which did not apply to Fund activities.

69. Having considered the comments and recommendations of the Ethics and Finance Committee, the Adaptation Fund Board decided to approve Annex I of document AFB/EFC.12/6/Rev.1 as the Fund's implementation schedule for publishing International Aid Transparency Initiative (IATI)-compliant data and request the secretariat to carry out the necessary steps to publish to IATI by September 2013.

**(Decision B.21/19)***Results tracking*

70. The Chair of the EFC recalled that the Board by its Decision B.10/13 had approved the *Strategic Results Framework* for the Adaptation Fund, which included seven key outcomes and associated outputs to facilitate aggregation and present Fund-level results contributing to its overall goal and objectives. The secretariat would be working in the immediate future on a number of enhancements to make aggregate data more meaningful and consistent.

71. Having considered the comments and recommendations of the Ethics and Finance Committee, the Adaptation Fund Board decided to approve the secretariat's proposal for improving the Fund's results tracking system and request the secretariat to proceed with the steps outlined in paragraph 12 of document AFB/EFC.12/7.

**(Decision B.21/20)***Implementation of the code of conduct.*

72. No issues were raised under this sub-item.

*Financial issues**(a) Financial status of the Adaptation Fund Trust Fund and CER monetization*

73. The Chair of the EFC reported that a representative of the trustee had presented the report on the financial status of the Adaptation Fund Trust Fund (AFB/EFC.12/8). CER sales in the first quarter of the year had focused on the remaining CERs derived from industrial gases, in accordance with Board guidance. The prevailing market price for them had approached zero in May, although the trustee had secured an average price of EUR 13 cents. Estimates of potential resources for the Fund up to 2020 remained around US\$ 145-150 million. Between the date of the report and the end of May, investment income of US\$ 310,000 had been earned on the balance in the trust fund, cash transfers had been made for projects and programmes, and the trustee had concluded an agreement with the Brussels-Capital Region for a donation of EUR 1.2 million. The trustee also presented document AFB/EFC.12/10 which provided a summary of



current CER market conditions and presented options for alternative approaches to CER monetization, drawing upon an analysis of carbon markets.

74. The Committee had considered the information provided in the document, noting that there were approximately 10 million Adaptation Fund CERs from the first commitment period that should be monetized by early 2015, and that markets were expected to remain over-supplied up to that time.

75. Having considered the comments and recommendations of the Ethics and Finance Committee, the Adaptation Fund Board decided:

(a) that the monetization of Adaptation Fund certified emission reductions (CERs) by the trustee should continue, at a modest pace, with the objective of reducing the CER inventory up to March 2015;

(b) that the condition contained in Decision B.18/37, limiting direct sales to CERs derived from industrial gas projects, should be removed;

(c) to approve the *Amended and Restated CER Monetization Guidelines* as contained in **Annex VIII** to the present report; and

(d) to request the trustee to include in its regular reporting to the Board the experience with the additional CER sales possibilities as described above.

**(Decision B.21/21)**

*b) Revised administrative budget of the Board and secretariat for the fiscal year 2014.*

76. The Chair of the EFC recalled that at its twentieth meeting the Board had approved US\$ 3,360,613 to cover the costs of the operations of the Board and secretariat for the fiscal year 2014. Pursuant to Decision B.20/13, the Board Chair had met the Chief Executive Officer of the Global Environment Facility in April 2013 in Washington, DC, reaching an agreement with her to the effect that the amount of her time charged to the Adaptation Fund administrative budget, in her role as Head of the Adaptation Fund secretariat, would be reduced from 15% to 10%.

77. Having considered the comments and recommendations of the Ethics and Finance Committee, the Adaptation Fund Board decided to approve the reduced total of US\$ 3,338,761 as the amended administrative budget of the Board and secretariat for the fiscal year 2014, as contained in document AFB/EFC.12/9, and instruct the trustee to reflect this in its future reporting.

**(Decision B.21/22)**

*Other matters*

78. No other matters were raised.

**Agenda Item 8: Issues remaining from the twentieth Board meeting**

*a) Strategic discussion on objectives and further steps of the Fund: report of the fundraising task-force*

79. The Chair of the fundraising task force reported that the task force held teleconferences and was working on gathering more information on potential revenue streams for the Fund.

80. A Short Term Consultant had recently been hired to help, in part, on fundraising strategy. She had gathered the work of the task force together and organized it into a draft outline of a fundraising strategy. This was being circulated to the Board for comment by 31 July 2013.

81. The secretariat had worked with the United Nations Foundation (UNF) to improve and streamline the steps of the online donation process that the Fund has with the UNF.

82. The fundraising task force would have more to report at the next Board meeting.

83. The Adaptation Fund Board took note of the report of the activities of the fundraising task force.

*b) Environmental and social safeguards*

84. The Chair recalled that the Board at its twentieth meeting had considered the application of environmental and social safeguards in the context of the Fund project/programme review process, and had requested the secretariat to prepare a document for the twenty-first meeting that firstly gave an overview of the safeguards applicable to Fund projects/programmes with a view to streamlining their application and secondly took account of the existing safeguards in the Fund portfolio, the current project/programme review criteria, the instructions for preparing a request for funding, as well as relevant safeguards systems in developed and developing countries. The document presented (AFB/B.21/6) proposed an environmental and social policy for the Fund, prepared with the advice of the Program on International and Comparative Environmental Law of American University, Washington College of Law.

85. The Manager of the secretariat provided an overview of how implementing entities' observance of safeguards was currently verified as part of the technical review of projects, and also in light of comments from civil society. The secretariat then kept the related risks under review throughout the project cycle, in particular by means of the Project Performance Reports. Some safeguards had been in place since the Fund's inception; the intention of the proposed policy was to streamline and strengthen them. Finally, she outlined the modifications that the proposed policy would introduce in the project cycle, and the need to revise the Fund's policies and procedures to streamline and strengthen the safeguards' oversight.

86. Professor David Hunter, Director of the International Legal Studies Program and Director of the Program on International and Comparative Environmental Law of American University, Washington College of Law, speaking by video link, gave a presentation on the

benefits of having such safeguards in place. They protected communities from potential development-related harm, and helped the Fund to achieve its mission without further harming the environment. They permitted the identification of risks and harms prior to project implementation, and the development of plans to mitigate or avoid them.

87. In the past 20 years, most leading financial institutions had adopted safeguard policies, including the World Bank and all regional development banks, the International Finance Corporation and the Multilateral Investment Guarantee Agency, the Global Environment Facility and the United Nations Development Programme. Such safeguards were also mandated in the Instrument establishing the Green Climate Fund, although not yet developed.

88. Under the proposed environmental and social policy, the implementing entities would ensure that executing entities were in compliance with the policy. Implementing entities would be required to have an environmental and social management system to guide their screening of projects. If significant risks were identified, the MIE or NIE would be required to submit an environmental assessment and proposed risk management plan, which would be reviewed by the secretariat and the PPRC.

89. The proposed policy would bring many benefits for the Fund, including compliance with applicable domestic and international law; provision of fair and equitable access to benefits; avoidance of disproportionate impact on marginalized, vulnerable and indigenous groups; assurance of human rights, gender equality and women's empowerment, and core labour rights; avoidance of involuntary resettlement; conservation of natural habitats and biological diversity; avoidance of increases in greenhouse gas emissions or other climate change drivers; resource efficiency; avoidance of significant negative impacts on public health and protection of physical and cultural heritage.

90. Endorsement of the policy by the Board would imply a potential need for amendments to the project/programme review criteria; the instructions to proponents for preparing requests for funding; the project proposal, project review and project/programme progress report templates; the evaluation framework and the accreditation process.

91. The Board generally welcomed the proposed policy on environmental and social safeguards. Members made suggestions about various aspects of the policy, in some cases describing the experiences of their own country or region. Various members spoke about the benefits of categorization of environmental and social risks. Some proposed including a categorization system in the policy.

92. It was suggested that the policy should address the specific issue of transborder environmental and social risk, and it was considered that in the case of preventing damage to culturally valuable heritage, it was a responsibility of the proponent to indicate what should be protected.

93. Members also sought information on the environmental and social policies of other climate finance organizations. There were also questions as to the cost of such a policy.

94. The Manager of the secretariat said that it would be possible to provide some information on the cost implications. The cost of the policy would be impacted by the costs for capacity-building, and that issue could be examined as part of the envisaged discussion on capacity-building.

95. The Chair requested the members to submit their various comments in writing.

96. The Board considered a draft decision on this item. Some members suggested that the proposed text should be amended to make clear how seriously the Board took the matter, while others suggested that it should make clear that the proposed environmental and social safeguards policy was not something completely new, but rather an enhancement and strengthening of what had gone before. Following the presentations and its own deliberations, the Board adopted the following decision:

The Board:

- (a) Recognized the importance of strengthening and streamlining the application of environmental and social safeguards in the policies and procedures of the Adaptation Fund;
- (b) Welcomed the draft Adaptation Fund environmental and social policy as contained in document AFB/B.21/6;
- (c) Decided to:
  - (i) Launch a public call for comments on the aforementioned policy with a deadline of 23 September 2013; and
  - (ii) Request the secretariat to present at the twenty-second Board meeting:
    - (1) A revised proposal for an Adaptation Fund environmental and social policy incorporating inputs from Board members and interested stakeholders received through the public call for comments;
    - (2) A proposal on how to operationalize the environmental and social policy, including any necessary changes to the relevant Adaptation Fund policies and procedures. In developing this proposal the secretariat will also present options on how the accreditation process could be modified to ensure that implementing entities have the ability to implement the policy;
    - (3) A compilation of comments received through the public call for comments; and
    - (4) An estimate of the costs related to operationalizing the policy.

**(Decision B.21/23)**

**Agenda Item 9: Report of the Board to the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol at its ninth session**

97. The Board considered the draft report of the Board to the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol (CMP) at its ninth session (Document AFB/B.21/7).

98. Representatives of the secretariat of the UNFCCC gave a presentation relating to the new system for augmenting the Fund, through a levy on Assigned Amount Units (AAUs) and Emission Reduction Units (ERUs), as referred to in paragraph 5 of the draft report to the CMP. In their presentation they described six areas of difficulty and ambiguity in the proposed new system, which it would be necessary to ask the CMP to clarify. They added that beyond their technical aspects, some of the issues had an underlying political aspect, which is why they could not simply be resolved by the UNFCCC secretariat.

99. One member of the Board said that in addition to the technical ambiguities, information was lacking on the level of extra funds that would accrue from the new system. Such information was needed in order to enable the Fund to plan for the increased revenue. She also asked how the new revenue would actually reach the Fund. Would the Fund be able to impose a levy on AAU and ERU transactions, or would it have to monetize the units by its own efforts?

100. The representative of the UNFCCC secretariat replied that it appeared that the second scenario would be the case. The details of the monetization process would be a matter for the CMP to decide, although the issue might be delegated to the Subsidiary Body for Scientific and Technological Advice (SBSTA). A decision would be needed so that any extra revenue might reach the Fund as promptly as possible.

101. Turning to other aspects of the draft report to the CMP, the Board considered that it should give more information on the Fund's activities. Paragraph 30 should make reference to more sectors than was currently the case; information should be given on the communication and information activities of the Fund and a description should be given of the Fund's work in the fundraising area.

102. It was also suggested that paragraph 27 or 28 of the draft report to the CMP, on the issues of the pipeline and the 50 per cent cap, should be amended to include a request to the Parties for guidance on how the Fund should proceed.

103. Referring to the draft decision submitted to the CMP for approval (Annex 1 of document AFB/B.21/7), concerning the extension of the Terms and Conditions of service between the CMP and the World Bank for trustee services to the Fund, one member asked what would be the consequence for the Fund if it was not approved. He also suggested that an alternative might be to request the CMP to authorize the Board to enter into an agreement directly with the World Bank for the provision of trustee services to the Fund.

104. Following the discussion, the Board took note of the draft Report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), as well as the presentation on it by representatives of the UNFCCC, and decided to request the secretariat to revise the document and circulate it for an intersessional approval.

**(Decision B.21/24)**

#### **Agenda Item 10: Communications and outreach**

105. A representative of the secretariat reported on the work underway on a strategic communications plan, to work in tandem with the strategic fundraising plan being developed with the fundraising task force. She noted that Board members would soon be better equipped with talking points and supporting materials for communicating about the Fund.

106. Mr. Zaheer Fakir (alternate, South Africa, Africa), who is Co-Chair of the Green Climate Fund (GCF) Board, provided members with a brief report on the recent meeting of the GCF Board, noting that there was discussion about the GCF creating linkages with other bodies, including the Adaptation Fund. He said the GCF Board would be extending the Fund an invitation to participate as an observer. He also remarked that the GCF would be looking at processes for accrediting entities, and would be considering the Adaptation Fund's accreditation process among others.

107. A Board member noted that the Adaptation Fund brand, including its logo and information about it, should be required to be included in materials that Implementing Entities create and disseminate about Fund-financed projects and programmes. She said this should also be monitored during project implementation. A number of Board members agreed.

