



ADAPTATION FUND

AFB/B.23-24

Adaptation Fund Board

**REPORT OF THE SIXTEENTH MEETING OF
THE ACCREDITATION PANEL**

WORK OF THE PANEL

1. The Accreditation Panel (the Panel) continued its work reviewing both new and existing applications. On 5-6 May 2014 the Panel held its sixteenth meeting at the secretariat's offices in Washington, DC. The Panel meeting allowed for an opportunity to hold teleconferences with applicants, to communicate application status, to ask questions, and to provide direct guidance on any additional documentation required. The Panel also used the meeting to reflect upon the trends observed in the accreditation process.

2. For the Panel meeting, one new completed application was received and the Panel continued its review of the applications of eight potential National Implementing Entities (NIEs), two potential Regional Implementing Entities (RIEs), and one potential Multilateral Implementing Entities (MIEs) that were previously reviewed but required additional information for the Panel to make its recommendations. By the time of the finalization of the present report, the Panel had concluded the review of one application:

Desert Research Foundation of Namibia (DRFN)

3. Ten applications (seven for potential NIEs, two for potential RIEs, and one for a potential MIE), are still under review by the Panel as per the list below. For purposes of confidentiality, only the assigned code is used to report on the status of each Implementing Entity's application.

- 1) National Implementing Entity NIE038
- 2) National Implementing Entity NIE039
- 3) National Implementing Entity NIE044
- 4) National Implementing Entity NIE046
- 5) National Implementing Entity NIE049
- 6) National Implementing Entity NIE054
- 7) National Implementing Entity NIE057
- 8) Regional Implementing Entity RIE007
- 9) Regional Implementing Entity RIE008
- 10) Multilateral Implementing Entity MIE014

Completed Cases

Desert Research Foundation of Namibia (DRFN)

4. The Desert Research Foundation of Namibia's application was first received in February 2012. The analysis of the application revealed several gaps, some of which were critical, in the applicant entity's capabilities in terms of the fiduciary standards.

5. The Panel followed up with DRFN in order to clarify the outstanding issues and reconsidered the application at its tenth-sixteenth meetings. On the basis of the information contained in the application and the additional information provided by the applicant, the Panel agreed to seek further clarification with the applicant on certain critical areas of the fiduciary standards.

6. At the fourteenth meeting, the Panel discussed the application and concluded that there were three areas where major gaps still remained: project appraisal, internal

audit, and internal control framework. The Panel agreed that prior to the fifteenth Panel meeting; it would be helpful to conduct a field visit to review in detail the systems the applicant has in place and better communicate the elements needed to meet the Fund's fiduciary standards.

7. The Panel conducted a visit to the entity at the end of February 2014. During the field visit, it was clear that the entity had many more systems in place than they were able to present via their application. The visit provided an opportunity for the Panel to explain the requirements and develop an action plan for the entity to fill the remaining gaps.

8. Based on the findings during the field visit and the subsequent clarifications and documents provided, the panel has concluded that the applicant now meets the requirements of the Fiduciary Standard and accordingly recommends that it be accredited as an NIE of the Adaptation Fund.

9. The Panel's report on its conclusions concerning DRFN's application for accreditation is contained in Annex I of this document.

Other cases under review

National Implementing Entity NIE038

10. The application was initially considered by the Panel at its eleventh meeting. The Panel agreed that many gaps needed to be addressed and raised a number of questions to be clarified by the applicant. The Panel took note of the fact that the applicant had received a US\$ 300,000 grant for capacity building to increase its capacity to manage climate financing and that these improvement actions are ongoing.

11. The applicant provided additional information, much of it relating to the efforts of capacity building but these are ongoing. The underlying hurdle is that the applicant only has experience to do routine small projects that would be very different from those it would need to implement for the Adaptation Fund. After the thirteenth meeting, the Panel did not hear back from the applicant with regards to several requests for updates.

12. The application was discussed during the fourteenth meeting and it was agreed that the Panel would correspond with the applicant to confirm the applicant's interest in continuing to pursue the application. The applicant confirmed strong interest in pursuing the application and explained that between the thirteenth and fourteenth Panel meetings the organization had a change in leadership with the appointment of a new executive director.

