



ADAPTATION FUND

AFB/EFC.15/8
8 October 2014

Adaptation Fund Board
Ethics and Finance Committee
Fifteenth Meeting
Bonn, Germany, 7-8 October 2014

Agenda item 7

REPORT OF THE FIFTEENTH MEETING OF THE ETHICS AND FINANCE COMMITTEE

Agenda Item 1: Opening of the meeting

1. The Vice Chair of the Ethics and Finance Committee (EFC), Ms. Irina Pineda Aguilar (Honduras, Latin America and the Caribbean) opened the meeting and greeted the participants at 9.15 a.m. on 7 October 2014.

2. She reminded the EFC that Mr. Peceli Vocea (Fiji), the Member for the Small Island Developing States, had passed away in June 2014 and the Committee observed a minute of silence in his memory. Committee members told anecdotes about him, centred around his love of rugby, as a celebration of his life.

Agenda Item 2: Organizational matters

(a) Adoption of the agenda

3. The agenda below was based on documents AFB/EFC.15/1 (Provisional agenda) and AFB/EFC.15/2 (Annotated provisional agenda). The Chair noted that there would be two subitems under item 9, Complaints Handling Mechanism; an additional subitem under item 11, Financial Issues: consideration of some options to be offered by the UNFCCC; and consideration of the Project Performance Report for Georgia under item 12, Other Matters.

4. With those clarifications, the agenda was adopted.

1. Opening of the meeting
2. Organizational matters
 - (a) Adoption of the agenda
 - (b) Organization of work
3. Modified accreditation process for small entities
4. Annual performance report for the fiscal year 2014
5. Portfolio monitoring: report of the mission to Jamaica
6. Designation of Multilateral and Regional Implementing Entities
7. Zero tolerance policy for corruption
8. Risk management framework
9. Complaint handling mechanism
10. Implementation of the code of conduct
11. Financial issues
 - (a) Financial status of the Trust Fund and CER monetization

(b) Reconciliation of the Board and secretariat, and trustee budgets for the fiscal year 2014

12. Other matters

13. Adoption of the recommendations and report

14. Closure of the meeting

(b) *Organization of work*

5. The Committee adopted the organization of work proposed by the Chair.

6. In accordance with paragraph 29 of the rules of procedure, the Chair then called upon all EFC members to orally declare any conflict of interest that they might have with any item on the current meeting agenda. Mr. Aram Ter-Zakaryan (Armenia, Eastern Europe) said that he would potentially have a conflict in any discussion of UNDP projects and Ms. Medea Inashvili (Georgia, Eastern Europe) said that she would have a conflict in the discussion of the project in Georgia.

7. The Chair welcomed Ms. Wenhong Huang (China, Non-Annex I Parties), a new member who had been unable to attend the 14th meeting. Ms. Huang greeted the members and briefly introduced her professional background.

Agenda Item 3: Modified accreditation process for small entities

8. The representative of the secretariat drew attention to document AFB/B.24/4, Report of the Accreditation Panel, Annex I, which provided an update on the Panel's experience gained to date in operationalizing the Streamlined Accreditation Process and on advising two small national implementing entities (SNIEs) on ways in which to address the requirements of the fiduciary standards. She recalled that when considering the report of the Accreditation Panel at its twenty-second meeting, the Board had deliberated over the possibility of the Fund's opening a small grants window. At the request of the Board the Panel had presented options for how a mechanism for accreditation of small entities could be operationalized (document AFB/EFC.14/3). Following consideration of the options presented, the Board had decided to continue its consideration of approval for accreditation of small entities on the basis of Option 2 (Streamlined Process) as outlined in the document. That entailed keeping the fiduciary standards unchanged and examining how smaller entities could comply with them. At present, the Accreditation Panel was working with two SNIES to examine the requirements for them to meet the terms of the Board decision.

