



ADAPTATION FUND

RISK MANAGEMENT FRAMEWORK FOR THE ADAPTATION FUND

(AMENDED OCTOBER 2014)

INTRODUCTION

This document provides an overview of the Adaptation Fund (Fund)'s risk management rules and procedures. At its 24th meeting, held in Bonn, Germany in October, 2014, the Adaptation Fund Board (Board) considered the policies and procedures addressing risk management in the Fund's operations and approved a proposal to amend the Operational Policies and Guidelines for Parties to access resources from the Fund (OPG).

This document describes the roles and responsibilities for risk management of the Board, the Adaptation Fund Board secretariat (secretariat), and implementing entities. This document also describes the processes and mechanisms the Fund has in place for each category of risk.

Box 1: Risk

Risk, broadly defined, is anything that could prevent the Adaptation Fund from achieving its objectives and fulfilling its mandate. Risk management cannot and does not eliminate all risk, but rather identifies and mitigates those risks that have the potential to keep the Fund from accomplishing its key strategic goals. The key risks for the Fund are ethical transgressions, financial mismanagement, and the adverse social and environmental impact of its projects and programmes (see Table 1).

ROLES AND RESPONSIBILITIES REGARDING ETHICS ISSUES

Ethics issues may either refer to or involve the following actors:

Board members and alternates (see Figure 1) are bound by the rules of procedure of the Adaptation Fund Board, the code of conduct¹ and the zero tolerance policy for fraud and corruption.² Board members and alternates can bring any ethics issues related to their peers to the attention of the Ethics and Finance Committee of the Board (EFC). The EFC may recommend a course of action to the Board for approval. As a last recourse, the Board may propose to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) the termination of the Board membership of any member or alternate.

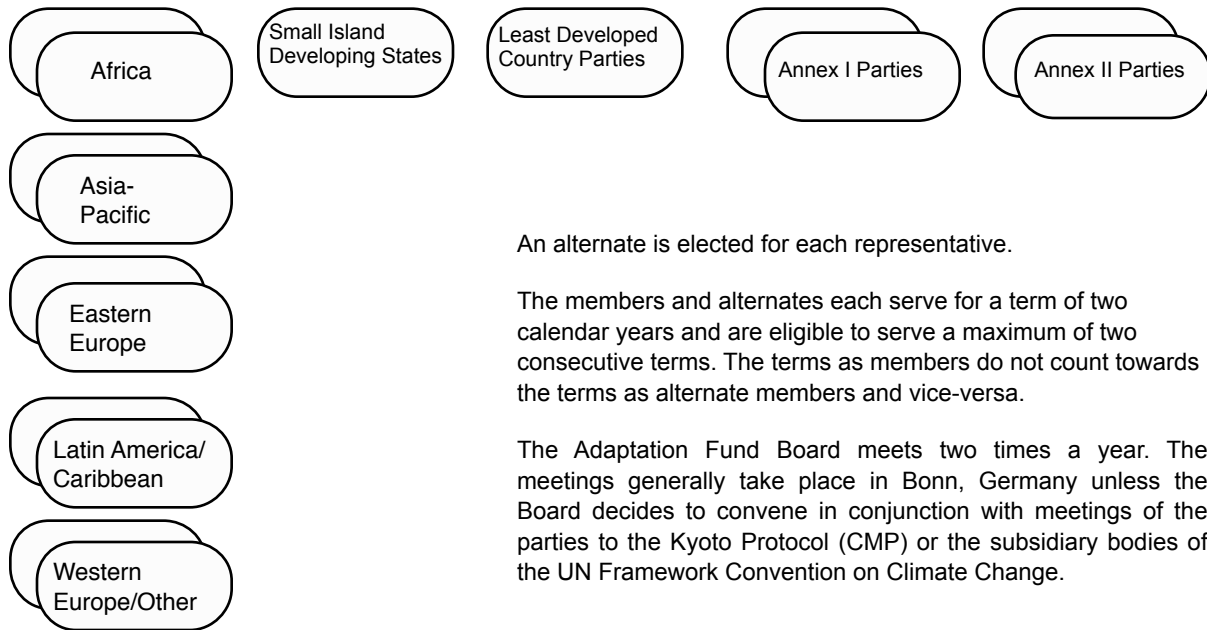
Adaptation Fund Board secretariat staff and consultants, including Accreditation Panel experts and other consultants and World Bank staff providing trustee services, are World Bank staff, so

¹ The code of conduct is available at https://www.adaptation-fund.org/sites/default/files/CODE%20OF%20CONDUCT_0.pdf

² Rules of procedure of the Adaptation Fund Board are available at https://www.adaptation-fund.org/sites/default/files/CODE%20OF%20CONDUCT_0.pdf. The zero tolerance policy is available at [https://www.adaptation-fund.org/sites/default/files/Zero%20tolerance%20policy%20for%20the%20Board%20\(Oct2014\).pdf](https://www.adaptation-fund.org/sites/default/files/Zero%20tolerance%20policy%20for%20the%20Board%20(Oct2014).pdf)

Figure 1: The Adaptation Fund Board

The Adaptation Fund Board is composed of 16 members representing Parties to the Kyoto Protocol:



An alternate is elected for each representative.

