ADAPTATION FUND

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3 April 2015

Adaptation Fund Board
Twenty-fifth meeting
Bonn, Germany, 9-10 April 2015

Agenda item 6

REPORT OF THE EIGHTEENTH MEETING OF THE ACCREDITATION PANEL

WORK OF THE ACCREDITATION PANEL

1. The Accreditation Panel (the Panel) continued its work reviewing both new and existing applications. On 15-16 January 2015 the Panel held its eighteenth meeting at the secretariat's offices in Washington, DC. Two new Panel experts were added to the Panel Mr. Graham Joscelyne, former Auditor General of the World Bank and Mr. Bert Keuppens, former Head of Internal Oversight service at UNESCO and former Head of Internal Audit and Inspection at the International Monetary Fund (IMF). The two new experts will replace two of the Fund's outgoing experts, whose terms expire at the end of June 2015. 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. Four new completed applications were received, three from National Implementing Entities (NIEs) and one Regional Implementing Entity (RIE). In addition to the new applications, the Panel reviewed three re-accreditation applications. 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 Entity (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 concluded the review of one application and a second application through the Streamlined Accreditation Process (AFB/EFC.16/7) The conclusion of the second application is subject to the approval of the streamlined process by the Board and is therefore referred to in this document as NIE039:

Fundación NATURA -- Panama
National Implementing Entity NIE039

3. The designated authority from one country has requested that the Panel withdraw its consideration of the original candidate nominated and has subsequently nominated a new applicant – that applicant is currently in the process of completing an application. The former applicant, National Implementing Entity NIE038 is therefore no longer under consideration by the Panel.

4. Eleven applications (eight for potential NIEs, two for potential RIEs, and one for a potential MIE), are currently 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 NIE044
2) National Implementing Entity NIE046
3) National Implementing Entity NIE049
4) National Implementing Entity NIE057
5) National Implementing Entity NIE061
6) National Implementing Entity NIE076
7) National Implementing Entity NIE067

8) National Implementing Entity NIE075
9) Regional Implementing Entity RIE008
10) Regional Implementing Entity RIE012
11) Regional Implementing Entity RIE010
12) Multilateral Implementing Entity MIE014

Completed Cases

Fundación NATURA, Panama

5. Fundación NATURA is a non-profit organization established under the laws of the Republic of Panama as the "Foundation for the Conservation of Natural Resources" in 1991. 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.

6. 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 information request on various fiduciary issues and between then and March 2015, NATURA has put in place a number of improvements to meet the Fund's fiduciary standards and environmental and social principles. The last reforms were to complete the requirements related to the capacity to deal with allegations of financial mismanagement and a grievance mechanism about environmental and social harms caused by projects and programmes. NATURA now meets the fiduciary standards and the Panel is recommending the entity for accreditation. Annex I presents a more detailed summary of the case.

National Implementing Entity NIE039

7. The application was first considered by the Panel at its tenth meeting. During the course of the assessment the Panel had several interactions with the applicant, including teleconferences. 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.

8. The applicant typically handles individual projects and grants of less than US$50,000. Only a few grants, handled by the applicant, were in the range of US$100,000. Accordingly, the adequacy of the applicants's systems and processes had not been demonstrated for handling medium and large projects. The applicant 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. During the first week of June 2013, the applicant requested to be considered for accreditation for small projects and indicated that that it would not request funding beyond a mutually agreed threshold that is within its capacity to manage.

9. The Panel's experience with this applicant, along with a few others, led to a long discussion about the possibility of the 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. The Panel would also work with the secretariat to provide options to the Board at the twenty-third meeting.

10. The field visit to the applicant took place in January 2014. Based on the visit and other experiences and discussions the Panel developed a paper called *Options for the accreditation of small entities* (AFB/EFC.14/3) 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.