9. She drew attention to the working definition of an SNIE, emphasizing that the definition did not preclude a small entity from meeting the fiduciary standards without need for compensatory measures, as "any entity which has: (a) a small human resource base (approximately 20 or fewer); (b) less than US \$550,000 annual administrative and operating budget; and (c) project management competencies concentrated on handling project amounts under US\$ 100,000. There were certain risk factors affecting the channeling of funds to smaller entities, such as relatively limited and relatively informal internal control systems; a lack of clarity, or overlaps, in responsibility for projects; the organization's ability to withstand a shock such as a dramatic change in financing; or high staff turnover. More detail on those issues was given on page 12 of the annex to document AFB/B.24/4.

10. She added that there was some urgency to finding ways to solve such problems of small entities. In two of the readiness seminars held so far, the secretariat had encountered several small entities that were eager to obtain accreditation and thereby gain access to Fund resources. In response to a Committee member, she said that much of the work with SNIEs would be on a case-by-case basis, as some features could not be generalized. The important factor was that small entities should know that there was a procedure for them to be accredited. The unique feature of any procedure would be the setting of a limit on the level of Fund resources that entities could access. When they had then successfully completed a small project, they might perhaps be approved for a larger one.

11. The Committee welcomed the work so far on this issue, with some members making minor drafting suggestions.

12. After reviewing document AFB/B.24/4, Report of the Accreditation Panel, Annex I and the ensuing discussion, the EFC recommended that the Board:

- a) Welcome the progress made by the Accreditation Panel in developing and applying a streamlined accreditation process for small national implementing entities to the two cases currently under review and
- b) Encourage the Accreditation Panel to:
 - (i) Finalize its work on the two cases mentioned above and
 - (ii) Present a standardized streamlined accreditation process for SNIEs for consideration by the Board at its 25th meeting.

(Recommendation EFC.15/1)

Agenda Item 4: Annual performance report for the fiscal year 2014

13. The representative of the secretariat noted that document AFB/EFC.15/3 was the Fund's third performance report, covering the period 1 July 2013 to 30 June 2014. She drew attention to areas of performance that had changed from prior years. For example, in terms of sector allocation, in 2014 the largest grant amount had gone to adaptation projects in the Rural Development sector, with US\$ 42.1 million approved for six projects, a sector which the year before had been near the bottom. Alternatively, there were areas covered in the 2014 report which were expected to change in the next one. For example, in 2014 there had been only six project approvals, five of which were funded out of the pipeline; however only one new project approval had taken place during the reporting period for an NIE. The approvals for FY15 were expected to improve dramatically in the following year given the increase in NIE project submissions

14. Some Committee members, noting that the Performance Report was the Fund's presentation of its work to the outside world, suggested that it should have an executive summary, particularly focusing on the Fund's specialty of direct access. Outside readers were not going to wade through large amounts of verbiage.

15. The representative of the secretariat replied that the Report was a management tool for the Board that is available publicly.

16. Having considered document AFB/EFC.15/3 the EFC recommended that the Board approve the Adaptation Fund's Annual Performance Report FY 2014 contained in document AFB/EFC.15/3, stipulating that in the future the report include an executive summary.

(Recommendation EFC.15/2)

Agenda Item 5: Portfolio monitoring: report of the mission to Jamaica

17. This item was considered in a joint session with the PPRC.

18. Representatives of the secretariat reported on the mission to Jamaica, to examine the direct access project, "Enhancing the resilience of the agricultural sector and coastal areas to protect livelihoods and improve food security", implemented by the Planning Institute of Jamaica (PIOJ). They stressed that the mission had four objectives: to collect lessons learned from the direct access experience; to learn how the programme had been integrated within the national adaptation planning process in order to have a better understanding of the steps taken to engage with and involve the private sector in the programme activities in the Negril area and in the agricultural sector; and to collect information on the management of environmental and social risks..

19. It had been found that the direct access experience had been beneficial in terms of country ownership. The fact that a government entity was responsible for the implementation of the project ensured smooth communication among central and extension technical services, and allowed better consideration of previous initiatives in order to build from those and ensure synergies among existing ones.

20. It had also been found that engaging with private sector stakeholders in adaptation projects requires special attention going beyond what is needed from normal stakeholder community engagement. It was crucial to engage with private sector stakeholders early enough, comprehensively and continuously, to maintain support and momentum. Lessons from previous project interventions could offer valuable insights to the functioning of and interaction with such communities.