108. The Board decided to instruct the secretariat to:

- (a) Circulate, for approval during the intersessional period, a draft amendment to the legal agreement which would address the need to ensure visibility of the Adaptation Fund brand in the projects and programmes it funds; and
- (b) Send a letter to Implementing Entities with which the Board has already signed project and programme agreements, strongly encouraging them to ensure the visibility of the Adaptation Fund in the projects and programmes they are implementing, including using the Adaptation Fund logo in all their project/programme-related communications, and making information on the Fund available to the project/programme stakeholders.

**(Decision B.21/25)**

## **Agenda Item 11: Financial Issues**

*a) Financial status of the Adaptation Fund Trust Fund and Certified Emission Reduction (CER) monetization*

109. Representatives of the trustee, one of them speaking by video link from Washington, DC, presented the report on the financial status of the Adaptation Fund Trust Fund (AFB/EFC.12/8). The trustee noted that the report, published on a quarterly basis, was supplemented by monthly summary reports that were also made public on the Bank's external website ([worldbank.org/fiftrustee](http://worldbank.org/fiftrustee)).

110. The trustee reported it had concluded a donation agreement with the Brussels-Capital Region for EUR 1.2 million, and with Sweden for SEK 100 million.

111. The financial status of the Trust Fund was little changed since the previous meeting; the trustee had made cash transfers for projects and Board expenses, and additional investment income of approximately US\$ 310,000 had been earned on the balance in the Trust Fund over the two months since the date of the most recent report, namely end-May 2013. It was also reported that under current market conditions, estimates of potential resources for the Adaptation Fund up to 2020 remained in the range of US\$ 140-150 million.

112. The trustee also reported that the Fund Share of Proceeds at the Clean Development Mechanism registry held just over 10 million CERs, and that an additional 5-7 million might be added over the following year.

113. The Board, in light of the information from the trustee on the financial status of the trust fund and Certified Emission Reduction (CER) monetization, as well as expectations that the CER market would remain significantly over-supplied during 2014, confirmed the decision on this item contained in paragraph 73 above, in the section containing the report of the Ethics and Finance Committee.

*b) Status of the project/programme pipeline*

114. A representative of the secretariat referred to Document AFB/EFC.12/Inf.1, and reported that as of 31 May 2013, the Adaptation Fund Trust Fund had USD\$ 114 million in funds available for decisions, and that in light of the 50% cap on MIE projects, an additional USD\$ 92 million would be needed to fund the seven projects in the pipeline as of 30 June 2013.

115. He noted further that as of 30 June 2013, the Board had accredited 15 National Implementing Entities (NIEs), of which four had thus far received funding for projects or programmes. Two additional NIEs had received project formulation grants (PFGs). He remarked that there was wide variation among NIEs in terms of time needed to develop concepts and project proposals.

116. The trustee noted that the report did not include the EUR 1.2 million from the Brussels-Capital Region, as the payment had not been received by June 30<sup>th</sup>, and which will affect the cap calculations. He said the projections for total potential funding available to the Adaptation Fund to end-2020 is estimated at US\$145-152 million.

117. There was lively discussion among Board members about the current arrangements of the MIE funding cap, given the number of projects and programmes in the pipeline, and about how to manage the pipeline over time. Board members also remarked that the Board should be more proactive in encouraging donors to provide funding for projects in the pipeline, noting that they had passed rigorous review, and thus would be easily approved by other entities.

118. Having considered the comments and recommendation of the Project and Programme Review Committee (PPRC), the Adaptation Fund Board decided to request the secretariat to:

- (a) Notify Multilateral Implementing Entities (MIEs) in line to receive funding for a project/programme in the pipeline, once funding becomes available for such a project/programme, to provide within 60 days a reconfirmation of:
  - i. the validity of the project/programme proposal;
  - ii. the adequacy of requested funding; and
  - iii. the alignment of the proposal with the government's priorities in implementing adaptation activities in the form of a letter of endorsement.
- (b) Communicate to all MIEs with projects/programmes in the pipeline to notify the secretariat, without delay, of any case where the country on behalf of which they

have submitted the project/programme requests the removal of the project/programme from pipeline and, in such a case, to indicate the reason for such a request;

- (c) Report on any such requests described in item (b) to the Board at its next meeting, or intersessionally, for an appropriate decision; and
- (d) Request the PPRC at its thirteenth meeting to discuss options for funding the pipeline.

**(Decision B.21/26)**

### **Agenda Item 12: Date and venue of the Board meetings in 2013 and 2014**

119. Following the presentation by the Manager of the Adaptation Fund Board secretariat of possible meeting dates and the discussion on the reduction of the number of meetings per year under agenda item 14, Other Matters, the Board decided to:

- (a) Confirm that its twenty-second meeting would be held from 29 October to 1 November 2013 in Bonn, Germany; and
- (b) Hold its twenty-third meeting from 18 to 21 March 2014 in Bonn, Germany.

**(Decision B.21/27)**

### **Agenda Item 13: Dialogue with civil society**

120. The dialogue with civil society was chaired by Germanwatch. Ms. Petre Williams-Raynor of Panos Caribbean/AF NGO Network provided a summation of the previous day's NGO Network-sponsored seminar. She noted that over sixty people had attended the civil society conference, "Adaptation to climate change for the most vulnerable: Lessons learnt from the Fund and beyond." More than fifteen speakers presented on a variety of subjects, ranging from creating climate-resilient food security for the poor to direct access to climate financing. Case studies presented include those from organizational points of view (WFP, ICLEI, UN University), and from country points of view (Cambodia, Nepal, Tanzania).

121. Lessons learnt included: the need to give people specific food security assistance including early warning systems, early season forecasting and other tools; the need for accountability structures/mechanisms to ensure the local people benefit from projects and capacity building takes place; ongoing communication, review and role adjustment with emerging NIEs; the need to invest considerable time and attention to collaborative approaches.

122. The speaker noted that the Fund has provided important lessons from which other funds can learn, with respect to direct access, accountability and transparency. .

123. A representative of the Adaptation Fund NGO Network/Germanwatch reported that they had drafted a letter of support for the Fund and gathered signatures from more than eighty



organizations to that date, including many from international NGOs, and developed and developing countries. He said the letter would be circulated to potential donors.

124. A representative of the NGO Network/Germanwatch noted that the Fund's transparency is becoming the benchmark for climate funds. He also presented policy suggestions for the Adaptation Fund, including but not limited to formalizing an environmental and social policy, and initiating better results tracking and indicators.

125. The Chair noted with appreciation the report by the members of civil society and thanked them for their valuable input. He also thanked the NGO Network for following the Fund's activities so closely.

#### **Agenda Item 14: Other matters**

##### *a) Capacity building/readiness*

126. A Board member observed that the Board's accreditation of fifteen NIEs was a success, given the high fiduciary standards of the accreditation process. Yet she noted that given the need to deliver more results faster in developing countries, many more countries should be afforded the opportunity to benefit from the direct access modality.

127. The Board discussed at length the need for capacity building for NIEs, from the identification of potential NIEs within a country through project design, implementation, and monitoring. Members discussed various ways to structure a readiness program that would increase the number of accredited NIEs, and strengthen the overall capacity of NIEs.

128. Having considered the comments and recommendations of the Accreditation Panel and the Project and Programme Review Committee, and recognizing the need for a programme to support readiness for direct access to climate finance for national and regional implementing entities, the Adaptation Fund Board decided to request the secretariat to prepare a document containing options for such a programme for the twenty-second meeting. This document should include options for increasing (i) the preparedness of applicant national implementing entities seeking accreditation by the Adaptation Fund and (ii) the number of high quality project/programme proposals submitted to the Board within a reasonable time period after accreditation.

**(Decision B.21/28)**

##### *b) Reduction of the number of meetings per year*

129. The Chair said that the Board now had good administrative procedures in place, and was working efficiently to complete the agenda of its meetings without difficulty. It was also making efficient use of the intersessional periods. In the light of those achievements, plus the expectation that the number of project submissions in 2014 would be largely the same as in the current year, and given the high cost of Board meetings at the present time of financial constraint, he proposed that the number of meetings per year should be reduced from three to two. The issue could be revisited if and when the volume of business to be transacted increased.

130. Board members added that part of the reason each meeting's workload seemed to have lessened was because the task of establishing procedures had been completed, allowing the Board to concentrate more fully now on project submissions. Reducing meeting costs would be a notable achievement that some Board members felt would be beneficial to publicize.

131. Another member cautioned, however, that the Board meetings should not be regarded as simply an opportunity to check off lists of projects. Rather, they should be a time for reflection on more strategic issues.

132. One member suggested that the number of meetings should be regarded as only part of a cost-saving approach, which might involve, for example, abandoning interpretation and/or increasing the terms of office of the Board Chair and Vice-Chair.

133. The Chair suggested that a wider package of measures could be discussed at a future meeting, where it could be examined, for example, by the EFC.

134. Some members were not in favour of tying the Board down to a fixed number of meetings per year, nor of fixing their dates too far in advance. They suggested that the proposed reduction to two should be regarded as a strictly temporary measure, and the dates of each meeting should be decided during the preceding one.

135. The Manager of the secretariat pointed out that project approvals are not currently done intersessionally. The secretariat had made some suggestions in that regard in the past, and could resubmit them to a forthcoming Board meeting, for discussion initially by the PPRC.

136. Having considered the proposal from the Chair, the Board decided to:

(a) Hold two Board meetings per year in accordance with the Rules of Procedure of the Board;

(b) Request the secretariat to present to the Project and Programme Review Committee (PPRC) at its thirteenth meeting a document presenting options for intersessional review of, recommendation on, and approval of, project and programme proposals by the secretariat, PPRC and Adaptation Fund Board, respectively;

(c) Continue considering the number of meetings per year on a periodic basis, in accordance with the Rules of Procedure of the Board, taking into account the expected workload of the Board and the need for discussing strategic issues at the Board level.

**(Decision B.21/29)**

#### **Agenda Item 15: Adoption of the report**

137. The present report includes the decisions adopted by the Board at its twenty-first meeting (AFB/B.21/L.1) and was prepared for intersessional adoption by the Board.

#### **Agenda Item 16: Closure of the meeting**

138. The Chair declared the meeting closed on Thursday, 4 July 2013 at 4.40 p.m.

**ANNEX I**

<b>ATTENDANCE AT ADAPTATION FUND BOARD – TWENTY-FIRST MEETING</b>		
<b>MEMBERS</b>		
<b>Name</b>	<b>Country</b>	<b>Constituency</b>
Mr. Yerima Peter Tarfa	Nigeria	Africa
Mr. Waduawawette Lekamalage Sumathipala	Sri Lanka	Asia
Dr. Mohamed Shareef	Maldives	Asia
Ms. Laura Dzelzyte	Lithuania	Eastern Europe
Mr. Valeriu Cazac	Moldova	Eastern Europe
Mr. Philip S. Weech	Bahamas	Latin America and the Caribbean
Mr. Raúl Pinedo	Panama	Latin America and the Caribbean
Mr. Hans Olav Ibrekk (Chair)	Norway	Western European and Others Group
Ms. Su-Lin Garbett-Shiels	United Kingdom of Great Britain and Northern Ireland	Western European and Others Group
Ms. Ana Fornells de Frutos	Spain	Annex I Parties
Ms. Angela Churie- Kallhauge	Sweden	Annex I Parties
Mr. Bruno Sekoli	Lesotho	Non-Annex I Parties
Dr. Margarita Caso Chávez	Mexico	Non-Annex I Parties
Amb. Peceli Vocea	Fiji	Small Island Developing States
Mr. Mamadou Honadia (Vice-Chair)	Burkina Faso	Least-Developed Countries

<b>ALTERNATES</b>		
<b>Name</b>	<b>Country</b>	<b>Constituency</b>
Mr. Petrus Muteyauli	Namibia	Africa
Mr. Zaheer Fakir	South Africa	Africa
Mr. Alamgir Mohammed Monsurul Alam	Bangladesh	Asia
Mr. Aram Ter-Zakaryan	Armenia	Eastern Europe
Ms. Medea Inashvili	Georgia	Eastern Europe
Ms. Irina Helena Pineda Aguilar	Honduras	Latin America and the Caribbean
Mr. Jeffery Spooner	Jamaica	Latin America and the Caribbean
Mr. Marc-Antoine Martin	France	Western European and Others Group
Mr. Anton Hilber	Switzerland	Western European and Others Group
Mr. Kotaro Kawamata	Japan	Annex I Parties
Ms. Patience Dampsey	Ghana	Non-Annex I Parties
Mr. Boubacar Sidiki Dembele	Mali	Non-Annex I Parties
Paul Elreen Philip	Grenada	Small Island Developing States

**ANNEX II**

**ADOPTED AGENDA OF THE TWENTY-FIRST BOARD MEETING**

1. Opening of the meeting
2. Organizational matters:
  - a) Adoption of the agenda;
  - b) Organization of work.
3. Report on activities of the Chair.
4. Report on activities of the secretariat.
5. Report of the Accreditation Panel.
6. Report of the twelfth meeting of the Project and Programme Review Committee (PPRC) on:
  - a) Issues identified during project/programme review;
  - b) Project/programme pipeline;
  - c) Project/programme proposals;
  - d) Regional projects/programmes.
7. Report of the twelfth meeting of the Ethics and Finance Committee (EFC) on:
  - a) Investigative procedure;
  - b) Letter from the World Bank (decision B.19/28);
  - c) Project delays policy;
  - d) Overall evaluation of the Fund;
  - e) IATI compliance;
  - f) Results tracking;
  - g) Implementation of the code of conduct;
  - h) Financial issues.
8. Issues remaining from the 20th meeting:
  - a) Strategic discussion on objectives and further steps of the Fund. Report of the fundraising task force;
  - b) Environmental and social safeguards.
9. Report of the Board to CMP 9.
10. Communications and outreach.
11. Financial issues:
  - a) Financial status of the Trust Fund and CER monetization;
  - b) Status of the project/programme pipeline.
12. Date and venue of meetings in 2014.
13. Dialogue with civil society organizations.
14. Other matters:
  - a) Capacity-building/readiness;
  - b) Reduction of the number of meetings per year.
15. Adoption of the report.
16. Closure of the meeting.