11. The Panel in collaboration with the secretariat has put forth a proposal for a streamlined process outlined in AFB/EFC.16/7. If the Board approves the streamlined process, the Panel recommends NIE039 for accreditation under this process subject to the following conditions:

(a) Each project to be undertaken by NIE039 does not to exceed US$ 1 million, and
(b) NIE039 should include in its project proposals to be submitted to the Adaptation Fund a description of the expertise and ability of the resources that it will use to complete or oversee procurements – this would apply to projects with anticipated procurements over $10,000.

12. Annex II provides a detailed summary of the case.

Other cases under review

National Implementing Entity NIE044

13. 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 Panel for review. The Panel provided the applicant with a list of selected supporting documents for translation. This was aimed at reducing the workload and cost of translating all applicant documents.

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

15. At the fourteenth meeting the Panel agreed that the applicant may have the capacity to be an *executing entity*. However the best option would be to complete a review of the applicant's *implementation capacity* during a field visit prior to the fifteenth Accreditation Panel meeting. The field visit took place during the last week of January 2014. 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 needed to be put in place and these were discussed with the senior staff of the applicant to ensure they were well understood. The required actions included: the completion of two internal audits with management comments; establishing an audit committee; issuing an internal control statement; completing a basic risk analysis including the identification and taking of risk mitigation steps; supplementing the procedures manual for selection of projects and how procurement of executing entities would be verified; comparing budget statements to actual with explanations for variances; and, developing the required system, procedures and internal capacity to deal with financial mismanagement and other forms of malpractices.

16. Since the field visit was undertaken in January of 2014, the Executive Director of the applicant has changed. After the change of the Executive Director, the Panel recently heard from the new Executive Director in February 2015. The Executive Director is interested in continuing with the application and addressing the gaps the Panel initially identified. The first few documents were received and the Panel will follow-up with the applicant and request information on plans to address gaps prior to the Panel's nineteenth meeting. It has also requested an update on the organization and its management so it can understand whether or not the change of Executive Director and possible other movements impact the ability of the applicant to meet the accreditation requirements.

National Implementing Entity NIE046

17. The application submitted on 31 December 2012 was forwarded to the Panel members on 10 January 2013. The entity provided a large amount of supporting documentation for the Panel review and analysis at its twelfth Panel meeting.

18. Several gaps were identified and the applicant was requested to provide answers to a list of additional questions relating mainly to the applicant's internal audit capacity; its track record in project appraisal, monitoring and evaluation; and its transparency and anti-corruption policy. 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.

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

20. The applicant provided additional information in January 2014 and June 2014. The additional documentation was analyzed by the Panel and helped to close some of the open issues. However, several gaps remained and at the sixteenth meeting the Panel agreed that a field visit would be the best way to resolve the outstanding issues. The applicant was unable to host a field visit due to scheduling conflicts and workload issues.

21. The applicant was invited to the AF seminar for NIE's held in Bangkok 10-12 September 2014 in partnership with UNEP. The applicant sent two representatives to the meeting who met with two members of the Panel. The meeting provided an opportunity to discuss the progress of the application. The key outstanding issues were highlighted and also the need for addressing the issues in a satisfactory manner before the Panel could consider recommending accreditation. The representatives assured the Panel members that they would discuss the issues with their colleagues and work towards closing all the existing gaps. In January 2015, the applicant provided information aimed at closing the existing gaps. However the information received did not address all the outstanding issues. Given that the application has been under review for over two years due to the applicant's continued failure to respond to Panel questions and requests for additional information, a Panel virtual meeting is being scheduled to decide whether the review of the application should be discontinued or whether a further attempt should be made at scheduling a filed visit that would hopefully facilitate closure of the remaining information gaps.

National Implementing Entity NIE049

22. 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 of September 2013.

23. The Panel discussed the merits of the application and sent a list of information requirements to applicant in October 2013. The Panel has been following up with applicant on the status of implementation of the agreed measures to address the identified gaps. Some of the agreed measures relate to: (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 applicant's website to facilitate the reporting of allegations of malpractice and corruption; and (f) issuing a policy on whistle-blower protection.