21. Details of the activities undertaken during the mission, and more detail on the conclusions reached, could be found in document AFB/EFC.15/4. The representatives of the secretariat reported that according to recent communications, the opposition to part of the project from the hotel owners, as described in the mission report, was becoming less unified.

22. After consideration of document AFB/EFC.15/4, and a discussion, the EFC recommended that the Board take note of the report of the portfolio monitoring mission to Jamaica.

(Recommendation EFC.15/3)

Agenda Item 6: Designation of Multilateral and Regional Implementing Entities

23. The representative of the secretariat recalled that at its 23rd meeting the Board had decided to request the secretariat to prepare a document on the designation of Multilateral and Regional Implementing Entities that should draw on the classifications of other organizations and should include the resource implications for any changes made to those classifications. Document AFB/EFC.15/5 addressed that request. She also recalled that the issue of

designation had arisen from the consideration of whether development banks were more akin to MREs or RIEs.

24. After examination of several funding entities, it had become evident that there is no clear definition for how to classify the four major regional development banks. However, it was clear from the Fund's OPG and the initial invitation from the Board to 15 entities to serve as MIEs, that the Board had originally been of the opinion that ADB, AfDB, IADB, and EBRD were closer to MIEs than RIEs.

25. It was noteworthy, however, that after accepting to serve as MIEs, none of the regional development banks had submitted proposals, with the sole exception of the IADB which had submitted a concept proposal for Peru. When they had joined the list of MIEs, there had been funds available for MIE projects. Now, however, with the cap for MIEs having already been reached, if they were to submit projects, such projects would go straight into the pipeline. If on the other hand the regional development banks were to be classified as RIEs, then their projects would be eligible for funding.

26. Some members of the Committee observed that the overriding factor was whether accrediting an entity gave individual countries better chances of access to funding, or not. It was agreed that that issue should be part of a wider-ranging discussion.

27. The Committee took note of the information contained in document AFB/EFC.15/5.

Agenda Item 7: Zero tolerance policy for corruption

28. The Manager of the secretariat recalled that the Board at its 23rd meeting had considered a proposal put forward by the Chair to adopt a zero tolerance policy for corruption. The Board had decided to request the secretariat to present for consideration by the EFC at its 15th meeting a draft policy of zero tolerance for corruption. She presented the secretariat's proposal for a zero tolerance policy for corruption applicable to the Board.

29. She said that different institutions handle zero tolerance for corruption in various ways. Some had a written policy, in others it was subsumed under their wider ethical standards. The secretariat's proposal was that Board issue a statement on zero tolerance for corruption that would cover the Board members. (All other stakeholders were already subject to a related policy: for example, secretariat members were covered by the World Bank rules and the implementing entities by their own policies assessed at the time of their accreditation)

30. Such a statement would strengthen the existing rules, as contained for example in the rules of procedure of the Board and the code of conduct.

31. Some members of the Committee felt that the policy proposed was drafted too widely. They also saw a need for an additional step, probably a due diligence investigation, to be incorporated into the steps to be taken following suspicion of corrupt behaviour.

32. The Manager of the secretariat pointed out that neither the Board nor the secretariat had an investigative function, and thus had to rely on the investigation performed by the implementing entity, which was a step it was contractually required to carry out. The Committee also suggested firstly that a member about whom a complaint has been raised must be heard and secondly that any recommendation must be properly documented. It was agreed that part

of the purpose of the new policy was to give people comfort that the EFC would follow a fair, robust and transparent process before submitting a matter to the board.

33. The recommended decision is below in agenda item 8.

Agenda Item 8: Risk management framework

34. The Manager of the secretariat recalled that the Board at its 23rd meeting had decided to request the secretariat to present for consideration by the EFC at its 15th meeting an overview of existing policies and procedures addressing management of risks in the Fund's operations, including any proposals for amendments, as appropriate.