13. The new Chief Executive Officer reviewed the original application and resubmitted the information that continued to be relevant as well as updated information, and addressed the initial questions raised by the Panel. Almost 200 files were received in the middle of May and analyzed by the Panel which concluded that many of the original gaps still remain and this was communicated to the applicant mid-June. The Panel will continue its review of the application at its seventeenth meeting.

National Implementing Entity NIE039

14. The application was first considered at its tenth meeting. The Panel discussed the application and raised a number of questions to be clarified by the applicant.

15. During the course of the assessment the Accreditation Panel had several rounds of interaction, including several teleconferences with the applicant. In August 2012 the applicant submitted an action plan with timelines for developing capabilities in areas where substantial gaps existed vis-à-vis the Fiduciary Standards.

16. The applicant typically handles individual projects and grants of less than US\$ 50,000. Only a few of grants handled by the entity have been in the range of US\$ 100,000. Accordingly the adequacy of the entity's systems and processes has not been demonstrated for handling medium and large projects. Apart from systems and processes that have not been demonstrated, it would not be possible to assess the applicant's competencies for handling larger projects. The applicant has also communicated that the size of the grants it currently makes and anticipates making in the next several years (based on experience and the absorptive capacity of the majority of the project executing agencies) are likely to remain small. Further in a communication from the entity during the first week of June 2013, it requested to be considered for accreditation for small projects and indicated that that it would not make a request to the Fund for funding levels beyond a mutually agreed upon threshold which is within their capacity to manage.

17. The Panel's experience with this entity along with a few others precipitated a long discussion about the possibility of the Adaptation Fund opening a small grants window whereby entities such as NIE039 could be accredited to access that particular window. Accordingly, the Board agreed to allow the Panel to visit NIE039 to develop a case example for the need of a "small grant window" or similar mechanism which would help the Fund manage the risks associated with providing funds to small organizations and to work in conjunction with the secretariat to provide options at the twenty-third Board meeting.

18. The field visit to the entity took place in January 2014. Based on the visit and other experiences and discussions a separate document on *Options for the Accreditation of Small Entities* (AFB/EFC.14/3) was developed by the Panel for the Board's consideration. At the twenty-third meeting the Board agreed to allow the Panel to continue its consideration of approval for accreditation of small entities further developing the "streamlined" process outlined as option two in AFB/EFC.14/3.

19. The Panel and secretariat have informed NIE039 of the Board decision and have discussed the remaining critical gaps that must be filled to allow the Panel to recommend accreditation through such a streamlined process. This was done through a note sent to the applicant after the Panel meeting and a subsequent Skype call to discuss the note and provide clarifications sought by the applicant. Since this is a test case for the streamlined process it is recommended that the entity be allowed more time. The application will be discussed again at the Panel's seventeenth meeting.

National Implementing Entity NIE044

20. The applicant submitted its application on 25 January 2013. Most of the supporting documentation was not provided in English. However, so as not to delay the application, the secretariat forwarded the application to the expert members for review.

21. The Panel provided the applicant entity with a list of selected supporting documents that needed translation. This was aimed at reducing the workload and cost of translation of all documents provided by the applicant.

22. At the thirteenth meeting, the Panel briefly discussed the application and agreed to communicate the additional information needed and the need for further clarification on several issues. Many additional documents were provided by the applicant entity. The Panel agreed to continue to communicate with the entity and discuss the application again at the Panel's fourteenth meeting.

23. At the fourteenth meeting the Panel agreed that the organization may have the capacity to be an *executing entity*. However the best option to complete a review of the entity's *implementation capacity* would be to conduct a field visit prior to the fifteenth Accreditation Panel meeting. The field visit took place during the last week of January 2014.