The members and alternates each serve for a term of two calendar years and are eligible to serve a maximum of two consecutive terms. The terms as members do not count towards the terms as alternate members and vice-versa.

The Adaptation Fund Board meets two times a year. The meetings generally take place in Bonn, Germany unless the Board decides to convene in conjunction with meetings of the parties to the Kyoto Protocol (CMP) or the subsidiary bodies of the UN Framework Convention on Climate Change.

they are covered by World Bank ethics rules, which are not discussed in this document. The secretariat may receive complaints regarding project/programme supported by the Fund,³ including concerns regarding compliance with the Fund's environmental and social policy. The secretariat may bring any ethical issues to the attention of the EFC.

Accredited implementing entities (see Box 2) are covered by the OPG, including the environmental and social policy, and their own rules and procedures. Once a project/programme is approved and a legal agreement signed, they are also covered by its terms. When applying for accreditation, applicant implementing entities need to demonstrate that they have policies and procedures related to transparency, anti-corruption measures, self-investigative powers, and a mechanism to address complaints. They also need to demonstrate that an accessible, transparent, fair, and effective grievance mechanism is in place to address complaints about any potential environmental and social harm that may be caused by their projects.⁴ The contact details for the accredited implementing entities' complaint handling mechanisms are available on the Fund's website.⁵

Box 2: Implementing Entities

The Adaptation Fund Board accredits three types of implementing entities to receive direct financial transfers from the Fund in order to carry out adaptation projects and programmes:

- National Implementing Agencies — e.g, Kenya's National Environmental Management Authority
- Regional Implementing Agencies — e.g, the Secretariat of the Pacific Regional Environment Programme
- Multilateral Implementing Agencies — e.g., the Inter-American Development Bank.

The national and regional implementing entities provide affected countries direct access to the Adaptation Fund, enabling them to manage all aspects of climate adaptation and resilience projects. Accreditation is valid for a five year period, after which implementing entities need to apply for reaccreditation.

³ <https://www.adaptation-fund.org/page/mechanisms-handling-complaints>

⁴ See accreditation application, section IV, available at [https://www.adaptation-fund.org/sites/default/files/OPG%20ANNEX%205%20Accreditation%20application%20\(Nov2013\)_0.pdf](https://www.adaptation-fund.org/sites/default/files/OPG%20ANNEX%205%20Accreditation%20application%20(Nov2013)_0.pdf)

⁵ <https://www.adaptation-fund.org/page/mechanisms-handling-complaints>

Accredited implementing entities are required to investigate any allegation or evidence of misuse of funds using internal investigators or hire investigator(s) acceptable to the Board.⁶ Ethics and finance issues related to accredited implementing entities fall within the competence of the EFC. This may require a review by the Accreditation Panel as per paragraph 41 of the OPG.

The secretariat may not have an investigative function as long as it is hosted by the World Bank.⁷ Any ethical issues regarding the Fund’s grant resources, however, fall within the mandate of the EFC, which has consistently addressed ethical issues brought to its attention. The EFC recommended course of action is submitted to the Board for approval. Before the Board makes its final decision on the course of action, the party concerned is given a fair chance to present its views to the Board (see OPG para 41 and 70).

Table 1: policies and procedures applicable to each type of risks

Type of Risk	Board members and alternates	Secretariat staff, consultants and trustee	Implementing Entities
Ethical	<ul style="list-style-type: none"> - Rules of Procedure - Code of Conduct - Zero Tolerance policy on corruption 	<ul style="list-style-type: none"> - World Bank rules and procedures 	<ul style="list-style-type: none"> - Operational policies and guidelines - Agreement
Financial	<ul style="list-style-type: none"> - Rules of Procedure - Code of Conduct - Zero Tolerance policy on corruption 	<ul style="list-style-type: none"> - World Bank rules and procedures 	<ul style="list-style-type: none"> - Operational policies and guidelines - Agreement
Environmental/ Social	N/A	N/A	<ul style="list-style-type: none"> - Operational policies and guidelines (Environmental and social policy) - Agreement

⁶ OPG dated October 2014, paragraph 39. See also standard legal agreement between the Board and the implementing entities, paragraph 3.02.