35. She drew attention to the current applicable rules and procedure of the Fund and the practice developed by the Board, the EFC and the Accreditation Panel to address risk management, as listed and tabulated in a confidential discussion document. Thus, tools to handle risk management were already in existence, and already in use. It was now proposed to broaden the scope of relevant parts of the Operational Policies and Guidelines (OPG), and to document the procedure followed.

36. She drew attention to a proposal for strengthening the OPG, as set forth in the proposal presented.

37. It was suggested that any new process developed should not be too prescriptive, as that might unexpectedly preclude consideration of certain cases. It was also suggested that there was a need for a clear distinction to be drawn between "cancelation" and "suspension" of an entity's accreditation status.

38. Following the discussion, the Ethics and Finance Committee recommended that the Board:

- a) Approve:
 - (i) The proposed zero tolerance policy, as contained in Annex 2 to this report; and
 - (ii) Amendments to paragraph 40 and 41 of the operational policies and guidelines for Parties to access resources from the Adaptation Fund, as contained in Annex 3 to of this report;
- b) Amend the code of conduct of the Board referencing the zero tolerance policy and including in its text "as amended from time to time;" and
- c) Request the secretariat to:
 - (i) Provide Board members and Alternates with an updated text of the code of conduct and request that they sign a receipt of such updated code. The updated text of the code of conduct will be circulated together with the oath of service to new Board members and Alternates;
 - (ii) Revise the risk management framework, circulate to the Board for intersessional approval and publish it on the Fund website.

Agenda Item 9: Complaint handling mechanism

(a) Review of the fiduciary standard on transparency, anti-corruption measures and self-investigative powers of an implementing entity for which a complaint was raised

39. The Manager of the secretariat recalled that at the request of the Board, the Accreditation Panel had performed a review of the fiduciary standard on transparency, anti-corruption measures and self-investigative powers of an implementing entity for which a complaint was raised.

40. During this agenda item the member of the Accreditation Panel in charge of the review, Ms. Angela Palacio, and the legal counsel advising the secretariat, Ms. Maria Dakolias, participated by telephone.

41. Consequently, the Accreditation Panel had undertaken a review, the objective of which was to assess whether the transparency, self-investigative powers, and anti-corruption measures taken by the implementing entity were adequately designed and operating effectively. The implementing entity has informed the secretariat that it will be submitting the audited financial statement due in July 2014 corresponding to a project formulation grant by end of October 2014.

42. The implementing entity had not fully demonstrated that the current structure and procedures within the implementing entity and the Ministry of Environment were functioning effectively to handle cases of fraud, financial mismanagement and other irregularities. That conclusion was drawn on the basis of the lack of compliance with various provisions of the anti-fraud policy.

43. Consequently, upon review of the background facts, Decision B.22/21, and the findings of the special review by the Accreditation Panel, the EFC recommended that the Board:

- (a) Note the recommendations by the Accreditation Panel to:
 - (i) Suspend the accreditation of the implementing entity;
 - (ii) Provide the implementing entity the opportunity to take the necessary corrective actions as well as to ensure that information requested from the Inspector General of the Ministry of Environment is provided to the Accreditation Panel within a reasonable deadline not to exceed 60 days;
- (b) Note the information provided by the implementing entity concerning the submission of the audited accounts of the project formulation grant by end of October 2014.
- (c) Before further action is taken to suspend the implementing entity's accreditation status as a national implementing entity, request the secretariat to inform the implementing entity of the outcome of the review and that it will be provided with a fair chance and opportunity to present its views to the Board, pursuant to paragraph 39 of the OPG, version November 2013, attached to the PFG

agreement with the implementing entity, and make the necessary arrangements for the implementing entity's presentation.

(Recommendation EFC.15/5)

(b) NIE National Environment Management Agency of Kenya

44. A matter had been brought to the attention of the EFC, which in exercise of its mandate engaged with the Designated Authority of Kenya and satisfied itself that there was no issue related to the project.

Agenda Item 10: Implementation of the code of conduct

45. The Chair drew the attention of the Committee to the code of conduct posted on the Fund website. No matters were raised under this item.