24. The applicant has been in regular communication with the Panel and has continued to provide the required information in instalments. The last information was provided in the second half of February, 2015. The Panel is in the process of assessing the complete information provided over the last several months. Based on the assessment the panel will decide on its recommendation/next course of action.

National Implementing Entity NIE057

25. 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.

26. 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. While

the applicant has demonstrated a solid experience in handling credit-financing activities, it has also recognized the existence of various gaps in meeting the requirements of the Fiduciary Standards. For example, some of these gaps surfaced in competences related to: (a) procurement; (b) project appraisal and risk assessment for non-credit projects/programmes; (c) project quality at entry; (d) project-at-risk system; (e) monitoring, evaluation and closure procedures for non-credit projects/programmes; (f) an effective anti-fraud/corruption system; and (g) the framework to deal with complaints on environmental and social issues.

27. The applicant has sought external assistance in the preparation and implementation of a policy framework for meeting the requirements of the Fiduciary Standards. The consultant(s) provided an action plan for completing the work by May 2015. The applicant needs more time to enable it set up the required policies/systems based on the consultant's work.

National Implementing Entity NIE061

28. The application was received by the secretariat on 14 July 2014 through the accreditation workflow. After screening the application for consistency and completeness, the secretariat forwarded the application to the Panel on 16 July 2014 for consideration at its seventeenth meeting. The initial review of the application by the expert members of the Accreditation Panel was completed in October 2014. After discussing the initial review findings, the Panel communicated to the applicant a list of questions and additional information requirements in November 2014. The applicant provided responses to the Panel's questions and requests for additional information in February 2015. Analysis of the responses is currently ongoing and results of the analysis will be discussed by the Panel. Any information gaps identified will be communicated to the applicant.

National Implementing Entity NIE076

29. The application was received by the secretariat on 5 December 2014 through the accreditation workflow. After screening the application for consistency and completeness, the secretariat forwarded the application to the Panel on 15 December 2015.

30. The Panel completed its assessment of the application in February and found several areas in which the applicant did not demonstrate the requirements of the Fiduciary Standard, including compliance to the AF E&S Policy.

31. The list of additional information required was sent to the applicant and subsequently a detailed Skype call was held when the Panel's observations and requirements were discussed and explained. The applicant has since submitted an action plan for working on the identified gaps. The Panel will follow-up with the applicant for reviewing the progress with respect to the action plan.

National Implementing Entity NIE067

32. The application was received by the secretariat on 5 December 2014 through the accreditation workflow. After screening the application for consistency and completeness, the secretariat forwarded the application to the Panel on 15 December 2015. The Panel will communicate its requirements to the applicant in the near future.

National Implementing Entity NIE075

33. The application was received by the secretariat on 2 December 2014 through the accreditation workflow. The application was sent back to the applicant by the secretariat to request additional missing documentation. The applicant responded with additional documentation and the secretariat forwarded the application to the Panel on 15 December 2015. The Panel completed its assessment of the application in the beginning of March and found several areas in which the applicant did not meet the requirements of the fiduciary standards. In particular there are gaps in the area of financial management (including external and internal audits), the internal control framework, and project management where the bulk of the policies and systems appear to be at a draft stage and yet to be approved or implemented.

34. The list of additional information required was sent to the applicant and subsequently a detailed Skype call was held in which the Panel's observations and requirements were discussed and explained. The applicant has undertaken to prepare an action plan for working on the identified gaps and submitting the same to the Panel in early April 2015.

Regional Implementing Entity RIE008

35. The application was received by the secretariat on 8 January 2014 through the accreditation workflow. After screening the application for consistency and completeness, the secretariat forwarded the application to the Panel on 9 January 2014 for consideration at its fifteenth meeting

36. 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 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.