**ANNEX III****Adaptation Fund Board Funding Decisions**

PPRC 12 Funding Recommendations (July 2, 2013)

	Country/Title	IE	Document Ref	Project	Fee	NIE	RIE	MIE	IE fee %	Total Amount	Decision
<b>1. Projects and Programmes:</b>											
	Benin	FNE	AFB/PPRC.12/8	8,347,000	709,000	9,056,000			8.5%		Not approved
	Mali	UNDP	AFB/PPRC.12/9	7,864,837	668,511			8,533,348	8.5%	8,533,348	Placed in the pipeline
	Nepal	WFP	AFB/PPRC.12/10	8,262,604	702,321			8,964,925	8.5%		Not approved
	<b>Sub-total</b>			<b>24,474,441</b>	<b>2,079,832</b>	<b>9,056,000</b>		<b>17,498,273</b>	<b>8.5%</b>	<b>0</b>	
<b>2. Project Formulation</b>											
	Costa Rica	Fundecooperación	AFB/PPRC.12/4/Add.1	30,000		30,000					Not approved
	South Africa (1)	SANBI	AFB/PPRC.12/5/Add.1	30,000		30,000				30,000	Approved
	South Africa (2)	SANBI	AFB/PPRC.12/6/Add.1	30,000		30,000				30,000	Approved
	<b>Sub-total</b>			<b>90,000</b>		<b>90,000</b>				<b>60,000</b>	
<b>3. Concepts:</b>											
	Costa Rica	Fundecooperación	AFB/PPRC.12/4	9,190,000	780,000	9,970,000			8.5%		Not endorsed
	Indonesia	WFP	AFB/PPRC.12/7	5,520,125	469,210			5,989,335	8.5%		Not endorsed
	South Africa (1)	SANBI	AFB/PPRC.12/5	7,325,000	622,625	7,947,625			8.5%	7,947,625	Endorsed
	South Africa (2)	SANBI	AFB/PPRC.12/6	1,829,500	155,507.5	1,985,007.5			8.5%	1,985,008	Endorsed
	<b>Sub-total</b>			<b>23,864,625</b>	<b>2,027,342.5</b>	<b>19,902,632.5</b>		<b>5,989,335</b>	<b>8.5%</b>	<b>0</b>	
<b>4. Total (4 = 1 + 2 + 3)</b>				<b>48,429,066</b>	<b>4,107,174.5</b>	<b>29,048,632.5</b>		<b>23,487,608</b>	<b>8.5%</b>	<b>60,000</b>	

**ANNEX IV**



**ADAPTATION FUND**

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Adaptation Fund Board

**OPERATIONAL POLICIES AND GUIDELINES FOR PARTIES  
TO ACCESS RESOURCES FROM THE ADAPTATION FUND  
AMENDED JULY 2013**

## INTRODUCTION

1. The Kyoto Protocol (KP), in its Article 12.8, states that “The Conference of the Parties serving as the meeting of the Parties to this Protocol shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.”<sup>1</sup> This is the legal basis for the establishment of the Adaptation Fund.
2. At the seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), held in Marrakech, Morocco, from October 29 to November 10, 2001 (COP7), the Parties agreed to the establishment of the Adaptation Fund (the Fund).<sup>2</sup>
3. In Montreal, Canada in November 2005<sup>3</sup> and in Nairobi, Kenya in December 2006,<sup>4</sup> the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), decided on specific approaches, principles and modalities to be applied for the operationalization of the Fund.
4. In Bali, Indonesia, in December 2007, the CMP decided that the operating entity of the Fund would be the Adaptation Fund Board (the Board), serviced by a Secretariat and a Trustee.<sup>5</sup> Parties invited the Global Environment Facility to provide secretariat services to the Board (the Secretariat), and the World Bank to serve as the trustee (the Trustee) of the Fund, both on an interim basis.
5. In particular, Decision 1/CMP.3, paragraph 5(b), lists among the functions of the Board to develop and decide on specific operational policies and guidelines, including programming guidance and administrative and financial management guidelines, in accordance with decision 5/CMP.2, and to report to the CMP.
6. In Poznan, Poland, in December 2008, through Decision 1/CMP.4, the Parties adopted:
  - (a) the *Rules of Procedures of the Adaptation Fund Board*;
  - (b) the *Memorandum of Understanding between the Conference of the Parties serving as the meeting of the Parties of the Kyoto Protocol and Council of the Global*

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<sup>1</sup> See FCCC/KP/Kyoto Protocol.

<sup>2</sup> See Decision 10/CP.7, “Funding under the Kyoto Protocol”.

<sup>3</sup> See Decision 28/CMP.1, “Initial guidance to an entity entrusted with the operation of the financial system of the Convention, for the operation of the Adaptation Fund” in Annex I to this document.

<sup>4</sup> See Decision 5/CMP.2, “Adaptation Fund”, in Annex I to this document.

<sup>5</sup> See Decision 1/CMP.3, “Adaptation Fund”, in Annex I to this document.



- Environmental Facility regarding secretariat services to the Adaptation Fund Board, on an interim basis;*
- (c) *the Terms and Conditions of Services to be Provided by the International Bank for Reconstruction and Development (the World Bank) as Trustee for the Adaptation Fund, on an interim basis; and*
  - (d) *the Strategic Priorities, Policies and Guidelines of the Adaptation Fund (see Annex 1).*
7. In Decision 1/CMP.4, paragraph 11, the CMP decided that the Adaptation Fund Board be conferred such legal capacity as necessary for the execution of its functions with regard to direct access by eligible developing country Parties. Further, in decision 4/CMP.4, paragraph 1, the Parties endorsed the Board decision to accept the offer of Germany to confer legal capacity on the Board. The German Act of Parliament which conferred legal capacity to the Board entered into force on February 8, 2011.
8. This document (hereafter “the operational policies and guidelines”), in response to the above CMP decisions, outlines operational policies and guidelines for eligible developing country Parties to access resources from the Fund. The operational policies and guidelines are expected to evolve further based on experience acquired through the operationalization of the Fund, subsequent decisions of the Board and future guidance from the CMP.

#### **DEFINITIONS OF ADAPTATION PROJECTS AND PROGRAMMES**

9. The Adaptation Fund established under decision 10/CP.7 shall finance concrete adaptation projects and programmes.
10. A concrete adaptation project/programme is defined as a set of activities aimed at addressing the adverse impacts of and risks posed by climate change. The activities shall aim at producing visible and tangible results on the ground by reducing vulnerability and increasing the adaptive capacity of human and natural systems to respond to the impacts of climate change, including climate variability. Adaptation projects/programmes can be implemented at the community, national, regional and transboundary level. Projects/programmes concern activities with a specific objective(s) and concrete outcome(s) and output(s) that are measurable, monitorable, and verifiable.
11. An adaptation programme is a process, a plan, or an approach for addressing climate change impacts that is broader than the scope of an individual project.

#### **OPERATIONAL AND FINANCING PRIORITIES**

12. The overall goal of all adaptation projects and programmes financed under the Fund will be to support concrete adaptation activities that reduce vulnerability and increase adaptive capacity to respond to the impacts of climate change, including variability at local and national levels.

13. Provision of funding under the Fund will be based on, and in accordance with, the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund* adopted by the CMP, attached as Annex 1.
14. Funding will be provided on full adaptation cost basis of projects and programmes to address *the adverse effects of climate change*.<sup>6</sup> *Full cost of adaptation* means the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change. The Fund will finance projects and programmes whose principal and explicit aim is to adapt and increase climate resilience. The project/programme proponent is to provide justification of the extent to which the project contributes to adaptation and climate resilience. The Board may provide further guidance on financing priorities, including through the integration of information based on further research on the full costs of adaptation and on lessons learned.
15. In developing projects and programmes to be funded under the Fund, eligible developing country Parties may wish to consider the guidance provided in 5/CP.7. Parties may also consult information included in reports from the Intergovernmental Panel on Climate Change (IPCC) and information generated under the Nairobi Work Programme (NWP) on Impacts, Vulnerability and Adaptation to Climate Change.<sup>7</sup>
16. Decisions on the allocation of resources of the Fund shall take into account the criteria outlined in the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*, adopted by the CMP, specifically:
  - (a) Level of vulnerability;
  - (b) Level of urgency and risks arising from delay;
  - (c) Ensuring access to the fund in a balanced and equitable manner;
  - (d) Lessons learned in project and programme design and implementation to be captured;
  - (e) Securing regional co-benefits to the extent possible, where applicable;
  - (f) Maximizing multi-sectoral or cross-sectoral benefits;
  - (g) Adaptive capacity to the adverse effects of climate change.
17. Resource allocation decisions will be guided by paragraphs 9 and 10 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund*.

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<sup>6</sup> Decision 5/CMP.2, paragraph 1 (d).

<sup>7</sup> IPCC Assessment Report 4, see <http://www.ipcc.ch/ipccreports/assessments-reports.htm> and NWP see [http://unfccc.int/adaptation/sbsta\\_agenda\\_item\\_adaptation/items/3633.php](http://unfccc.int/adaptation/sbsta_agenda_item_adaptation/items/3633.php).

18. The Board will review its procedures for allocating resources of the Fund among eligible Parties at least every three years, and/or as instructed by the CMP.

### **PROJECT/ PROGRAMME PROPOSAL REQUIREMENTS**

19. To access Fund resources, a project /programme will have to be in compliance with the eligibility criteria contained in paragraph 15 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund* and using the relevant templates (templates attached as Annex 3).

### **DESIGNATED AUTHORITY**

20. Each Party shall designate and communicate to the secretariat the authority that will represent the government of such Party in its relations with the Board and its secretariat. The Designated Authority shall be an officer within the Party's government administration. The communication to the secretariat shall be made in writing and signed by either a Minister, an authority at cabinet level, or the Ambassador of the Party.
21. The main responsibility of the Designated Authority is the endorsement on behalf of the national government of: a) accreditation applications as National Implementing Entities submitted by national entities; b) accreditation applications as Regional or Sub-regional Implementing Entities submitted by regional or sub-regional entities; and c) projects and programmes proposed by the implementing entities, either national, regional, sub-regional, or multilateral.
22. The Designated Authority shall confirm that the endorsed project/programme proposal is in accordance with the government's national or regional priorities in implementing adaptation activities to reduce adverse impacts of, and risks posed by, climate change in the country or region.

### **FINANCING WINDOWS**

23. Parties may undertake adaptation activities under the following categories:
- (a) Small-size projects and programmes (proposals requesting up to \$1 million); and
  - (b) Regular projects and programmes (proposals requesting over \$1million).

### **ELIGIBILITY CRITERIA**

#### **Country Eligibility**

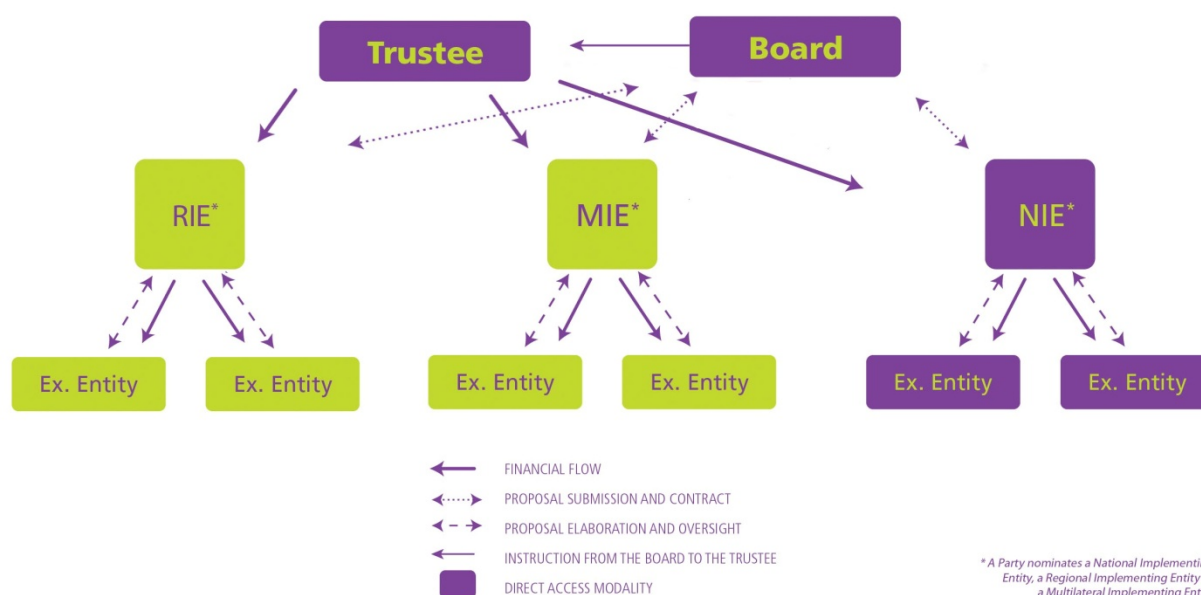
24. The Fund shall finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change.
25. Paragraph 10 of the *Strategic Priorities, Policies and Guidelines of the Adaptation Fund* provides the country eligibility criteria.