24. During the visit the applicant demonstrated that it has most of the systems and procedures in place to be a strong and effective NIE. Nevertheless some actions still need to be put in place and these were discussed with the senior staff of the entity to ensure they were well understood. The steps included: the completion of two internal audits including management comments thereon; establishing an audit committee; issuing an internal control statement; completing a basic risk analysis including the identification and taking of risk mitigation steps; supplement the procedures manual for the areas relating to selection of projects and to how procurement of executing entities will be verified; comparing budget statements to actual and include explanations for variances; and developing the required system, procedures and internal capacity for financial mismanagement and other forms of malpractices.

25. Since the field visit was undertaken in January of 2014, the Executive Director of the entity has changed. The secretariat is reaching out to the entity to establish contact and determine whether the new management would like to move forward with the application.

National Implementing Entity NIE046

26. The application submitted on 31 December 2013 was forwarded to the Panel members on 10 January 2013. The application contained a large amount of supporting documentation that the Panel reviewed and analyzed for the twelfth Panel meeting.

27. Several gaps were identified and a list of additional questions relating mainly to the organization's internal audit, track record in project appraisal, monitoring and evaluation, and transparency and anti-corruption policy was sent by the Panel. The applicant uploaded the additional information requested to the accreditation workflow on 17 June, 2013. The information was reviewed and analyzed between the thirteenth and fourteenth Panel meetings.

28. The Panel found that gaps still existed in a number of areas. The Panel requested additional information in August 2013. The entity agreed to submit a response with additional supporting documentation prior to the fifteenth Panel meeting, scheduled for February 2014.

29. The applicant provided additional information in January 2014 and subsequently in June 2014. The additional documentation was analyzed by the Panel and helped to close some of the open issues. However, several gaps do remain and at the sixteenth meeting the Panel agreed that a field visit would be the best way to resolve the outstanding issues. However, the applicant does not seem keen on the field visit as there has been no response to the secretariat's proposal for a field visit in July or early August 2014. The applicant has been invited to the AF seminar for NIE's that will be held in Bangkok in September 2014 in partnership with UNEP. This would provide an opportunity to discuss the progress of the application with the applicant's representative at the seminar.

National Implementing Entity NIE049

30. The application was received by the secretariat on 14 April 2013. After completing the initial screening, the secretariat submitted the application to the Panel for consideration at its fourteenth meeting.

31. The Panel discussed the merits of the application and sent a list of questions to the applicant requesting clarification on a number of gaps in meeting the fiduciary standards on 8 October 2013, 30 December 2013 and 3 March 2014. To address these gaps, the applicant agreed to implement various measures, such as: (a) improving the effectiveness of the Audit Committee, Internal Audit and the internal control framework; (b) revamping the procurement manual; (c) preparing adequate guidelines for project risk assessment, appraisal, monitoring and evaluation and closure; (d) implementing a project-at-risk system; (e) enhancing the entity's website to facilitate the reporting of allegations of malpractice and corruption; and (f) issuing a policy on whistle-blower protection. Over the past six months, the applicant has kept the Panel informed on the status of implementation of these measures which are expected to be completed by November 2014.

32. The Panel will re-assess the applicant's progress in implementing the agreed measures at its seventeenth meeting in August 2014.

National Implementing Entity NIE054

33. The application was received for the initial screening by the secretariat in January 2014 and it was then forwarded to the Panel on 14 January 2014.

34. After discussing various fiduciary issues associated with the application at its fifteenth meeting, the Panel completed the initial assessment of the application on 30 March, 2014. In May 2014, the applicant responded to the Panel's request for information on various fiduciary issues.

35. While the application has provided ample documentation concerning the entity's operational processes and project cycle procedures, various gaps still exist in meeting the fiduciary standards. Some of the gaps relate to the entity's ability to demonstrate its capacity to handle projects outside the narrow scope of projects that the entity has been engaged up to now. The applicant has agreed to implement measures to address most of the identified gaps during the third quarter of calendar year 2014.

36. Given the small size of the entity and its potential to address the gaps, the Panel agreed that a field visit would be beneficial to corroborate the entity's capabilities and the extent of the compensating measures taken to date. Therefore, the Panel recommends that the field visit take place in October 2014.

National Implementing Entity NIE057

37. The application was received by the secretariat in February 2014. After completion of the preliminary screening by the secretariat in April 2014, it was put forward for the Panel's consideration at its sixteenth meeting of May 2014.