37. The applicant requested the Panel to undertake a field visit to resolve the issues raised. The Panel wrote to the applicant indicating that the procedures of the accreditation process required an applicant to respond to the questions posed and to first work toward closing some

gaps prior to a field visit. Subsequently in December 2014, the applicant provided responses to the panel questions and requests for additional information. A reviews of the responses found several gaps in the information requested by the Panel. The gaps relate to 4 main areas: (i) internal and external audit, (ii) internal control framework, and (iii) project cycle management, including management of the procurement function and environmental and social risk assessment. Results of the review will shortly be communicated to the applicant with a request to address all the gaps before accreditation can be considered.

Regional Implementing Entity RIE010

38. The application was received by the secretariat on 14 July 2014 through the accreditation workflow. After screening the application for consistency and completeness, the secretariat forwarded the application to the Panel on 16 July 2014 for consideration at its seventeenth meeting. During that meeting a telephone conference was held with the applicant and the Panel agreed to formulate the additional information needed to cover the gaps identified and this is being finalized. The application was discussed during the 17th Panel meeting and the request for additional information was issued at the end of September. This was followed up by a number of telephone calls and some 75 additional documents were submitted. The Panel has provided the applicant with an updated listing of the areas where the fiduciary standards and requirements related to the Environmental and Social Policy are still not fully demonstrated. A major area relates to implementing a complaints mechanism for allegations of fraud and mismanagement as well as for environmental and social harm resulting from projects and programmes.

Regional Implementing Entity RIE012

39. The application was received by the secretariat on 5 December 2014 through the accreditation workflow. After screening the application for consistency and completeness, the secretariat forwarded the application to the Panel on 15 December 2015. The application was discussed by the Panel at it 18th meeting and two of its members reviewed the content in detail. The applicant appears strong and the need for additional information was less that is usually the case. The main area relates to implementing a complaints mechanism for allegations relating to violations under the Codes of Conduct and Ethics, to fraud mismanagement as well as for environmental and social harm resulting from projects and programmes and these areas were already being addressed at the time of the application.

Multilateral Implementing Entity MIE014

40. 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 January 2013.

41. The Panel completed its initial assessment of the application in March, 2013. While the applicant was found to have significant experience in handling projects and had some good systems in place, there were gaps in the information provided for certain 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.

42. 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.

43. 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. Additional information was received in August 2014. However, all the gaps have not yet been closed. The Panel has followed up with the applicant and requested it to provide the remaining information by April 2015 so that the assessment of the application can be concluded at the Panel meeting in May, 2015.

Other Matters

Nineteenth Meeting of the Accreditation Panel

44. The dates for the Panel's next meeting will be 13-14 May 2015. The deadline for submissions of applications for accreditation for consideration at the nineteenth meeting of the Panel is 2 April 2015.

Streamlined Accreditation Process

45. At its twenty-third meeting held 20-21 March 2014, the Adaptation Fund Board decided (Decision B.23/17) to continue its consideration of approval for accreditation of Small National Implementing Entities (SNIEs) on the basis of a "streamlined accreditation process". This process would entail no changes to the Fiduciary Standards, but it would institute appropriate mitigating measures and controls needed for SNIEs to demonstrate their required competencies. Specifically, the mitigating measures and controls would reflect the institution's characteristics. The Panel continued its discussion of the process at its 18th meeting.

46. The Panel in collaboration with the secretariat developed a process for accrediting SNIEs through a streamlined approach. The document was developed for the twenty-fifth Board meeting and is presented as document (AFB/EFC.16/7).

Re-Accreditation Applications

47. The Panel began its review of the first set of re-accreditation applications, reviewing the applications of the Centre de Suivi Ecologique (CSE), International Bank for Reconstruction and

Development (IBRD), and United Nations Development Programme (UNDP). The Panel recommended accreditation for all three entities and the Board approved re-accreditation for a further five years through intersessional Decision B.24/25/xx on 31 March 15.A summary of all three reviews can be found in Annexes I-III of the decision document (https://www.adaptation-fund.org/intersessional_decisions)

Review of the accreditation process – Efficiency and effectiveness

48. With five years of rich experience reviewing applications and interacting with applicants, the Panel has identified several areas that could make the accreditation process more efficient and effective. The Board may wish to request the secretariat, in collaboration with the Panel, to develop a proposal on enhancing the efficiency and effectiveness of the accreditation process for consideration by the Ethics and Finance Committee (EFC) at their 16th committee meeting.