26. 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.

### Implementing and Executing Entities

27. Eligible Parties who seek financial resources from the Adaptation Fund shall submit proposals directly through their nominated National Implementing Entity (NIE).<sup>8</sup> They may, if they so wish, use the services of Multilateral Implementing Entities (MIE). The implementing entities shall obtain an endorsement from the government through the Designated Authority referred to in paragraph 20 above. The options of submitting different projects/programmes through an NIE and through an MIE are not mutually exclusive. The modalities for accessing resources of the Adaptation Fund are outlined in Figure 1.

FIGURE 1: MODALITIES FOR ACCESSING RESOURCES OF THE ADAPTATION FUND



28. National Implementing Entities (NIE) are those national legal entities nominated by Parties that are recognized by the Board as meeting the fiduciary standards approved by the Board. The NIEs will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities.

<sup>8</sup> They may include *inter alia*, ministries, inter-ministerial commissions, government cooperation agencies.

29. A group of Parties may also nominate regional and sub-regional entities as implementing entities (RIE/SRIE), and thereby provisions of paragraph 28 will apply. In addition to the nomination of an NIE an eligible Party may also nominate a RIE/SRIE and may submit project/programme proposals through an accredited RIE/SRIE that is operating in their region or sub-region. The application for accreditation shall be endorsed by at least two country members of the organization. The RIE/SRIEs will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities.
30. Multilateral Implementing Entities (MIE) are those Multilateral Institutions and Regional Development Banks invited by the Board that meet the fiduciary standards approved by the Board. The MIEs, chosen by eligible Parties to submit proposals to the Board, will bear the full responsibility for the overall management of the projects and programmes financed by the Adaptation Fund, and will bear all financial, monitoring and reporting responsibilities.
31. In the case of regional (i.e., multi-country) projects and programmes, the proposal submitted to the Board should be endorsed by the Designated Authority of each participating Party.
32. Executing Entities are organizations that execute adaptation projects and programmes supported by the Fund under the oversight of Implementing Entities.

## **ACCREDITATION OF IMPLEMENTING ENTITIES**

### **Fiduciary Standards**

33. Among principles established for the Fund (Decision 5/CMP.2) is “sound financial management, including the use of international fiduciary standards.” At its 7<sup>th</sup> meeting the Board adopted fiduciary standards governing the use, disbursement and reporting on funds issued by the Adaptation Fund covering the following broad areas (refer to Annex 2 for details):
  - (a) Financial Integrity and Management:
    - (i) Accurately and regularly record transactions and balances in a manner that adheres to broadly accepted good practices, and are audited periodically by an independent firm or organization;
    - (ii) Managing and disbursing funds efficiently and with safeguards to recipients on a timely basis;
    - (iii) Produce forward-looking financial plans and budgets;
    - (iv) Legal status to contract with the Fund and third parties
  - (b) Institutional Capacity:

- (v) Procurement procedures which provide for transparent practices, including in competition;
  - (vi) Capacity to undertake monitoring and evaluation;
  - (vii) Ability to identify, develop and appraise project/programme;
  - (viii) Competency to manage or oversee the execution of the project/programme including ability to manage sub-recipients and to support project /programme delivery and implementation.
- (c) Transparency and Self-investigative Powers: Competence to deal with financial mismanagement and other forms of malpractice.

### Accreditation Process

34. Accreditation for the implementing entities would follow a transparent and systematic process through an Adaptation Fund Accreditation Panel (the Panel) supported by the Secretariat. The Panel will consist of two Board Members and three experts. The different steps for accreditation are as follows:
- (a) The Board will invite Parties<sup>9</sup> to each nominate a National Implementing Entity (NIE); the Board will issue a call to potential Multilateral Implementing Entities (MIE) to express interest in serving as an MIE;
  - (b) Potential implementing entities (NIEs, RIEs, or MIEs), will submit their accreditation applications to the Secretariat together with the required supporting documentation to verify how they meet the fiduciary standards;
  - (c) The Secretariat will screen the documentation to ensure that all the necessary information is provided, and will follow-up with the potential implementing entities to ensure that the application package is complete. The Secretariat will forward the complete package to the Panel within 15 (fifteen) working days following receipt of a candidate implementing entity's submission;
  - (d) The Panel will undertake a desk-review of the application and forward its recommendation to the Board; should the Panel require additional information prior to making its recommendation, a mission and/or a teleconference may be undertaken with regard to the country concerned.<sup>10</sup>

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<sup>9</sup> The Designated Authority referred to in paragraph 20 above shall endorse the application for accreditation on behalf of the Party.

<sup>10</sup> The Panel will specify areas requiring further work to meet the requirements and may provide technical advice to address such areas. In exceptional circumstances, an external assessor may be used to help resolve especially difficult/contentious issues.

- (e) The Board may provide further guidance on the required information in the future on the basis of lessons learned; and
  - (f) The Board will make a decision and in writing will notify the entity of the outcome, which could fall into one of the following categories:
    - (ix) Applicant meets requirements and accreditation is approved; or
    - (x) Applicant needs to address certain requirements prior to full accreditation.
35. In case the nominated NIE does not meet the criteria, an eligible Party may resubmit its application after addressing the requirements of the Board or submit an application nominating a new NIE. In the meantime, eligible Parties are encouraged to use the services of an accredited RIE/SRIE or MIE, if they so wish, to submit project/programme proposals for funding. An applicant MIE that does not meet the criteria for accreditation may also resubmit its application after addressing the requirements of the Board.
  36. Accreditation will be valid for a period of 5 years with the possibility of renewal. The Board will develop guidelines for renewal of an implementing entity's accreditation based on simplified procedures that will be established at a later date.
  37. The Board reserves the right to review or evaluate the performance of implementing entities at any time during an implementing entity's accreditation period. A minimum notification of 3 months will be given to an implementing entity if they have been identified by the Board as being the object of a review or evaluation.
  38. If there is any allegation or evidence of misuse of funds, implementing entity will investigate the alleged misuse using its own internal investigators or hire investigator(s) acceptable to the Board. All investigations would be consistent with the general principles and guidelines for investigation based on the International Financial Institutions Principles and Guidelines for Investigation <sup>11</sup>.
  39. The Board may also consider suspending or cancelling the accreditation of an implementing entity if it made false statements or provided intentionally false information to the Board both at the time of accreditation to the Board or in submitting a project or programme proposal.
  40. Before the Board makes its final decision on whether to suspend or cancel the accreditation of an implementing entity, the entity concerned will be given a fair chance to present its views to the Board.
  41. Each existing implementing entity will be subject to the most recent Operational Policies and Guidelines during any re accreditation process.

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<sup>11</sup> [http://www.un.org/Depts/oios/investigation\\_manual/ugi.pdf](http://www.un.org/Depts/oios/investigation_manual/ugi.pdf)

## PROJECT/PROGRAMME CYCLE

42. The project/programme cycle of the Adaptation Fund for any project or programme size begins with a proposal submission to the Secretariat by the NIE/RIE/MIE chosen by the Party/ies. The Designated Authority referred to in paragraph 20 above shall endorse the proposal submission. The submission is followed by an initial screening, project/programme review and approval.<sup>12</sup>

### Review and Approval of Small-size Projects and Programmes

43. In order to expedite the process of approving projects/programmes and reduce unnecessary bureaucracy, small-size projects will undergo a one-step approval process by the Board. The proposed project cycle steps are as follows:
- (a) The project/programme proponent submits a fully developed project/programme document<sup>13</sup> based on a template approved by the Board (Annex 3, Appendix A). A disbursement schedule with time-bound milestones will be submitted together with the fully developed project/programme document. Proposals shall be submitted to the Board through the Secretariat. The timetable for the submission and review of proposals will be synchronized with the meetings of the Board to the extent possible. Project/programme proposals shall be submitted at least nine weeks before each Board meeting in order to be considered by the Board at its next meeting.
  - (b) The Secretariat will screen all proposals for consistency and provide a technical review. It will then forward the proposals with the technical reviews to the Projects and Programmes Review Committee (PPRC) for review, based on the criteria approved by the Board (Annex 3). The secretariat will forward comments on the project/programme proposals and requests for clarification or further information to the implementing entities, as appropriate. The inputs received and the conclusions of the technical review by the secretariat will be incorporated to the review template.
  - (c) The Secretariat will send all project/programme proposals received with technical reviews to the PPRC at least seven (7) days prior to the meeting. The PPRC will review the proposals and give its recommendation to the Board for a decision at the Meeting. The PPRC may use services of independent adaptation experts to provide input into the review process if needed. The Board can approve, not approve or reject a proposal with a clear explanation to the implementing entities. Rejected proposals cannot be resubmitted.
  - (d) The proposals approved by the Board will be posted on the Adaptation Fund website. Upon the decision, the Secretariat in writing will notify the proponent of the Board decision.

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<sup>12</sup> The Designated Authority referred to in paragraph 21 above shall endorse the proposal submission.

<sup>13</sup> A fully developed project/programme is one that has been appraised for technical and implementation feasibility and is ready for financial closure prior to implementation.



## Review and Approval of Regular Projects and Programmes

44. Regular adaptation projects/programmes are those that request funding exceeding \$1 million. These proposals may undergo either a one-step or a two-step<sup>14</sup> approval process. In the one-step approval process the proponent shall submit a fully-developed project/programme document. In the two-step approval process a brief project/programme concept shall be submitted as first step followed by a fully-developed project/document<sup>15</sup>. Funding will only be reserved for a project/programme after the approval of a fully-developed project document in the second step.
45. The project/programme cycle steps for both concept and fully-developed project document are as follows:
- (a) The project/programme proponent submits a concept/fully-developed project document based on a template approved by the Board (Annex 3, Appendix A). A disbursement schedule with time-bound milestones will be submitted together with the fully developed project/programme document. Proposals shall be submitted to the Board through the Secretariat. The timetable for the submission and review of proposals will be synchronized with the meetings of the Board as much as possible. Project/programme proposals shall be submitted at least nine weeks before each Board meeting in order to be considered by the Board at its next meeting.
  - (b) The Secretariat will screen all proposals for consistency and provide a technical review based on the criteria approved by the Board (Annex 3). It will then forward the proposals and the technical reviews to the PPRC for review. The Secretariat will forward comments on the project/programme proposals and requests for clarification or further information to the implementing entities, as appropriate. The inputs received and the conclusions of the technical review by the secretariat will be incorporated in the review template.
  - (c) The Secretariat will send all project/programme proposals with technical reviews to the PPRC at least seven (7) days before the meeting. The PPRC will review the proposals and give its recommendation to the Board for a decision at the meeting. The PPRC may use services of independent adaptation experts to provide input into the review process if needed. In the case of concepts, the Board can endorse, not endorse, or reject a proposal with a clear explanation to the implementing entities. In the case of fully-developed proposals, the Board can approve, not approve, or reject a proposal with a clear explanation to the implementing entities. Rejected proposals cannot be resubmitted.
46. Proponents with endorsed concepts are expected to submit a fully developed proposal at subsequent Board meetings for approval and funding, following the steps described on paragraph 43 above.

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<sup>14</sup> A two-step process, while time consuming minimizes the risk that a proponent does not invest time and energy in fully developing a project or program document that fails to meet the criteria of the Fund.

<sup>15</sup> A fully developed project/programme is one that has been appraised for technical and implementation feasibility and is ready for financial closure prior to implementation.

47. All proposals approved for funding by the Board will be posted on the Adaptation Fund website. Upon the decision, the Secretariat will notify the proponent of the Board decision in writing.

### **Project/Programme Formulation Grants**

48. NIE project/programme proponents are eligible to submit a request for a Project/Programme Formulation Grant (PFG) together with a project/programme concept, using the PFG form approved by the Board. The secretariat will review the request and forward it to the PPRC for a final recommendation to the Board. A PFG can only be awarded when a project/programme concept is presented and endorsed.
49. Only activities related to country costs are eligible for funding through a PFG.
50. The project/programme proponent shall return any unused funds to the Trust Fund through the trustee.
51. The project/programme proponent shall submit a fully developed project/programme document within twelve (12) months of the disbursement of the PFG. No PFG for other projects/programmes can be awarded until the fully developed project/programme document has been submitted.