⁷ See document AFB/EFC.11/2, item 4, Background, available at: https://www.adaptation-fund.org/sites/default/files/AFB.EFC_11.2_Annotated_Provisional_Agenda.pdf

RISK MANAGEMENT FRAMEWORK

The Fund addresses risk management through the following mechanisms:

Operational Policies and Guidelines

The Operational Policies and Guidelines (OPG) form part of the legal agreement between the Adaptation Fund Board and implementing entities and govern the obligations of those entities.⁸ Under the OPG, the Board may review or evaluate the performance of an implementing entity and may suspend or cancel its accreditation (see Box 3). A decision on suspension or cancelation of the accreditation may involve the EFC, and the Accreditation Panel may review the entity's compliance with the relevant accreditation standards.

Implementing entities are also required to investigate allegations or evidence of misuse of funds following internationally-accepted rules and procedures.

Box 3: Standards of Review of Implementing Entities

Provisions in paragraphs 38-41 of the Operational and Policy Guidelines contain the Board standard for reviewing the performance of implanting entities:

38. The Board reserves the right to review or evaluate the performance of implementing entities at any time during an implementing entity's accreditation period. A minimum notification of 3 months will be given to an implementing entity if they have been identified by the Board as being the object of a review or evaluation.

39. If there is any allegation or evidence of misuse of funds, implementing entity will investigate the alleged misuse using its own internal investigators or hire investigator(s) acceptable to the Board. All investigations would be consistent with the general principles and guidelines for investigation based on the International Financial Institutions Principles and Guidelines for Investigation (http://www.un.org/Depts/oios/investigation_manual/ugi.pdf).

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

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

41. A decision to suspend or cancel the accreditation of an implementing entity may be made at the recommendation by the EFC 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 implementing entity concerned is given a fair chance to present its views to the Board.

⁸ See paragraph 3.02 of the agreement: <https://www.adaptation-fund.org/sites/default/files/OPG%20amended%20in%20October%202014%20final.pdf>.

Environmental and Social Policy

The Fund's environmental and social policy (ESP), an annex to the OPG, requires implementing entities to identify a grievance mechanism accessible to people, who may be affected by the Fund's project/programmes. The implementing entities must demonstrate commitment and ability to comply with the most recent environmental and social policy approved by the board in designing, executing, monitoring, and evaluating projects/programmes supported by the Adaptation Fund (see Box 4).

Terms of Reference of the Ethics and Finance Committee

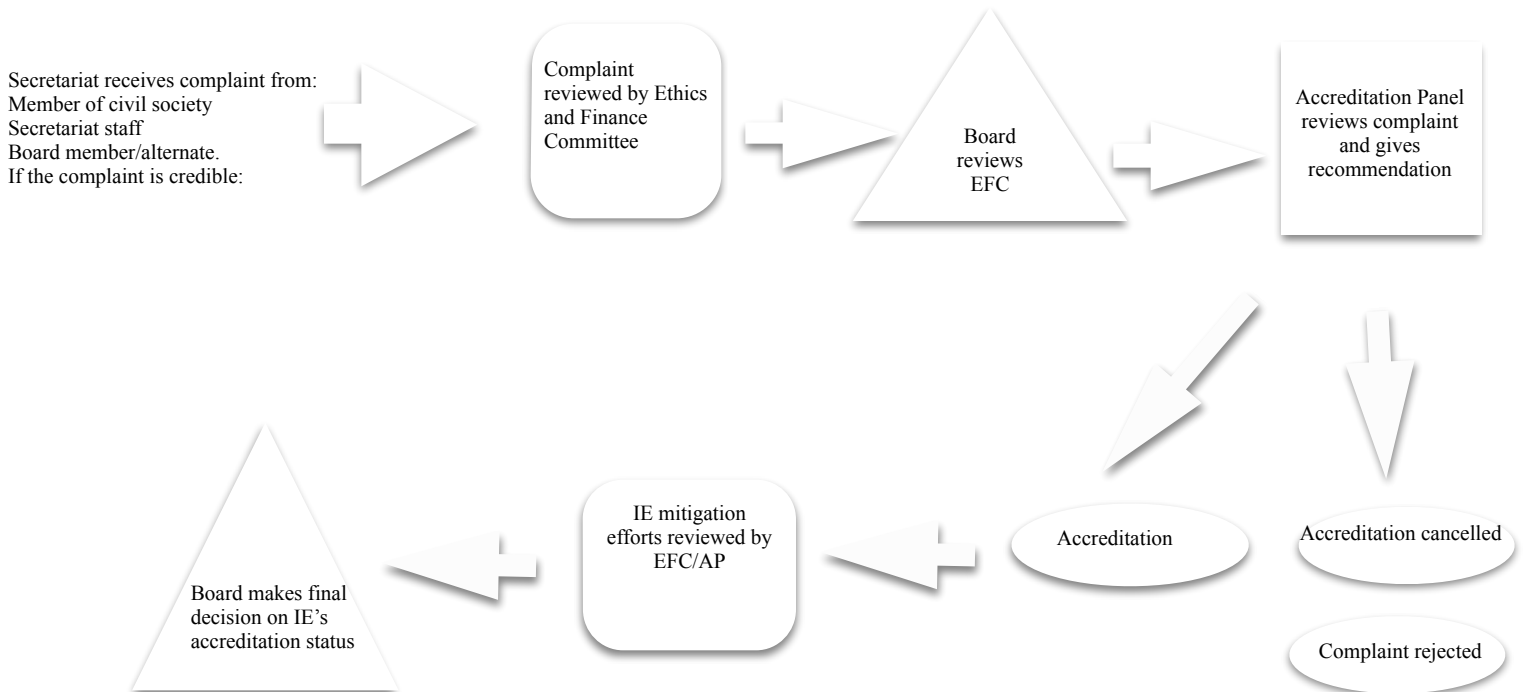
The Ethics and Finance Committee (EFC) is one of two committees that advise the Board. The EFC is primarily responsible for overseeing the implementing entities and advises the Board on issues of conflict of interest, ethics, finance and audit. The EFC initially considers allegations or evidence about such issues as misuses of funds or misrepresentation (see Diagram 1) and makes recommendations for approval by the Board.