RECOMMENDATION

Accreditation Fundación NATURA *Panama*

49. After considering the conclusions and outcome of the review, the Panel recommends the accreditation of Fundación NATURA as a National Implementing Entity.

(Recommendation AFB/AP.18/1)

Accreditation of NIE039 as a Small National Implementing Entity (SNIE)

Subject to the approval of the Streamlined Process for SNIE's (AFB/EFC.16/7), the Panel recommends the approval of NIE039 as a Small National Implementing Entity subject to two conditions:

i. NIE039 is eligible to submit project/programme proposals to the Fund for up to US$ 1 million, and
ii. NIE039 should include in its project proposals to be submitted to the Adaptation Fund a description of the expertise and ability of the resources that it will use to complete or oversee procurements – this would apply to projects with anticipated procurements over $10,000.

(Recommendation AFB/AP.18/2)

Review of the accreditation process

The Panel recommends the Board request the secretariat, in collaboration with the Panel, to develop a proposal to enhance the efficiency and effectiveness of the Fund's accreditation process. The proposal should integrate any relevant recommendations or observations from the Fund's overall evaluation.

(Recommendation AFB/AP.18/3)

Annex I: REPORT OF THE ACCREDITATION PANEL ON ITS ASSESSMENT OF THE FOUNDATION FOR THE CONSERVATION OF THE NATURAL RESOURCES (FUNDACIÓN NATURA) - Panama

Background

This application was received in January 2014 and it was first discussed at the 15th Accreditation Panel meeting held in February 2014. While Fundación Natura provided ample documentation concerning the organization's operational processes and project cycle procedures, the Panel identified various gaps in demonstrating the fiduciary standards. Given these gaps and other considerations such as: a) the size of the professional staff in the organization (under 20 staff members); and b) the organization's limited experience in preparation and appraisal of development projects over $100,000, initially the Panel was willing to assess the organization under the Streamlined Process approved by the Adaptation Fund Board, in March 2014 (Decision B.23/17)

After numerous iteractions with Fundación Natura's senior management over the past ten months, the organization has been able to demonstrate its capabilities to:

a) Fully address the identified gaps as well as make the necessary arrangements either in-house or with the National Environment Authority (ANAM) to assist in the preparation of a more substantial individual projects (e.g., over $1.5 million);
b) Adopt specific measures to comply with the requirements of the Environmental and Social Policy approved by the Adaptation Fund Board in November 2013; and
c) Deliver the required information to support the measures taken to address the requirements of the fiduciary standards.

Organization

Fundación Natura is a non-profit organization with experience in the administration of the proceeds from the Panama Ecological Trust Fund (FIDECO), a US$25 million fund established in 1995 to permanently finance projects covering conservation, environmental management and sustainable development - with an emphasis on initiatives within the hydrographic basin of the Panama Canal. Fundación Natura also administers the proceeds from other environmental funds, including two debt-for-nature swaps of US$10 million each for Darien and Chagres National Parks. Fundación Natura is governed by a Board of Trustees, who represent governmental institutions, private sector and academia,

The Fiduciary Standards: Legal Status and capacity/authority to directly receive funds

Fundación Natura has the legal personality to be a national implementing entity (NIE). It is a non-profit organization established in 1991 under the laws of the Republic of Panama. It has the management experience and track record to implement projects in participation with civil society and community organizations, as well as with national and local government authorities.

Financial Integrity

Fundación Natura produces financial statements that are prepared in accordance to a modified cash system which are audited annually in accordance to International Auditing Standards. Within Fundación Natura there is an internal audit function guided by the requirements of the ISO 9001-2008. In addition an audit of its information technology system was completed by an outside

consultant in early 2015. Fundación Natura established an audit committee during the accreditation process.