### **Transfer of funds**

52. The Secretariat will draft a standard legal agreement between the Board and implementing entities using the template approved by the Board, and any other documents deemed necessary. The secretariat will provide these documents for signature by the Chair or any other Member designated to sign. The Board may, at its discretion, review any of the proposed agreements.
53. The Trustee will transfer funds on the written instruction of the Board, signed by the Chair, or any other Board Member designated by the Chair, and report to the Board on the transfer of funds.
54. The Board will ensure a separation of functions between the review and verification of transfer requests, and the issuance of instructions to the Trustee to transfer funds.
55. The Board will instruct the Trustee to transfer funds in tranches, based on the disbursement schedule with time bound milestones submitted with the fully developed project/programme document. The Board may require a progress review from the Implementing Entity prior to each tranche transfer. The Board may also suspend the transfer of funds if there is evidence that funds have been misappropriated.
56. If an implementing entity does not sign the standard legal agreement within four (4) months from the date of notification of the approval of the project/programme proposal, the funds committed for that project/programme will be cancelled and retained in the Trust Fund for new commitments.

## Monitoring, Evaluation and Review

57. The Board is responsible for strategic oversight of projects and programmes implemented with resources from the Fund, in accordance with its overarching strategic results framework, a *Strategic Results Framework for the Adaptation Fund* and the *Adaptation Fund Level Effectiveness and Efficiency Results Framework* [Available: <http://www.adaptation-fund.org/document/results-framework-and-baseline-guidance-project-level>], to support the *Strategic Priorities, Policies, and Guidelines of the Adaptation Fund*. The Ethics and Finance Committee (EFC), with support of the Secretariat, will monitor the Fund portfolio of projects and programmes.
58. The Board will oversee results at the fund-level. Implementing entities shall ensure that capacity exists to measure and monitor results of the executing entities at the country-level. The Board requires that projects and programmes under implementation submit annual status reports to the EFC. The EFC with the support of the Secretariat shall provide an annual report to the Board on the overall status of the portfolio and progress towards results.
59. All regular projects and programmes that complete implementation will be subject to terminal evaluation by an independent evaluator selected by the implementing entity. All small projects and programmes shall be subject to terminal evaluation if deemed appropriate by the Board. Terminal evaluation reports will be submitted to the Board after a reasonable time after project termination, as stipulated in the project agreement.
60. The Board requires that all projects' and programmes' objectives and indicators align with the Fund's Strategic Results Framework. Each project/programme will embed relevant indicators from the strategic framework into its own results framework. Not all indicators will be applicable to all projects/programmes but at least one of the core outcome indicators should be embedded.
61. The Board reserves the right to carry out independent reviews, evaluations of the projects and programmes as and when deemed necessary. The costs for such activities will be covered by the Fund. Lessons from evaluations will be considered by the PPRC when reviewing project/programme proposals.
62. The Board has approved *Guidelines for project/programme final evaluations*. [Available: <http://www.adaptation-fund.org/document/guidelines-projectprogramme-final-evaluations>]. These guidelines describe how final evaluations should be conducted for all projects/programmes funded by the Adaptation Fund, as a minimum, to ensure sufficient accountability and learning in the Fund. They should be complementary to the implementing entities' own guidelines on final evaluation.
63. If the Board becomes aware of any allegation or evidence of misuse of funds, it will notify the implementing entity of such allegation or evidence so that the implementing entity can handle in accordance with paragraph 37 above.

64. The implementing entity will provide regular updates to the Board on any investigation and a final report on the conclusions of the investigation as well as provide regular updates on actions taken to address any illegal or corrupt practice involving the Fund's funds.
65. This project cycle will be kept under review by the Board.

### **Procurement**

66. Procurements by the implementing entities or any of their attached organizations shall be performed in accordance with internationally accepted procurement principles, good procurement practices and the procurement regulations as applicable to a given Party. Implementing entities shall observe the highest ethical standards during the procurement and execution of the concrete adaptation projects/programmes.
67. The project/programme proposal submitted to the Board shall contain adequate and effective means to punish and prevent malpractices. The implementing entities should promptly inform the Board of any instances of such malpractices.
68. Project/Programme Suspensions and Cancellations
69. At any stage of the project/programme cycle, either at its discretion or following an independent review-evaluation or investigation, the EFC may recommend to the Board to suspend or cancel a project/programme for several reasons, notably:
  - (a) financial irregularities in the implementation of the project/programme; and/or
  - (b) material breach of the legal agreement, and poor implementation performance leading to a conclusion that the project/programme can no longer meet its objectives.
70. Before the Board makes its final decision whether to suspend or cancel a project/programme, the concerned implementing entity and the DA will be given a fair chance to present its views to the Board.
71. In accordance with their respective obligations, implementing entities suspending or cancelling projects/programmes, after consulting with the DA, must send detailed justification to the Board for the Board's information.
72. The Secretariat will report to the Board on an annual basis on all approved projects and programmes that were suspended or cancelled during the preceding year.

### **Reservations**

73. The Board reserves the right to reclaim all or parts of the financial resources allocated for the implementation of a project/programme, or cancel projects/programmes later found not to be satisfactorily accounted for or found to be in material breach of the legal agreement. The implementing entity and the DA shall be given a fair chance to consult and present its point of view before the Board.

### **Dispute Settlement**

74. In case of a dispute as to the interpretation, application or implementation of the project/programme, the implementing entity or the DA shall first approach the EFC through the Secretariat with a written request seeking clarification. In case the issue is not resolved to the satisfaction of the implementing entity, the case may be put before the Board at its next meeting, to which a representative of the implementing entity or the DA could also be invited.
75. The provisions of the standard legal agreement between the Board and implementing entity/DA on settlement of disputes shall apply to any disputes that may arise with regard to approved projects/programmes under implementation.

### **Administrative costs**

76. Every project/programme proposal submitted to the Board shall state the management fee requested by the Implementing Entity if any. Fully developed proposals shall include a budget on fee use. The reasonability of the fee will be reviewed on a case by case basis. The requested fee shall not exceed the cap established by the Board.
77. Fully developed project/programme proposals shall include an explanation and a breakdown of all administrative costs associated with the project/programme, including the execution costs.

### **Where to send a Request for Funding**

78. All requests shall be sent to:
 

Adaptation Fund Board Secretariat  
Tel: +1 202 473 0508  
Fax: +1 202 522 3240/5  
Email: [afbsec@adaptation-fund.org](mailto:afbsec@adaptation-fund.org)
79. Acknowledgment of the receipt shall be sent to the proposing implementing entities within a week of the receipt of the request for support. All project proposals submitted will be posted on the website of the Adaptation Fund Board. The Secretariat will provide facilities that will enable interested stakeholders to publicly submit comments about proposals.

### **Review of the Operational Policies and Guidelines**

80. The Board shall keep these operational policies and guidelines under review and will amend them as deemed necessary.



ADAPTATION FUND

**AGREEMENT**

**(The \_\_\_\_\_ [Project] [Programme] in [Country])**

**between**

**THE ADAPTATION FUND BOARD**

**and**

**[IMPLEMENTING ENTITY]**

**[Insert Date]**

## AGREEMENT

[The \_\_\_\_\_ Project in [Country]]

between

**THE ADAPTATION FUND BOARD**

and

**[IMPLEMENTING ENTITY]**

**Whereas**, the Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) in its Decision 10/CP.7 decided that an Adaptation Fund (AF) shall be established to finance concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol to the UNFCCC (Kyoto Protocol);

**Whereas**, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in its Decision 1/CMP.3 decided that the operating entity of the AF shall be the Adaptation Fund Board (Board), with the mandate to supervise and manage the AF under the authority and guidance of the CMP;

**Whereas**, in its Decisions 5/CMP.2 and 1/CMP.3, paragraph 5 (b), the Board adopted the AF Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, including the Fiduciary Risk Management Standards to be met by Implementing Entities (AF Operational Policies and Guidelines); and

**Whereas**, the proposal submitted by the [Implementing Entity] to the Board seeking access to the resources of the AF in support of the [Project] [Programme], as set out in Schedule 1 to this Agreement, has been approved by the Board, and the Board has agreed to make a grant (Grant) to the [Implementing Entity] for the [Project] [Programme] under the terms of this Agreement; and

**Whereas**, the International Bank for Reconstruction and Development (IBRD) has agreed to serve as the Trustee of the AF Trust Fund (Trustee) and, in that capacity, to make transfers of the Grant to the [Implementing Entity] on the written instructions of the Board;

The Board and the [Implementing Entity] have agreed as follows:

## 1. DEFINITIONS

Unless the context otherwise requires, the several terms defined in the Preamble to this Agreement (Agreement) shall have the respective meanings set forth therein and the following additional terms shall have the following meanings:

1.01. "Grant" means the AF resources approved by the Board for the [Project] [Programme] under this Agreement and to be transferred by the Trustee to the Implementing Entity on the written instructions of the Board;

1.02. "Designated Authority" means the authority that has endorsed on behalf of the national government the Project proposal by the Implementing Entity seeking access to AF resources to finance the [Project][Programme];

1.03. "Executing Entity" means the entity that will execute the [Project] [Programme] under the overall management of the Implementing Entity;

1.04. "Implementing Entity" means the [Implementing Entity] that is the party to this Agreement and the recipient of the Grant;

1.05. "Implementing Entity Grant Account" means the account to be established by the Implementing Entity to receive, hold and administer the Grant;

1.06. "Secretariat" is the body appointed by the CMP to provide secretariat services to the Board, consistent with decision 1/CMP.3, paragraphs 3, 18, 19 and 31, which body is currently the Global Environment Facility (GEF); and

1.07. "AF Trust Fund" means the trust fund for the AF administered by the Trustee in accordance with the *Terms and Conditions of Services to be Provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund*.

## 2. THE PROJECT AND THE GRANT

2.01. The Board agrees to provide to the [Implementing Entity] the Grant in a maximum amount equivalent to \_\_\_\_\_ United States Dollars (US \$\_\_\_\_\_) for the purposes of the [Project] [Programme]. The [Project] [Programme] document, which details the purposes for which the Grant is made, is set out in Schedule 1 to this Agreement. The disbursement schedule and special conditions that apply to the implementation of the Grant are set out in Schedule 2 to this Agreement.



2.02. The Trustee shall transfer the Grant funds to the [Implementing Entity] on the written instructions of the Board. Any subsequent transfer of Grant funds to the Implementing Entity after the first tranche shall only be transferred after the Board approved the annual Project Performance Reports (PPR) referred to in section 7.01.b. Transfers shall be made to the following bank account of the Implementing Entity in accordance with the disbursement schedule set out in Schedule 2 to this Agreement:

[Insert Implementing Entity's bank account details]

2.03. The Implementing Entity shall make the disbursed Grant funds available to the [Executing Entity] in accordance with its standard practices and procedures.

2.04. The Implementing Entity may convert the Grant into any other currency to facilitate its disbursement to the Executing Entity.

### **3. ADMINISTRATION OF THE GRANT**

3.01. The Implementing Entity shall be responsible for the administration of the Grant and shall carry out such administration with the same degree of care used in the administration of its own funds, taking into account the provisions of this Agreement.

3.02. The Implementing Entity shall carry out all its obligations under this Agreement in accordance with:

- (i) the AF Operational Policies and Guidelines effective July 2013; and
- (ii) the Implementing Entity's standard practices and procedures.

3.03. The Implementing entity:

(i) undertakes to use reasonable efforts, consistent with its standard practices and procedures, including those pertaining to combating financing for terrorists, to ensure that the Grant funds provided to the Implementing Entity by the Trustee are used for their intended purposes and are not diverted to terrorists;

(ii) shall not use the Grant funds for the purpose of any payment to persons or entities, or for the import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, including under United Nations Security Council Resolution 1373 and related resolutions;

(iii) shall immediately inform the Board in the event the Grant funds are not being used or have not been used for the implementation of the Project or of any illegal or corrupt practice. The Implementing Entity consistent with its standard practices and procedures and integrity of the investigative process shall keep the Board informed of the progress of any formal investigation concerning the misuse of Grant funds and provide a final report to the Board on the findings of such investigation upon its conclusion.

(iv) shall include provisions corresponding to subparagraphs (i) – (ii) above in any agreements that the Implementing Entity enters into with executing entities to which the Implementing Entity makes Grant funds available.

3.04 If, during the course of administering the Grant, the Implementing Entity identifies any material inconsistency between the AF Operational Policies and Guidelines and its own standard practices and procedures, the [Implementing Entity] shall: (a) immediately notify the Board, through the Secretariat, of such inconsistency, and (b) the [Implementing Entity] and the Board shall discuss and promptly take any necessary or appropriate action to resolve such inconsistency.

3.05. In the event that the Implementing Entity makes any disbursements of the Grant in a manner inconsistent with the AF Operational Policies and Guidelines, and these inconsistencies cannot be resolved as provided in paragraph 3.04, the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.