38. After discussing the merits of application and fiduciary issues, on 6 June 2014, the Panel communicated to the applicant a list of questions and additional information requirements. The Panel is currently examining the applicant's reply to the information request which was received on 17 July 2014. It shall be expected that additional interactions with the applicant via e-mail and Skype connections will take place in the next few months to facilitate the applicant's understanding of the fiduciary requirements and the measures that would be required to address the identified gaps.

Regional Implementing Entity RIE007

39. The applicant submitted its application on 23 January 2013 and it was forwarded to the Panel on 10 February 2013.

40. The application was discussed at the twelfth Panel meeting. Many gaps were identified and a list of additional questions requesting clarification on a number of issues was sent to the applicant. Additional information and documents in response to the questions raised by the Panel in the initial review have been submitted by the applicant on 18 June 2013.

41. Prior to the fourteenth Panel meeting, the Panel reviewed and analyzed the additional information provided by the applicant, determined that a significant number of gaps still existed, and requested further clarification. The Panel agreed to follow-up with the applicant and discuss again at the fifteenth Panel meeting.

42. In February 2014, after the completion of the fifteenth Panel meeting, the applicant informed the Panel that it had engaged the services of a consultant to help fill some of the gaps identified by the Panel. The secretariat will request the applicant to provide a work plan and target dates for responding to the Panel's questions and requests for additional information.

Regional Implementing Entity RIE008

43. The application was received by the secretariat on 08 January 2014 through the accreditation workflow. After screening the application for consistency and completeness, the secretariat forwarded the application to the Panel on 09 January 2014 for consideration at its fifteenth meeting

44. Initial review of the application shows the applicant has established a good track record in the execution of climate change related projects funded by several multilateral and bilateral institutions. In doing so, however, the applicant has largely relied on operational procedures and guidelines of the financing institutions, such as the World Bank and the Inter-American Development Bank. In order to meet the Fund's Fiduciary Standards the applicant needs to develop its own operational procedures, address deficiencies in key areas such as internal audit, internal control framework, and demonstrate the required capabilities in project management. The Panel's findings were communicated to the applicant in April 2014 along with requests for additional information and indications of areas where the applicant's capabilities need to be strengthened.

45. Since April 2014, there has been no communication from the applicant. The Panel will reach out a final time prior to the next Panel meeting.

Multilateral Implementing Entity MIE014

46. The applicant responded to the invitation by the Board to potential MIEs by submitting its application which was made available for analysis by the expert members of the Panel on 23rd Jan, 2013.

47. The Panel completed its initial assessment of the application in March, 2013. While the applicant was found to have enormous experience in handling projects and some good systems in place, there were some gaps in the information provided for some of the capabilities of the fiduciary standard for which more information was asked for. Additionally, there were several observations and recommendations contained in the reports issued by the external auditors and other reviewing authorities for which no responses had been provided or the ones provided were inadequate.

48. The applicant provided some additional information but at the time of the thirteenth meeting had not provided a full response. The full response was subsequently provided in July, 2013.

49. The Panel analyzed the additional information provided prior to the fourteenth Panel meeting and agreed that while a majority of the gaps/requirements had been satisfactorily responded to, some areas still required additional clarifications/information. After a long gap the applicant provided another response a few days before the sixteenth meeting. A subsequent analysis of the response reveals that a small number of gaps still remain. This has been communicated to the applicant and further information/documents are awaited.

Other Matters

Seventeenth Meeting of the Accreditation Panel

50. The dates for the Panel's next meeting will be 25-26 August 2014. The deadline for submissions of applications for accreditation for consideration at the seventeenth meeting of the Panel was 14 July 2014).

RECOMMENDATION

Accreditation of the Desert Research Foundation of Namibia (DRFN)

51. After considering the conclusions and outcome of the review, the Panel decided to recommend the accreditation of DRFN as a National Implementing Entity.