Box 4: Grievance Mechanism (from the Operational Policies and Guidelines)

34. The implementing entities shall identify a grievance mechanism that provides people affected by projects/programmes supported by the Fund with an accessible, transparent, fair and effective process for receiving and addressing their complaints about environmental or social harms caused by any such project/programme. The mechanism can be pre-existing, national, local, or institution- or project-specific. Complaints regarding projects/programmes supported by the Fund can also be filed with the secretariat [...]

35. The secretariat will respond promptly to all such complaints. Where appropriate, the secretariat will refer complainants to a grievance mechanism identified by the implementing entity as the primary place for addressing complaints.

Diagram 1. Adaptation Fund Complaint Mechanism



Mandate of the Accreditation Panel

In addition to the EFC, the mandate of the Accreditation Panel contains important provisions for managing risks at the Fund level.

The Panel assesses the competence of the entity to deal with financial mismanagement and other forms of malpractice and its capacity to address complaints on environmental and social harms caused by projects/programmes.

The Panel also serves as an advisory body to the Board, and can recommend the suspension or cancellation of an implementing entity accreditation. While the Panel's terms of reference are not specific about the process to follow in such cases, following a complaint raised against an accredited implementing entity, the Board may decide that the Panel should review the fiduciary standard of the implementing entity concerned.⁹ Following such review, the Panel can eventually make a recommendation to the Board. The same procedure could be used to address issues related to the capacity and/or commitment to comply with the ESP. The OPG amended in November 2014 explicitly acknowledge this mandate.

Agreement between the Board and Implementing Entities

The agreement signed between the Board and accredited implementing entities¹⁰ following approval of project/programme proposals for funding contains a number of safeguards to ensure that the Fund's resources are used for the approved activities (see Box 5). These clauses relate to: a) Disbursement of funds in tranches, following approval of annual Project Performance Reports (PPR) that demonstrate progress in project/programme implementation; b) ensuring that the Fund's resources are not used for purposes other than those identified in the project/programme (terrorism, corruption) have made similar commitments; c) suspension of the project/programme; and d) termination of the agreement. Accredited implementing entities whose projects/programmes or project formulation grants proposals have been approved by the Board sign agreements for project/programme implementation with the Board and hence take on certain obligations.

⁹ Decision B.22/21.

¹⁰ <https://www.adaptation-fund.org/sites/default/files/Revised%20AGREEMENT%20as%20of%20Oct%202014.pdf>

Box 5: Key Provisions of the Agreement between the Board and Implementing Entities

“2.02. The Trustee shall transfer the Grant funds to the [Implementing Entity] on the written instructions of the Board. Any subsequent transfer of Grant funds to the Implementing Entity after the first tranche shall only be transferred after the Board approved the annual Project Performance Reports (PPR) referred to in section 7.01.b...

...

3.03. The Implementing entity:

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

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

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

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

...

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

(i) financial irregularities in the implementation of the [Project] [Programme], or

(ii) a material breach of this Agreement and/or poor implementation performance leading the Board to conclude that the [Project] [Programme] can no longer achieve its objectives; provided, however, that before the Board makes its final decision (a) the Implementing Entity shall be given an opportunity to present its views to the Board, through the Secretariat; and/or (b) the Implementing Entity may make any reasonable proposal to promptly remedy the financial irregularities, material breach or poor implementation performance.

...

14. TERMINATION OF THE AGREEMENT

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

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

a) cancellation of the Implementing Entity’s accreditation by the Board; or

b) receipt of a communication from the Designated Authority that it no longer endorses the Implementing Entity or the [Project] [Programme].

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