#### **4. [PROJECT] [PROGRAMME] IMPLEMENTATION**

4.01. The Implementing Entity shall be responsible for the overall management of the [Project] [Programme], including all financial, monitoring and reporting responsibilities.

4.02. The Implementing Entity shall ensure that the Grant is used exclusively for the purposes of the [Project] [Programme], and shall refund to the AF Trust Fund, through the Trustee, any disbursements made for other purposes. Where the Board believes that the Grant has been used for purposes other than the [Project] [Programme], it shall inform the Implementing Entity of the reasons supporting its view and provide the Implementing Entity an opportunity to provide any explanation or justification for such use.

4.03. Any material change made in the original budget allocation for the Project by the Implementing Entity, in consultation with the Executing Entity, shall be communicated to the

Board for its approval. "Material change" shall mean any change that involves ten per cent (10%) or more of the total budget.

4.04. The Implementing Entity shall promptly inform the Board, through the Secretariat, of any conditions that may seriously interfere with its management, or the Executing Entity's execution, of the [Project] [Programme] or otherwise jeopardize the achievement of the objectives of the [Project] [Programme], providing detailed information thereof to the Board for its information.

4.05. The Implementing Entity shall be fully responsible for the acts, omissions or negligence of its employees, agents, representatives and contractors under the Project. The Board shall not be responsible or liable for any losses, damages or injuries caused to any persons under the Project resulting from the acts, omissions or negligence of the Implementing Entity's employees, agents, representatives and contractors.

## **5. [PROJECT] [PROGRAMME] SUSPENSION**

5.01. The Board may suspend the [Project] [Programme] for reasons that include, but are not limited to:

- (i) financial irregularities in the implementation of the [Project] [Programme], or
- (ii) a material breach of this Agreement and/or poor implementation performance leading the Board to conclude that the [Project] [Programme] can no longer achieve its objectives;

provided, however, that before the Board makes its final decision (a) the Implementing Entity shall be given an opportunity to present its views to the Board, through the Secretariat; and/or (b) the Implementing Entity may make any reasonable proposal to promptly remedy the financial irregularities, material breach or poor implementation performance.

## **6. PROCUREMENT**

6.01. The procurement of goods and services (including consultants' services) for activities financed by the Grant will be carried out in accordance with the [Implementing Entity's] standard practices and procedures, including its procurement and consultants' guidelines. In the event that the Implementing Entity makes any disbursements in a manner which the Board considers to be inconsistent with the AF Operational Policies and Guidelines, it will so inform the Implementing Entity giving the reasons for its view and seeking a rectification of the

inconsistency. If the inconsistency cannot be resolved, the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.

## **7. RECORDS AND REPORTING**

7.01. The Implementing Entity shall provide to the Board, through the Secretariat, the following reports and financial statements:

- a) An inception report submitted to the secretariat no later than one (1) month after the inception workshop has taken place. The start date of the [project] [programme] is considered the date of the inception workshop;
- b) Annual Project Performance Reports (PPR) on the status of the [Project]/[Programme] implementation, including the disbursements made during the relevant period or more frequent progress reports if requested by the Board. The PPR shall be submitted on a yearly basis one (1) year after the start of [project] [programme] implementation and no later than two (2) months after the end of the reporting year;
- c) A mid-term evaluation, prepared by an independent evaluator selected by the Implementing entity for any [project/programme] that is under implementation for over four years; the mid-term evaluation should be submitted to the Fund Secretariat within six months of the mid-point of [Project]/[Programme] implementation;
- d) A [Project]/[Programme] completion report, including any specific [Project]/[Programme] implementation information, as reasonably requested by the Board through the Secretariat, within six (6) months after [Project]/[Programme] completion;
- e) A mid-term and a final evaluation report, prepared by an independent evaluator selected by the Implementing Entity. The final evaluation report shall be submitted within nine (9) months after [Project]/ [Programme] completion. Copies of these reports shall be forwarded by the Implementing Entity to the Designated Authority for information; and
- f) A final audited financial statement of the Implementing Entity Grant Account, prepared by an independent auditor or evaluation body, within six (6) months of the end of the Implementing Entity's financial year during which the [Project]/[Programme] is completed.

**8. MANAGEMENT FEE**

8.01. The Board authorizes the Implementing Entity to deduct from the total amount of the Grant and retain for its own account the management fee specified in Schedule 2 to this Agreement.

**9. OWNERSHIP OF EQUIPMENT**

9.01. If any part of the Grant is used to purchase any durable assets or equipment, such assets or equipment shall be transferred upon the completion of the [Project] [Programme] to the Executing Entity/Entities or such other entity as the Designated Authority may designate.

**10. CONSULTATION**

10.01. The Board and the Implementing Entity shall share information with each other, at the request of either one of them, on matters pertaining to this Agreement.

**11. COMMUNICATIONS**

11.01. All communications between the Board and the Implementing Entity concerning this Agreement shall be made in writing, in the English language, to the following persons at their addresses designated below, by letter or by facsimile. The representatives are:

For the Board:

Adaptation Fund Board Secretariat

1818 H Street, NW

Washington, D.C. 20433

USA

Attention: Adaptation Fund Board Chair

Fax: \_\_\_\_\_

For the Implementing Entity:

\_\_\_\_\_

\_\_\_\_\_

Attention: \_\_\_\_\_

Fax: \_\_\_\_\_

## **12. EFFECTIVENESS AND AMENDMENT OF THE AGREEMENT**

12.01. This Agreement shall become effective upon its signature by both parties.

12.02. This Agreement may be amended, in writing, by mutual consent between the Board and the Implementing Entity.

## **13. TERMINATION OF THE AGREEMENT**

13.01. This Agreement may be terminated by the Board or the Implementing Entity, by giving prior written notice of at least ninety (90) days to the other.

13.02. This Agreement shall automatically be terminated in the event of:

- a) cancellation of the Implementing Entity's accreditation by the Board; or
- b) receipt of a communication from the Designated Authority that it no longer endorses the Implementing Entity or the [Project] [Programme].

13.03. Upon termination of this Agreement, the Board and the Implementing Entity shall consider the most practical way of completing any ongoing activities under the [Project] [Programme], including meeting any outstanding commitments incurred under the [Project][Programme] prior to the termination. The Implementing Entity shall promptly refund to the AF Trust Fund, through the Trustee, any unused portion of the Grant, including any net investment income earned therefrom. No Grant funds shall be disbursed after termination.

## **14. SETTLEMENT OF DISPUTES**

14.01. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, will be settled amicably by discussion or negotiation between the Board and the Implementing Entity.

14.02. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, which has not been settled amicably between the Board and the Implementing Entity shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as presently in force.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto, have signed this Agreement on \_\_\_\_\_ [201\_]

**THE ADAPTATION FUND BOARD**

\_\_\_\_\_

Chair

**IMPLEMENTING ENTITY**

\_\_\_\_\_

\_\_\_\_\_

[The following Schedules will be attached to the Agreement: Schedule1 ([Project] [Programme] Proposal) and Schedule 2 (Disbursement Schedule)].

**SCHEDULE 2: DISBURSEMENT SCHEDULE**

	Upon Agreement signature	One Year after Project Start <sup>a/</sup>	Year 2 <sup>b/</sup>	Year 3	Year 4 <sup>c/</sup>	<b>Total</b>
Scheduled Date						
Project Funds						
Implementing Entity Fee						
<b>Total</b>						

<sup>a/</sup>Use projected start date to approximate first year disbursement

<sup>b/</sup>Subsequent dates will follow the year anniversary of project start

<sup>c/</sup>Add columns for years as needed



## ANNEX VI

### **Agenda Item 5: Project delays policy**

AFB/EFC.12/3/Rev.2

### **Adaptation Fund policy for project/programme delays Adopted July 2013**

#### *Signing of legal agreement*

1. The first milestone for a project/programme comes after Board approval, with the signing of the legal agreement between the Board and the implementing entity. The Board established a standard of a maximum time lag of four months from the date at which the Board notifies an implementing entity of a project/programme approval, and the signing of the legal agreement. As outlined in the Operational Policies and Guidelines:

*If an implementing entity does not sign the standard legal agreement within four (4) months from the date of notification of the approval of the project/programme proposal, the funds committed for that project/programme will be cancelled and retained in the Trust Fund for new commitments (OPG para 57).*

#### *Project start*

2. The Board has set a target of six months from the first cash transfer to project/programme start<sup>16</sup>. Each implementing entity has its own internal project cycle with different definitions for various milestones, including project start dates. Some may consider project start to be the date an implementing entity's board approves a project, others the date of first disbursement, still others the date of the signed agreement between the entity and the government. The Adaptation Fund Board decided to consider the start date the first day of the project/programme's inception workshop (Decision B.18/29).

3. Implementing entities can work to mitigate delays by working with the government, during project/programme design, to ensure a mutual understanding and commitment on how to proceed once a project/programme is approved. There are, however, many factors that are situation-specific and may be outside the control of the implementing entity. The six month target is therefore an average target for the Fund's portfolio. If a project/programme is not expected to start within six months, however, the implementing entity must send a notification to the secretariat with an explanation of the delay and an estimated start date. The Designated Authority (DA) must also be notified.

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<sup>16</sup> Established through the *Annual Performance Report* as part of the Fund level management effectiveness and efficiency indicators

4. The secretariat will report to the Board through the Annual Performance Report (APR) on any project/programme start delays.<sup>17</sup> The Board may decide, on a case-by-case basis to cancel a project/programme if start-up delays are significant.

#### *Project/programme Performance Reports*

5. Once a project/programme is approved and the first funds are transferred for the project/programme, an implementing entity is required to submit a project/programme performance report (PPR) on an annual basis to the Ethics and Finance Committee (EFC) through the secretariat.<sup>18</sup> The PPRs should be submitted on a rolling basis, one year after the start of project/programme implementation (date of inception workshop) and the last such report should be submitted six months after project/programme completion. This will be considered the project/programme completion report.<sup>19</sup>

6. PPRs are due no later than two months after the end of the reporting year. The Board made the decision to link the disbursement schedule to the submission of the PPR (Decision B.16/21). Once the PPR is submitted, the secretariat reviews the report and provides a recommendation to the Board as to whether additional funds should be transferred. In order to ensure that projects/programmes are not delayed the Board agreed to clear the recommendation and subsequent disbursement of funds intersessionally on a “non-objection” basis.

7. Delays in the submission of complete PPRs will result in delays of subsequent funding tranches to the project/programme.

#### *Project completion*

8. Indicative project/programme completions must be included in project/programme proposals for funding. These are usually general estimates and expected completion dates will depend on when a project/programme starts implementation. For this reason, in the first PPR submitted to the secretariat the implementing entity should include, if applicable, a revised expected project/programme completion date. The revised date will be reviewed and cleared by the secretariat during its PPR clearance procedure. The date included in the first PPR will be the date that the project/programme will be tracked against.

9. If there are any project/programme implementation delays, these should be reported through the PPR and explanations given as to any delays. If the implementing entity expects a

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<sup>17</sup> The secretariat may alert the Board to any delays outside of the APR however must provide an update at least once a year on project status through the APR.

<sup>18</sup> An annual report is the minimum requirement. There may be cases where the Board requests more frequent reporting or additional reports, as for example through requirements linked to the accreditation of an implementing entity.

<sup>19</sup> The standard legal agreement requires a project/programme completion report (p.6): “including any specific [Project]/[Programme] implementation information, as reasonably requested by the Board through the Secretariat, within six (6) months after [Project]/[Programme] completion.”

project/programme requires additional time to close, the implementing entity must submit a request for extension (see template in Annex A). The request for extension should be submitted as soon as it becomes clear that there are obstacles to a project/programme closing on time and no later than six months prior to the expected project/programme completion date. All project/programme extensions must be approved by the Board.

10. An implementing entity may request for a project/programme extension for up to 18 months beyond the original completion date if (i) no additional funds are required; (ii) the project/programme's originally approved scope will not change; and (iii) the entity provides reasons and justifications for the extension. The DA must be notified of an extension request. Additional time beyond 18 months may be granted under exceptional circumstances

11. In addition to the project/programme completion report, due six months after the project/programme has closed, as described in the standard legal agreement a final audited financial statement of the implementing entity grant account, prepared by an independent auditor or evaluation body, must be submitted to the Ethics and Finance Committee through the secretariat within six (6) months of the end of the implementing entity's financial year during which the project/programme is completed.

12. Finally, from section 7, 7.01 "...a final evaluation report, prepared by an independent evaluator selected by the [Implementing Entity]. The final evaluation report shall be submitted within nine (9) months after [Project]/ [Programme] completion. Copies of these reports shall be forwarded by the [Implementing Entity] to the Designated Authority for information."

13. An implementing entity which does not submit the requested reports on time will temporarily be non-eligible to apply for any new funding from the Board. The non-eligibility can be lifted once the audited report, final evaluation report or project completion report are submitted to the secretariat and cleared.

### **Recommendation**

14. Having reviewed document AFB/EFC.12/3 the EFC may wish to recommend to the Board to approve the policy on project/programme delays and the extension procedures outlined within the document.