Agenda Item 11: Financial issues

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

46. The representative of the trustee reported on the financial status of the Adaptation Fund Trust Fund. At the end of June 2014, total revenue to the Adaptation Fund amounted to \$404.1 million, of which \$190.4 million was from CER sales, and \$213.7 million from donations. Funds available for new project and program approvals amounted to \$150.7 million, an increase of \$8.1 million since the previous reporting period (31 March 2014). The trustee reported that CER sales continued, using different approaches, with an implicit objective of reducing the inventory of CERs from the First Commitment Period that were expected to expire around March 2015. During the last quarter the Trustee had sold 1.47 million tons and generated \$410,000 in sales proceeds. The average price achieved in the quarter had been EUR 0.19. During the reporting period, the trustee had executed a donation agreement with Finland for EUR 5 million, and contributions from Austria of EUR 500,000 had been received. Finally, the trustee reported that the Single Audit of Trust Funds, including the Adaptation Fund Trust Fund, had been prepared and, in accordance with World Bank information disclosure practices, was now available on the Bank's external website.

Presentation by the UNFCCC secretariat

47. The Committee received a presentation from the UNFCCC secretariat outlining its proposal to purchase AF CERs from the trustee for the UN's offsetting program. The Committee acknowledged that the proposed programme was not expected to provide significant additional resources to the Fund, but agreed that it could be useful to promote the Adaptation Fund. As the volume of sales could comprise a significant portion of the annual flow of CERs to the Fund, the Committee requested that the terms of sales to the UNFCCC secretariat reflect the value of AF CERs and that a premium price apply to such sales. The UNFCCC secretariat also reported that it was developing an on-line system for private individuals to purchase CERs that could eventually be available for use by the trustee as a new sales channel to monetize AF CERs. The Committee thanked the secretariat for its presentation, noting that additional details on the legal, cost and other implications of the on-line system were needed before this option could be considered, and requested the Trustee to coordinate with the UNFCCC secretariat, assess the potential benefits and costs of AF CERs being offered on the on-line public CER

cancellation website being developed by the UNFCCC secretariat, and report the findings to the EFC intersessionally.

48. The EFC took note of the information presented by the representative of the trustee.
49. Having considered the request of the UNFCCC secretariat to purchase Adaptation Fund CERs, the EFC recommended that the Board:
 - (a) approve such sales on the terms as outlined in Annex IV of this report; and
 - (b) request the trustee to coordinate with the UNFCCC Secretariat to analyze the potential benefits and costs of AF CERs being offered on the on-line public CER cancellation website being developed by the UNFCCC, and report the findings to the EFC intersessionally.

(Recommendation EFC.15/6)

(b) Reconciliation of the Board and secretariat, and trustee budgets for the fiscal year 2014

50. The representative of the secretariat presented the reconciled budget for fiscal year 1 July 2013 - 30 June 2014.
51. She also presented the reconciled readiness programme budget for fiscal year 1 July 2013 - 30 June 2014 and explained that more details on the programme would be provided in the secretariat's report.
52. The EFC took note of the reconciled administrative budgets of the Board and secretariat, and trustee for the fiscal year 2014.

Agenda Item 12: Other matters

Report on project/programme implementation: UNDP (Georgia)

53. The representative of the secretariat reported that the secretariat had received the second annual project performance report (PPR) for the project Developing Climate Resilient Flood and Flash Flood Management Practices to Protect Vulnerable Communities of Georgia implemented by the United Nations Development Programme (UNDP) in Georgia. The secretariat had undertaken a review of the PPR following the process approved by the Board, found that the information provided was complete and cleared the PPR.
54. Following the recommendation of the secretariat after its review and clearance of the second annual project performance report provided by the United Nations Development Programme (UNDP), the Ethics and Finance Committee recommended that the Adaptation Fund Board:
 - a) Approve the third tranche of funds requested by the United Nations Development Programme (UNDP) for the implementation of the project Developing Climate Resilient Flood and Flash Flood Management Practices to Protect Vulnerable Communities of Georgia in the amount of US\$ 1,495,951, and

- b) Request the trustee to transfer to UNDP US\$ 1,495,951 as agreed to in the disbursement schedule included in the project agreement.