The internal control framework is documented in the by-laws, policies, procedures and a Quality Management System Manual. Administrative and accounting processes including the payment and disbursement process are supported by written procedures. Fundación Natura is committed to adopting the discipline of management annually attesting to the adequacy of its internal control systems and its effective performance.

Institutional Capacity: Procurement and Project Management

During the accreditation process, Fundación Natura updated its Procurement Manual to incorporate specific procedures for the resolution of procurement-related conflicts/complaints. This gives it adequate procedures and guidelines for institutional procurement and for handling procurement by executing entities.

It demonstrated that it has experience in the tendering process for project proposals associated with the three main funds it administers. Most of the examples of approved proposals related to small grants (under $100,000) which focused on capacity building, information dissemination, and reforestation services. During the accreditation process Fundación Natura (a) adopted project risk assessment guidelines; (b) incorporated elements of the Environmental and Social Policy into its current project preparation and monitoring tools; and (c) prepared more substantive projects, for example a project of US$1.75 million to establish a sustainable land management model that encourages better coffee production and marketing practices, and to foster local biodiversity conservation. Fundación Natura has demonstrated that it monitors the technical and financial performance of all projects throughout the project implementation period.

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

During the accreditation process Fundación Natura introduced a Code of Ethics, applicable to all staff, volunteer personnel, suppliers, contractors, executing entities, and the Board of Trustees. The Code includes guidelines for situations of conflict of interest. Fundación Natura also prepared a draft anti-corruption policy together with procedures including a mechanism to receive complaints via its website. Both policies and related complaints mechanism were approved by the Board of Trustees in February 2015.

Environmental and Social Safeguards

The Board of Trustees of Fundación Natura adopted an Environmental and Social Safeguard Policy which provides guidance on the issues to be considered during the preparation, awarding, implementation and follow-up of each project. The policy that was approved in February 2015 incorporates various elements from the Environmental and Social Policy of the Adaptation Fund and is consistent with the existing legislation in Panama it includes a mechanism to handle cases of non-compliance with social and environmental safeguards that is on the organization's website.

Conclusion: The Panel recommends that Fundación Natura be accredited as an NIE of the Adaptation Fund.

Annex II: REPORT OF THE ACCREDITATION PANEL ON ITS ASSESSMENT OF NIE039

Organization

NIE039 was established as an independent legal entity in 2002 – specifically as a charitable and irrevocable corporation. It is authorized to accept funds to support biodiversity conservation and related sustainable development for the people of Micronesia. To this end, it started its grant making activities in 2004. In 2006, NIE039 was selected as the financial mechanism for the Micronesia Challenge Endowment Fund. As at December 2013 the investment in its trust funds were close to US$ 16 million. Its grants and project expenses are over a million each year.

NIE039 has a Board of Trustees which has primarily responsibility in the areas of i) governance ii) fiduciary and iii) grant-making. The day-to-day management of the entity is the responsibility of the Executive Director who reports to the Board of Trustees.

Background

This application was received in April, 2012 and it was first discussed at the 10th Panel meeting held in May 2012.

Based on the initial assessment the Panel identified several areas which had major gaps and this was communicated to the applicant who addressed them. Nevertheless, the applicant could not meet the requirements of the Fiduciary Standard given its size, experience and the type of work it did. The Panel informed the Board of this in its report of the 13th Panel meeting.

The Panel also informed the Board that there could be other entities from small countries (particularly SIDSs) which over the years are likely to be in a similar position and suggested it develop an alternative process for such entities. NIE039's application for accreditation has been assessed based on the draft of the streamlined approach proposed in paper AFB/EFC.16/x.

The Fiduciary Standards

Legal Status and capacity/authority to directly receive funds

The applicant is an independent legal entity, with the capacity to enter into contracts with other entities and accept funds and apply monies and property received from donors. It meets the criteria for this capability. Since its inception NIE039 has received funds from a number of donors.