### **Annex A: Request for extension**

*Request for extension of project/programme completion date*

<b>AF Project/programme ID:</b>	
<b>Project/programme Title:</b>	
<b>Country:</b>	
<b>Project/Programme Approval (date)</b>	

<b>Expected Project/programme Completion (date)</b>		<b>Proposed Revised Completion (date):</b>	
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*Reasons/justifications for the extension of project/programme completion:*

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*Implementing Entity certification*

This request has been prepared in accordance with Adaptation Fund policies and procedures, has been agreed by participating executing entities, and the designated authority (DA) has been notified.	
<i>Name &amp; Signature</i> Project/programme contact person	
Date: <i>(Month, Day, Year)</i>	Tel. and Email:

## ANNEX VII

### **Open Information Policy**

AFB/EFC.12/5/Rev.2

### **Open Information Policy**

**Adopted July 2013**

1. The Adaptation Fund (the Fund) is an organization committed to open access to information. Transparency is essential to building and maintaining public dialogue, increasing public awareness, enhancing good governance, accountability, and ensuring programmatic effectiveness. Openness promotes engagement with stakeholders, which, in turn, improves the design and implementation of projects and programmes, and strengthens the Fund's outcomes. It facilitates public oversight of Fund-supported operations during their preparation and implementation, which not only assists in exposing potential wrongdoing and corruption, but also enhances the possibility that problems will be identified and addressed early on.<sup>20</sup> This policy refers to the Fund's Board information.
2. The Fund's Board overall approach is therefore to disclose information unless there is a compelling reason for confidentiality. For limited cases where disclosure could have a negative impact on the Fund, the implementation of its projects and programmes, or deal with the legal obligations pertaining to privacy or intellectual property, information is retained as confidential. Such exceptions generally fall under one of five main criteria outlined below. In principle, all relevant information regarding the organization, its projects, programmes and operations are made available to the general public with the intent of full disclosure.<sup>21</sup>
3. The five main criteria for exclusion are as follows:<sup>22</sup>
  - i. **International relations:** Information that may harm the Fund's relations with other governments or institutions. This includes information received from or sent to third parties, under an expectation of confidentiality.
  - ii. **Security and safety:** Information that may pose a risk to the security or safety of any individual, including, Board members and alternates and beneficiaries.
  - iii. **Personal information:** Information that intrudes on the privacy of a person or could contravene confidentiality.

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<sup>20</sup> Adapted directly from the *World Bank Policy on Access to Information* (54873), July 1, 2010

<sup>21</sup> Adapted directly from *GEF Practices on Disclosure of Information* (GEF/C.41/Inf.03), November 2011

<sup>22</sup> Adapted directly from DFID's *Exclusion Template: DFID guidance on exclusions*, <http://support.iatistandard.org/entries/20858941-open-information-exclusions> (Last Accessed 10 June 2013).

- iv. **Commercially sensitive information:** Information that does harm to the Fund or the Fund's partners or suppliers commercial interests.
- v. **Information that is exempt from disclosure under other policies or regulations:** This includes deliberative information.

#### *Accessing Information*

- 4. **Proactive Disclosure.** The Fund routinely discloses a wide range of documents, through its website – [www.adaptation-fund.org](http://www.adaptation-fund.org) –including working documents discussed during Board meetings, committee reports and recommendations, and reports of all Board meetings. Under this Policy, the Fund significantly increases the amount of information it makes available to the public, particularly information related to projects and programmes under implementation and to the actions of the Board.
- 5. In terms of projects and programmes all proposals received are published on the website before being reviewed by the secretariat. Since there is no pre-screening of proposals, every proposal received is submitted to the Project and Programme Review Committee (PPRC) and subsequently to the Board for consideration. The Board publishes in its meeting reports a decision taken on every proposal submitted. Following Decision B.17/15, all technical reviews of project and programme proposals undertaken by the secretariat are published on the Fund's website. Once projects/programmes are approved all project/programme performance reports are also made available through the website.

#### *Exclusions from Disclosure*

- 6. The Fund does not provide access to information whose disclosure may pose a risk to the security or safety of any individual, including Adaptation Fund Board secretariat staff, Board members and alternates, contractors and beneficiaries, including:
- 7. **Commercially sensitive information.** While the Fund publishes all project/programme performance reports (including external evaluations and internal reviews), information disclosed on procurement is limited to the number of bidders and bid amounts. In addition, as delineated in the *Rules of procedure of the Adaptation Fund Board* (FCC/KP/CMP/2008/11/Add.2), para 26: "Information obtained from Adaptation Fund project participants marked as proprietary and/or confidential shall not be disclosed without the written consent of the provider of the information, except as required by national law."
- 8. **International Relations.** Specifically, as it relates to entities applying for accreditation to the Fund, these are kept anonymous until an entity has been accredited by the Board. As such, the name of the entity as well as all applications and corresponding supporting documentation are kept strictly confidential. The Accreditation Panel produces a report of every Panel meeting, including an assessment of the analysis of applications by applicant entities. Since the assessments contain sensitive information on an institution's

fiduciary standards and institutions provide the Panel with confidential information such as internal audit reports the information remains confidential.

9. **Deliberative Information**<sup>23</sup>. The Fund, like any institution or group, needs space to consider and debate, away from public scrutiny. In practice, the Fund operates by consensus, and it needs room to develop that consensus. During the process it seeks, and takes into account, the input of many stakeholders; but it must preserve the integrity of its deliberative processes by facilitating and safeguarding the free and candid exchange of ideas. Therefore, while the Fund makes publicly available the decisions, results, and agreements that result from its deliberative processes, the proceedings are held in closed sessions for the following bodies: the Accreditation Panel, Ethics and Finance Committee, and Project and Programme Review Committee.
10. The secretariat is subject to the World Bank's Access to Information Policy.

#### *Licensing Policy*<sup>24</sup>

11. The following paragraphs set out the Fund's policy on copyright and other intellectual property (IP) rights related to the data and other information the Fund provides. It also references the specific licenses for how the Fund's data may be used.
12. Unless otherwise noted, the Adaptation Fund database are licensed under the Open Data Commons - Attribution License (ODC-BY). Other materials on the Fund's site, including multi-media material (photographs, video), policies, and other documents are licensed under the Creative Commons – Attributions License.
13. Users may therefore:
  - a. *Share* – copy, use, and distribute the Fund's data and other material to others
  - b. *Create* – make new works with the Fund's data
  - c. *Adapt* – modify or transform the Fund's data and other material, change it into different formats, or combine it with other data sources.
14. The main restriction is that users **must** *Attribute* – give credit to the Fund when data or other information is publicly used. Full details of users rights and obligations are at: Open Data Commons – Attribution: <http://www.opendatacommons.org/licenses/by/1.0/> and Creative Commons – Attribution: <http://creativecommons.org/licenses/by/3.0/>

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<sup>23</sup> Adapted from WB Policy (p. 5)

<sup>24</sup> Adapted directly from *IATI Open Aid Information Licensing Standard*: <http://support.iatistandard.org/entries/21001811-licensing> (Last Accessed 10 June 13).

15. If data from the Fund is used in another context, such as in a report or by doing data visualizations, the Fund asks that the following phrase is used:

*Contains information from the Adaptation Fund which is made available under the Open Data Commons - Attribution License (ODC-BY).*



**ANNEX VIII**

**AMENDED AND RESTATED  
CER MONETIZATION PROGRAM GUIDELINES  
JULY 2013**

**I. SCOPE**

1. These amended and restated Guidelines apply to monetization of certified emission reductions (CERs) by the International Bank for Reconstruction and Development (the World Bank) as trustee for the Adaptation Fund (the Trustee) for the Adaptation Fund (the AF) (the CER Monetization Program) pursuant to the terms and conditions (the Terms and Conditions) of services to be provided by the Trustee.

**II. OBJECTIVES OF THE CER MONETIZATION PROGRAM**

2. Through the CER Monetization Program, the Trustee will convert the AF's CERs into cash to support funding decisions by the AF Board. According to Decision 1/CMP.3, paragraph 28, the three objectives of the CER Monetization Program are to:

- Ensure predictable revenue flow for the AF;
- Optimize revenue for the AF while limiting financial risks; and
- Enhance transparency and monetize the share of the proceeds in the most cost-effective and inclusive manner, utilizing appropriate expertise.

3. The three Program objectives are discussed below.

**Ensure Predictable Revenue Flow**

4. CER Monetization is undertaken in advance of formal approvals of AF programs/projects by the AF Board. This will support the AF Board's decisions about calls for proposals and specific project/program commitments, and ensure cash will be available to fund the initial disbursements for AF programs/projects.

- i) The CER Monetization Program will help to ensure that project and program commitments authorized by the AF Board are made on the basis of liquid assets, consistent with best financial management practice.
- ii) The Trustee will provide the AF Board with information on funds in the AF Trust Fund available to be disbursed for program/project commitments. AF Board authorization of specific projects and programs would then be based on cash levels in the AF Trust Fund. This process will help insulate AF commitments from the uncertainties of the CER market.

### **Optimize Revenue and Limit Financial Risks**

5. An essential objective of the CER Monetization Program is to obtain the market value for the AF's assets.

6. **Sales revenue optimization:** Ideally, the Trustee will carry out CER monetization through an ongoing program of spot sales in highly liquid markets. This will ensure fair and transparent pricing, reduce transaction costs associated with price discovery, and minimize costs and risks coming from insufficient liquidity or settlement processes. It is possible to trade spot on liquid exchanges, which represent the best approximation of an efficient market as long as the volume of sales is consistent with their capacity. The Trustee may supplement spot sales with the use of futures contracts and OTC sales.

7. **Risk mitigation:** Market risk arising from future movements of CER prices will be managed by spreading transactions over time to smooth price fluctuations. Settlement risk from the potential default by buyers of CERs will be mitigated by the use of delivery-versus-payment settlement mechanisms, either when trading on exchanges or OTC.

### **Enhance Transparency, Inclusiveness and Cost-Effectiveness**

8. The CER Monetization Program should be designed so that the sales processes are transparent, inclusive, and cost-effective.

9. **Transparency and disclosure:** The CER Monetization Program guidelines will be made publicly available. The Trustee will record details of all transactions executed under the Program, either conducted on exchanges or OTC. While full transparency may be difficult to implement and potentially detrimental to best execution in some instances, given the public international nature of the AF and its role under the Kyoto Protocol, the highest level of transparency possible will apply to the implementation of the CER Monetization Program.

10. **Inclusiveness:** The guidelines should allow the broadest range of compliance buyers and participants in emissions trading to participate in the transactions executed under the CER Monetization Program, especially major CER buyers (governments and corporations with Kyoto or EU ETS commitments).

11. **Cost effectiveness:** The most cost-effective approach is trading spot on highly liquid and developed markets in which various transaction costs are minimized. Trading on exchanges represents the approach closest to trading on an efficient market. Nevertheless the Trustee will be responsible for minimizing implied costs (membership, margin calls for future trading, etc.). The direct cost of selling through dealers (payment of fees) will also have to be minimized and

balanced against the benefits associated with the sponsorship of the dealer community (broad outreach to investors, market information, etc.).

### **Six Criteria to Implement the Program Objectives**

12. These three objectives are divided into six criteria which have been presented and discussed with the AF Board, and which the CER Monetization Program guidelines aim to satisfy. The six criteria are to:

- Optimize revenues;
- Minimize risks;
- Enhance transparency;
- Be inclusive;
- Be cost effective; and
- Make funding rapidly available.

13. These overall objectives and six related criteria establish the framework for how the CER Monetization Program is structured.

### **III. RULES GUIDING THE EXECUTION: THREE-TIERED APPROACH**

14. It may not be possible to achieve all these criteria at the same time, and in certain circumstances tradeoffs may have to be considered. To help address this, the CER Monetization Program guidelines outline an approach consisting of:

- Ongoing mechanistic sales conducted on liquid carbon exchanges (including auctions);
- Over-the-Counter (“OTC”) sales through dealers in the case of high CER inventory;
- Sales directly to governments and other institutions; and
- Request for guidance from the AF Board under exceptional market circumstances.

15. The Guidelines may be amended or supplemented by decision of the AF Board, with the agreement of the Trustee.

16. See *Table 1* at the end of this Section for an illustration of how the three-tiered approach meets each of the Program’s objectives and corresponding criteria.

### **Ongoing Mechanistic Sales Conducted on Liquid Carbon-Exchanges**

17. The Trustee will follow a mechanistic approach for CER sales executed on exchanges and will not try to time the market or make forecasts as to the direction of CER prices. The

approach described below will be driven by the volume of incoming CERs, exchange liquidity and desired inventory levels.