(Recommendation AFB/AP.16/1)

ANNEX I: REPORT OF THE ACCREDITATION PANEL ON ITS ASSESSMENT OF THE DESERT RESEARCH FOUNDATION OF NAMIBIA (DRFN)

Background

Desert Research Foundation of Namibia (DRFN) is a non-governmental organisation (NGO) based in Namibia. Its focus is on sustainability with the objective to enhance decision-making for sustainable development through research, training and consultancy in the country's land, water and energy sectors. The organisation is based in Windhoek, Namibia.

DRFN works to provide objective, relevant and professional services supporting decision-makers from all walks of life – from communities to traditional and local authorities, to the highest decision-making bodies and individuals in government and the private sector – by developing, disseminating and implementing scientific, fact-based and analytical options that form the backbone of policy development, planning and implementation, thereby contributing to Namibia's sustainable development. The organisation also has experience in project design, appraisal and implementation.

The Fiduciary Standards

Legal Mandate

DRFN was established in 1990. However, the organisation was re-registered in July, 2008 as the DRFN Trust to comply with the 2008 Act. It is managed by a Board of Trustees. The DRFN constitution provides for the Trustees acting on behalf of the Foundation to take action in a Court of Law for recovery of any amounts due to the Foundation or for defending any proceedings that may be instituted against the Foundation. The constitution also provides for the Foundation to arrange funds, including acceptance of donations, for the purpose of carrying out its activities and meeting its objectives.

Financial Integrity

At the time of the application while DRFN provided the latest audited financial statement it did not have any Internal Audit Function. The evidence of a functioning and effective internal control framework of any system for control over payments and disbursements was inadequate. Some other issues also required clarification and resolution

The organisation has now outsourced its internal audit and the first internal audit report indicates that the organisation does not have any serious issues which warrant immediate major corrective measures. DRFN has provided the Panel with a write-up on its internal control framework (ICF) currently in use. A review of the write-up on the ICF shows that DRFN substantially meets the Fund's fiduciary standard on internal control. Further the DRFN Board has decided to expand the scope of the External Auditor's mandate by requiring the External Auditor to undertake a review of DRFN's internal controls as a part of its annual audit. An Audit and Risk Committee has been established with documented TORs. Minutes of the first meeting have been provided.

The Payment and Disbursement system was examined during the field visit and found to be adequate.

DRFN now prepares quarterly budget reports with explanations of variances between budgeted amount and actual expenditures where the variances are material.

DRFN has taken adequate action on the major issues raised by the Accreditation Panel and now meets the requirements of the Fiduciary Standard for Financial Management.

Institutional Capability

Procurement

DRFN has made several changes to its procurement policy and procedures to meet the requirements of the Fiduciary Standards. The revised procurement policy/procedures are consistent with recognized international practice. An Internal Procurement Review Committee has also been established. Third part executing entities are required to adhere to DRFN's procurement procedures. Samples of major procurement activities plus summary of the review process undertaken were provided during the field visit

Project Management

During the field visit DRFN demonstrated its capacity and experience in project identification and design. DRFN has prepared revised project appraisal guidelines including a Risk Assessment Framework and it has the capacity and past experience to conduct appraisal activities. Ability to examine and incorporate likely impact of technical, financial, economic, environmental, social and legal aspects at appraisal has been demonstrated. It also has access to external "Associates" which enhances its project appraisal capabilities. Some Project Implementation Planning & Quality-at-entry Guidelines are in place. DRFN has established revised M&E Policy/Guidelines with which provides for M&E planning, Risk Assessment/Management plan, financial reporting templates; and Mid-term Results Oriented Monitoring Template. M&E reports demonstrating use of Guidelines has provided.

External audit of Project accounts is undertaken and sample project reports were provided.

Transparency, Self-investigative Powers, and Anti-corruption Measures

The management at DRFN has created a tone at the top on zero tolerance to fraud and corruption. It also has the competence to deal with financial mismanagement and other forms of malpractice. Evidence was provided of an objective investigation function for handling allegations of fraud and corruption. It also has an avenue on its website for reporting misconduct and lodging complaints.

Conclusion

Based on the above it is accordingly recommended that DRFN be accredited as an NIE of the Adaptation Fund