The continued growth of NIE039 and the large investment in the funds that it manages is an indication of its donor support and its solvency. Nevertheless, a recent evaluation of NIE039 stated that it would be very difficult to replace the current Executive Director and his Deputy. This is a typical risk faced by Small National Implementing Entities and is mitigated by a succession planning, that needs to be enacted, and by a strong NIE039 team. According to the evaluation, donors, partners and grantees felt that NIE039 staff were cordial, responsive, professional and easy to communicate with.

Financial Integrity

The financial statements of NIE039 are prepared in accordance with the generally accepted accounting principles as applied in the USA. Independent external auditors have given an

unqualified opinion for the year ended 31 December 2013. They stated that the financial statements present fairly, in all material respects, the financial position of NIE039. They also issued a report on the internal control over financial reporting and compliance as required by the US Government Auditing Standards.

The responsibilities for internal control at NIE039 needs to be reviewed by oversight bodies like the Governance Committee and the Investment, Audit and Finance Committee. To execute their tasks these committees rely on independent studies and reviews such as those identified later in this paragraph. NIE039 has developed an Internal Audit Plan for 2015. The execution of the plan is outsourced to the Public Auditor of the country. Two internal audits are expected in 2015. The first internal audit relates to the procurement function. Recently NIE039 also had an external consultant to do an evaluation of its overall operation, corporate systems, processes, and effectiveness in implementing mandates. The latter report commented on how NIE039 has grown into an organization with an extensive portfolio and a diverse set of donors as well as how it effectively engages with its stakeholders.

Procurement and Project Management

During the accreditation process, NIE039 prepared a more detailed Policy and Operations Manual which covers the procurement procedures. Given the nature and scale of its operations the procedures are considered to be adequate. Nevertheless, given the limited exposure to project procurement, including the supervision of procurement of its executing entities, the Panel suggests that: NIE039 should include information related to its project procurement in its project proposals to the Adaptation Fund and this should include a description of the expertise and ability of the staff that it will use to complete or oversee the anticipated procurements. This would apply to procurements over $10,000 which is the threshold when bidding is required by national legislation.

NIE039 has the required monitoring and evaluation mechanisms in place for the type and size of grants it provides. However, monitoring faces challenges due to the wide-spread geography of the islands and travelling to all locations is not an option given the average size of the grants. Electronic media and reviewing of disbursements before releasing the next installment of funds is used on some projects. A recent evaluation report of NIE039 recognized that, from an accountability perspective, NIE039 is currently working to integrate a comprehensive monitoring and evaluation plan into its grant-making program. This will assist in tracking change over time, learning and adapting programming to increase impact, and demonstrating accomplishments at achieving tangible conservation objectives.

According to NIE039 the current size of the grants is expected to remain small over the next few years. It has based this observation on its experience and on the absorptive capacity of the majority of its project executing agencies. In a communication to the Panel, NIE039 asked that it be considered for accreditation for small projects only and indicated that that it would not request funding beyond a mutually agreed threshold level. Based on this request the Panel suggests that NIE039 project funding to be limited to a value not exceeding US$ one million per project.

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

The NIE039 Policy and Operations Manual contain adequate policies relating to transparency, self-investigative powers, and anti-corruption measures. It covers disciplinary process, describes the nature of offences and has a policy on investigations. There is an Employee Manual that

includes a Code of Conduct, defines conflict of interest in relation to grant making and employee conduct, and a policy for whistleblower protection. NIE039 has its policies and mechanism to receive complaints and allegations in place, but this is not yet communicated on its website. NIE039 has committed to do so in the first half of 2015.

Conclusion

The Panel recommends that NIE039 be accredited as a Small National Implementing Entity of the Adaptation Fund under the Streamlined Approach, subject to the following conditions:

- Each project to be undertaken by the NIE039 not to exceed US$ 1 million, and
- NIE039 should include in its project proposals to be submitted to the Adaptation Fund a description of the expertise and ability of the resources that it will use to complete or oversee procurements – this would apply to projects with anticipated procurements over $10,000.