- (i) Continuous execution of spot straight sales on liquid exchanges
  - a) The Trustee will primarily conduct straight spot sales (meaning sales executed spot, according to the way trades are normally executed on the exchange, as opposed to a specific form of auction or any form of customized and out-of-the-ordinary transaction), whenever possible on every trading day on the selected exchange(s). The size and the number of transactions executed on a given day will be determined by the Trustee so as to:
    - Maximize, to the extent possible, the volume of CER spot sales conducted on exchanges over the period of the CER Monetization Program.
    - Accommodate the liquidity on the exchange and not move or disrupt the market price. To determine the size and number of transactions, the Trustee will rely on indicators made public by exchanges such as the total number of trades per day and the average size of a transaction.
    - Spread the sales of CERs over time so as to average CER market prices. At the beginning of each quarter, the Trustee will determine the planned daily sales volume for such quarter based on the amount of CERs issued during the previous quarter and based on the volume of CERs expected to flow into the AF account, with the goal being to spread transactions evenly throughout the upcoming quarter.
  - b) The Trustee will keep records of all transactions executed on the selected exchange(s). In particular, the record of daily number, volume and selling price of transactions will be kept as well as the corresponding data applicable to the exchange.
  - c) The Trustee will monitor over time the effective presence and access to the selected exchange(s) of compliance buyers and investors, either directly or through brokers.
  - d) The Trustee will conduct trades on an anonymous basis.
  - e) The Trustee will mitigate settlement risk by using the delivery-versus-payment settlement facility provided by the exchange. The Trustee will interrupt trading whenever and as long as this facility is discontinued.

- (ii) Limited use of futures contracts
  - a) Although the Trustee will sell CERs on selected exchanges primarily through spot contracts, the Trustee may use futures to a limited extent. Specifically, the Trustee will sell CERs on exchanges using futures contracts only to: access through the futures contracts a liquidity which is manifestly lacking on the spot contracts in the selected exchange(s); and maintain a presence in futures CER trading to diversify selling channels and maintain a continuous and seamless access to CER markets.
- (iii) The Trustee will determine the maximum amount of sales through futures contracts based on their characteristics and associated costs and risks:
  - a) The Trustee will place a limit on selling CERs through futures contract derived from the costs and risks associated with “margin calls” or collateral requirements. Selling futures could entail the transferring of cash, known as “collateral”, or “margin”, to the exchange or the clearing house performing the settlement functions for the exchange. An initial margin deposit, which would be made in cash in the case of the AF, is required whenever a futures position is opened. With market movements, the margin is recalculated over time, resulting in margin adjustments or “margin calls” and the possible provision of additional collateral until the futures contract is closed. While all margin posted is returned at the expiration of the contract, a sharp increase in the price of CERs could entail suddenly raising large amounts of cash to post as collateral.
  - b) The Trustee will set the limit on future trades of CERs in the following way; determine the cumulative size of futures trades so as to cap to a reasonable amount the margin call, not to exceed €20 million, which would result from the strongest possible increase in the CER price. Cash used will be put aside in the Trust Fund cash account. The amount of CERs that should be delivered at expiration will be kept aside as well in the CDM registry account of the AF.
  - c) The Trustee will furthermore limit the trading on futures based on the AF’s objective of rapid availability of funds. Currently CER futures contracts only have liquidity for December expiration. Therefore, cash proceeds from the sales will not become available until the end of a given year. The Trustee will continuously assess the availability and liquidity of futures contracts with intermediate expiry dates (March, June and September for instance). In determining the maximum amount of futures sales in a given year, the Trustee will incorporate the objective of keeping

a cash inventory in the AF Trust Fund cash account commensurate with the expected disbursements of the AF throughout the year.

- (iv) Selection of exchanges based on their strength, reputation and liquidity
  - a) Several exchanges have been established for emissions trading; the largest are ICE/ECX, and the BlueNext environmental exchange. The Trustee will continue to monitor the evolution of the status and offering of the various exchanges in competition in carbon markets according to the criteria used for the initial selection, and will adapt accordingly its selection of exchanges in the future.

### **OTC Sales**

18. OTC transactions will be considered in the following situations:
- i) Over-accumulation in the AF CER account due to high rates of CER issuance by the CDM, temporary suspension of ongoing mechanistic sales, or other reasons.
  - ii) Illiquid markets for certain types of CERs after careful separation of the AF CERs ('green' CERs, CERs generated by large hydros, industrial gas, etc.)
  - iii) To attract potential price or volume advantages for 'green' CERs.
  - iv) To accelerate the availability of cash in response to the need for new project financing expressed by the AF.
  - v) To accelerate the availability of cash for administrative costs associated with the management of the AF Trust Fund.
19. **Execution of an OTC transaction:** The Trustee will determine the size and timing of the OTC trade based on ongoing consultation with dealers involved in carbon markets. The Trustee will select the dealers that will participate in the OTC sale based on an objective process, using the same general criteria that the Trustee uses when selecting dealers for its own capital market operations. In respect of a particular transaction, the Trustee will consult with dealers and seek their advice. The quality of the recommendations applicable to the specific transaction under consideration will be among the criteria the Trustee will use to select the dealers who will participate in the transaction.
20. When executing an OTC sale, the Trustee will verify the distribution of CERs to buyers achieved by the selected carbon dealer. The Trustee will ensure that the distribution meets the requirement of the CER Monetization Program for inclusiveness of all interested CER buyers.

This includes making sure that as many as possible compliance buyers and governments will be made aware of, and given the opportunity to participate in, the OTC sale. While the sale price achieved in an OTC sale may not be directly comparable to prices then prevailing on exchanges, notably because of its larger size making it non-tradable on any existing exchange, the Trustee will monitor the pricing based on a number of public price references.

21. The Trustee will ensure that the settlement processes applicable to OTC transactions are 'Delivery-Versus-Payment (DVP) processes to limit counterparty credit risk for the AF.

### **Direct Sales to Governments and Institutions**

22. While CER sales on exchanges and via OTC transactions will be the principal methods for monetizing Adaptation Fund CERs, direct sales to governments and institutions will be considered in the following situations:

- i) Over-accumulation in the AF CER account due to high rates of CER issuance by the CDM, temporary suspension of ongoing mechanistic sales, or other reasons.
- ii) Illiquid markets for certain types of CERs, after careful separation of the AF CERs ('green' CERs, CERs generated by large hydros, industrial gas, etc.)
- iii) To accelerate the availability of cash in response to the need for new project financing or for administrative costs associated with the management of the AF Trust Fund.
- iv) Governments or institutions express an interest in purchasing CERs, subject to the criteria below.

23. **Execution of direct sales:** Direct sales to governments and institutions would be undertaken only if there is a net benefit to the Adaptation Fund when compared with the alternatives of selling through exchanges or OTC transactions. .

24. Direct sales to national governments and institutions must meet the CMP principle of cost-effectiveness. Under normal circumstances, transaction costs associated with such sales could be high, as sales would require the negotiation and execution of a legal agreement for the sale, incurring legal and other costs both to the Adaptation Fund (through the trustee administrative budget), as well as to the buyer. Such a sale may also require an analysis of any tax, regulatory and other issues related to CER sales to be settled in the buyer's jurisdiction.

25. Thus, direct sales to national governments and institutions would only be undertaken if the buyer agrees to purchase a minimum of 500,000 CERs, subject to review and adjustment by the trustee based on prevailing CER market prices, thereby rendering the costs of the sale comparable to alternative sales methods. The trustee has the right not to proceed with any particular transaction.

26. The Trustee will ensure that the settlement processes applicable to direct sales transactions are DVP processes to limit counterparty credit risk for the AF.

27. Sales to national governments and institutions would be disclosed publicly. The ability to sell Adaptation Fund CERs directly to governments and institutions would be communicated in advance of any sales. The results of any sales, including amounts and average prices would be reported by the trustee in the quarterly financial reports to the Board; such reports are publicly available on the Adaptation Fund website.

### **Further Requests for AF Board Guidance**

28. If extraordinary events occur that make compliance with the guidelines impracticable or impossible, the Trustee will report to the AF Board and request further guidance from the AF Board. An extraordinary event would include any event that results in extreme movements in prices and/or liquidity of CERs or in carbon markets generally. Such an event could be brought on by global macro-economic conditions, events specific to the CER markets, or a significant governance or economic policy change in the Kyoto Protocol, the UNFCCC or the global institutional framework for climate change.

29. In such event, the Trustee will provide the AF Board with relevant information about the event and its impact on the market and will propose alternative courses of action for consideration by the AF Board. The Trustee will act only upon these AF-Board approved Guidelines, AF Board decisions adopted according to AF Board rules and procedures, or written instruction from the AF Board Authorized Designee<sup>25</sup>, in accordance with its Terms and Conditions.

30. The Trustee will suspend spot sale transactions under the CER Monetization Program if the CER market infrastructure becomes impaired. If the market infrastructure remains disrupted over an extended period, the Trustee will seek guidance from the AF Board. The Trustee will then present specific short-term funding options based on then-existing market conditions and limitations.

### **Settlement**

31. **Settlement of a CER transaction:** The Trustee may settle trades directly, or rely on a bank to perform settlement functions (the “Settlement Agent”) as follows:

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<sup>25</sup> The Chair of the Adaptation Fund Board or authorized designee



- i) The Trustee will close a selling transaction with an eligible counterparty, either on an exchange or OTC. In the case of a spot transaction, on the settlement date, the trustee (or Settlement Agent) will then ensure that the CERs are delivered to the buyer while the payment in cash is received by the trustee for credit to the AF Trust Fund. The trustee will endeavor to use the DVP framework of an exchange, whereby confirmation of payment is received prior to delivery of the CERs. In case it is not possible on the exchange, the trustee will seek to settle outside the exchange on a DVP basis. Based on instructions from the trustee, the CERs sold will be transferred from the AF account in the CDM registry to the trustee's account in the registry used for settlement, and then to the clearing house. The buyer's cash payment will be transferred from the buyer's account to the clearing house, and then to the AF Trust Fund cash account. The cash proceeds from the monetization will then be held in the AF Trust Fund.

32. **Selection of a Settlement Agent:** If the Trustee uses a Settlement Agent the selection of the Settlement Agent will be in a transparent manner following the procurement guidelines of the World Bank. Only firms that have experience in carbon trading and a strong settlement department will be considered for the role of Settlement Agent.

## Summary

TABLE 1

	<b>Optimization of Revenues</b>	<b>Minimization of Risk</b>	<b>Transparency</b>	<b>Inclusiveness</b>	<b>Cost Effectiveness</b>	<b>Funding Availability</b>
<b>Start of Monetization</b>	After Connection	After Connection	After Connection	After Connection	After Connection	Before Connection
<b>Ongoing Straight Sales on exchanges</b>	Price efficiency in developed Market	Spot transactions, averaging of prices, DVP settlement	Liquidity and price transparency in large and developed exchanges	Large fraction of compliance buyers, either directly or through brokers trade on selected exchanges	Trading on exchange avoids dealer's fee. Cost of exchange membership	Spot transactions make funding immediately available (approx. 1 wk)
<b>OTC sales through dealers based on criteria</b>	Efficient distribution and price discovery by dealers. Pricing checked by Trustee	DVP settlement applies. Dealers provide information on market price evolution and best timing	The Trustee checks the pricing with public prices (exchanges or brokers). The Trustee has access to the order book of the dealer(s)	The dealer is requested to distribute broadly to all compliance buyers	Dealer's fee controlled by competitive selection process of dealer(s)	Immediate and large funding availability
<b>Direct Sales to Governments and Institutions</b>	Price would be at minimum of the average bid-ask spread	DVP	All sales would be publicly disclosed in the trustee's financial status reports to the AF Board	Any government would be eligible to purchase CERs; institutions may be subject to prior due diligence by the trustee	Minimum purchase of CERs would be required to ensure at least comparable	Depends on the number of countries and institutions likely to avail of this

					cost to other sales methods	option
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#### IV. REPORTING

33. On a quarterly basis, the Trustee will provide the AF Board with a report on its activities undertaken under the CER Monetization Program.

34. The report will communicate the details of the trading activity in CER markets undertaken by the trustee on behalf of the AF. In such quarterly reports, the following information will be provided:

- Tonnage of CERs held by the AF CER account at the beginning and at the end of the period;
- Volume of new CERs tonnage entering the account of the AF in the CDM registry during the quarter; total volume of CERs having entered the AF CER account with the CDM registry since inception;
- Volume of sales of CERs executed during the quarter, and since the beginning of the calendar year; these volume of sales will be broken down into three categories: 1) spot sales on exchanges, 2) futures sales on exchanges, 3) OTC sales, and 4) sales to governments.
- Revenues in cash associated with the sales of CERs (in Euros and in US dollars) during the quarter, and since the beginning of the calendar year; these revenues will be broken down into four categories: 1) spot sales on exchanges, 2) futures sales on exchanges, OTC sales, and 4) sales to governments.
- Average sales price per ton sold (in Euros and in US dollars) during the quarter, and since the beginning of the year for CERs sold either spot or futures on exchanges, OTC, or to governments;
- For futures trades, the tonnage of CERs to be delivered at various maturities in the future (for instance the December maturity of the year under review) and the cash amount to be received (in Euros or in US dollars) at the expiration of the contracts. The report will indicate the value placed or received as collateral, the average at the beginning and at the end of the period.

35. In a highly volatile market, the Trustee will report on a more ad-hoc basis.