(Recommendation EFC.15/7)

Agenda Item 13: Adoption of the recommendations and the report

55. The present report was adopted based on the draft report of the Committee contained in document AFB/EFC.15/L.1, as orally amended.

Agenda Item 14: Closure of the meeting

56. The meeting closed at 8 p.m. on 8 October 2014.

ANNEX I

Ethics and Finance Committee Fifteenth Meeting Bonn, Germany, 7 and 8 October 2014

EFC members present at the meeting

Ms. Irina Helena Pineda AGUILAR (Vice-Chair) (Honduras, Latin America and the Caribbean)

Mr. Zaheer FAKIR (South Africa, Africa)

Mr. Alamgir Mohammed Monsurul ALAM (Bangladesh, Asia)

Ms. Medea INASHVILI (Georgia, Eastern Europe)

Mr. Aram TER-ZAKARYAN (Armenia, Eastern Europe)

Mr. Philip WEECH (Bahamas, Latin America and the Caribbean)

Mr. Adao Soares BARBOSA (Timor Leste, Least Developed Countries)

Ms. Ana FORNELLS DE FRUTOS (Spain, Annex I Parties)

Ms. Patience DAMPTEY (Ghana, Non-Annex I Parties)

Ms. Wenhong HUANG (China, Non-Annex I Parties)

ANNEX II

Proposed Zero Tolerance Policy for the Board

1. The Adaptation Fund Board (the Board) puts in place requirements so that recipients use the Adaptation Fund's (the Fund) resources only for the purposes intended. The Fund's policy on fraud and corruption is one of zero tolerance. Fraud and corruption is against the Fund's policies, procedures, standards and resources and not be tolerated because it:

- Diverts vital resources from the most vulnerable groups;
- Breaches the Board's public service ethics and core values;
- Damages the Fund's reputation for sound financial management; and
- Challenges the Fund's "fitness for purpose" and credibility in the eyes of its stakeholders and International partners.

2. Board members and alternates refrain from condoning, supporting or otherwise failing to address fraudulent or corrupt behaviour that may affect the Fund's decision making process and operations, either by their peers or by anyone actually or potentially involved in the Fund's operations.

3. Board members and alternates report to the Ethics and Finance Committee (EFC) Chair or Vice-Chair any information of fraud and corruption that may affect the Fund's decision-making process and operations. If the information relates to the EFC Chair or Vice-Chair, Board members and alternates report such information to the Board Chair or Vice-Chair, as appropriate. Any information relating to fraud and corruption is placed on the next EFC agenda for discussion. A fair chance to present its case to the EFC will be given to any Board member or Alternate member about whom a complaint has been raised. The EFC makes a recommendation to the Board for approval. Any recommendation is based on the evidence before the EFC.

4. The Board utilizes the appropriate channels available to pursue fraud and corruption, including the procedure for termination of Board membership outlined in paragraphs 52 to 54 of the rules of procedure of the Adaptation Fund Board.

ANNEX III: Proposed amendments to the Operational Policies and Guidelines (OPG)

40. The Board may consider suspending or cancelling the accreditation of an implementing entity for reasons that include, but are not limited to:

- (a) Misrepresentation or intentionally false information provided to the Board;
- (b) Substantive changes made by the IEF to its fiduciary standards and/or capacity and/or commitment to comply with the environmental and social policy determined by a review in accordance with paragraph 38 above; or
- (c) Misuse of project/programme resources as determined by the EFC or by the implementing entity's investigative function.

41. A decision to suspend or cancel an IE accreditation may be made at the recommendation by the Ethics and Finance Committee following a review by the Accreditation Panel in accordance with paragraph 38. A decision to suspend includes the necessary corrective actions for achieving compliance by a certain date and identifying the relevant fiduciary standards and/or environmental and social policy requirements, which is reviewed by the Accreditation Panel and the EFC as appropriate. The Board makes the final decision on the removal of suspension for the implementing entity to resume its accreditation status. Before the Board makes its final decision on whether to suspend or cancel the accreditation of an implementing entity, the entity concerned is given a fair chance to present its views to the Board.

ANNEX IV:

Note for the Adaptation Fund Board:
Adaptation Fund CER Sales by the World Bank as AF trustee
to the UNFCCC Secretariat for the UN's "Climate Carbon Neutral Now" initiative
AFB 24, October 2014

1.0 **Decision Requested:** The UNFCCC Secretariat seeks to purchase large quantities of Adaptation Fund (AF) CERs via its current purchase agreement with the trustee. The purpose of this Note is to inform the Board of this possibility, and seek the Board's approval to the Terms of Sales outlined herein.

2.0 **Background:** By intersessional Decision B.23-24/19, the AF Board welcomed the UNFCCC Secretariat's proposal to purchase AF CERs for its UN System climate neutrality program. The Board also requested the trustee and the secretariat to continue discussions with the UNFCCC Secretariat on the details of the proposed sales, and present a proposal to the Board for approval at its twenty-fourth meeting. The UN's Climate Neutral Now initiative will encourage all UN entities to offset their remaining emissions with CERs, inviting them to become climate neutral by 2020 at the latest. This initiative was launched in conjunction with the UN Secretary General's high-level climate summit in New York on 23 September 2014.

3.0 Terms of Sales to the UNFCCC Secretariat:

3.1 **Volume of Sales and Types of CERs offered for Sale:** It is estimated that the UNFCCC Secretariat would seek to purchase between 500,000 and 2 million CERs per year. Only CP1 CERs and those ineligible under EU-ETS would be available for purchase.

3.2 **Purchase Method:** A direct sales method would be used, to be reviewed annually (i.e. by October 2015). The UNFCCC secretariat has an established CER spot trading agreement with the trustee specifically for the purchase of AF CERs. The UNFCCC Secretariat would purchase all CERs on behalf of other UN organizations, providing a more direct and cost effective option for both the UN and the AF. AF CERs would be purchased in accordance with the AF's CER Monetization Guidelines. Purchases would also depend upon the availability of CERs for purchase in the AF Share of Proceeds account at the Clean Development Mechanism.

3.3 **Premium over market price:** A premium of 0.10 EUR per ton over prevailing market prices would apply to purchases, subject to review annually (i.e. by October 2015). The UNFCCC may also seek to purchase CERs derived from specific projects. Such CER purchases may also be facilitated by the trustee, and would be subject to a higher premium, of at least 0.10 EUR per ton.

4.0 Issues for Consideration by the Board:

4.1 **Benefits to the Adaptation Fund:** The trustee does not expect that these direct sales will generate significant additional revenue for the AF, when compared with current sales methods. Nevertheless, both the AF Secretariat and UNFCCC Secretariat have indicated their usefulness for awareness-raising, fundraising, or other purposes.

4.2 **Cost effectiveness:** The approach to use the existing purchase agreement between the trustee and the UNFCCC Secretariat presents a cost-effective method to undertake these transactions.

4.3 **Establishing the premium:** The AF Board has decided that CER sales to governments or institutions should be at a premium to prevailing market prices. Such premium should be sufficient to at least cover any estimated additional administrative, legal or other costs that may be associated with such sales, compensate the AF for any additional market risk (see below), and reflect the additional reputational value of supporting adaptation projects in developing countries. Purchase of AF CERs through the arrangement with the trustee may be more cost effective for such UN buyers than purchase of CERs from carbon dealers or by other means (e.g. to purchase larger volumes of CERs, organizations may require in-house ability to buy CERs on exchanges or through dealers, which would add to their total procurement cost). It is estimated that a premium of EUR 0.1 per ton meets these requirements.

4.4 **Volume of purchases by the UNFCCC:** The stock of CERs available in the AF Share of Proceeds amounted to approximately 8 million CERs as at end-September 2014; it is estimated that an additional 1-2 million CERs may be added per year. The volume of proposed annual CER purchases by the UNFCCC Secretariat could represent a significant share of the AF's current CER assets and expected annual flow. This could pose a market risk to the AF, when compared to the current approach to spread sales evenly over time to multiple buyers. Under current market conditions, however, this risk is likely to be low.