



ADAPTATION FUND

AFB/EFC.18/10

7 March 2016

Ethics and Finance Committee
Eighteenth meeting
Bonn, Germany, 15-16 March, 2016

Agenda item 9

INVESTMENT INCOME EARNED BY IMPLEMENTING ENTITIES

Background

1. The Adaptation Fund Board (the Board), at its 25th meeting, discussed the amendment to the Project Performance Report (PPR) template in relation to investment income generated and earned by implementing entities (IEs) from the Fund's grant, and requested the secretariat to send a letter to the accredited IEs to request them to inform the secretariat of respective situations. The secretariat received responses from some IEs on the matter.
2. The Board, during its intersessional period between the 25th and 26th meetings, approved the amendment to the PPR template to allow IEs to report on any investment income attributable to undisbursed balances generated by the project grant on an annual basis (Decision B.25-26/14).
3. The secretariat, at the 17th meeting of the Ethic and Finance Committee, presented the responses received from the IEs on such investment income earned. Some IEs informed the secretariat that no investment income had been generated while others reported the actual figures. The reported information varied from one IE to another due to the differences in their own reporting periods, the number of projects under implementation, the types of accounts they use and the countries in which the accounts are located. It brought to the Board the discussions on how investment income earned by the IEs should be handled.
4. The Board, at its 26th meeting, requested the secretariat to present a compilation of the practice/operational rules followed by other funds regarding investment income earned by IEs and a proposal of guideline on investment income accrued by IEs for the Adaptation Fund (Decision B.26/36). The Board also decided, for the purpose of facilitating the return of funds to the Adaptation Fund Trust Fund, to authorize the trustee to receive funds from IEs for deposit to the Adaptation Fund Trust Fund in accordance with the trustee's Terms of Conditions and procedures agreed between the trustee and secretariat (Decision B.26/37).

Practice/operational rules followed by other funds

5. The secretariat conducted a desk research on practice/operation rules followed by the Global Environment Facility (GEF), Global Fund, and Multilateral Fund for the Implementation of the Montreal Protocol (MLF), and summarized their practices in **Table 1**. The extract of the actual operational rules that the secretariat referred is found in **Annex 1**.

Table 1: Summary of practice/operational rules followed by other funds

Funds	Investment Income
GEF	<ul style="list-style-type: none"> • Hold income earned from project funds in account until the trustee requests agencies to return. • Retain income earned from “agencies fees”. No obligation to report and return to the trustee.
Global Fund	<ul style="list-style-type: none"> • Use solely for program purposes.
MLF	<ul style="list-style-type: none"> • The interest from all funds held by the Treasurer, the implementing agencies, and any executing agency to implement Multilateral Fund projects must be returned to the Fund for reprogramming by the Executive Committee. Any balances from unused approved projects including agency fees must be returned, also.

Factors to take into consideration

6. While the unused funds will be returned to the Trustee according to the grant agreement, for the investment income, the secretariat identified the following factors the Board may wish to take into consideration on determining the best practice/operational rules:

- (a) In relation to the relatively small amounts reported, the transaction costs associated with returning funds to the trustee on an annual basis maybe higher than the actual amount to be returned.
- (b) IEs should not be expected to hold separate accounts to account for investment income on unused funds and return them to the trustee.
- (c) Because of the annual reports in the PPR template, the secretariat can monitor any investment income attributable to undisbursed balances generated by the project grant.

Recommendation

The Ethics and Finance Committee may wish to recommend the Board to request the secretariat to discuss further with the Trustee on the best approach for IEs to return funds from any investment income attributable to undisbursed balances generated by the project grant and report back to the nineteenth meeting of the EFC.

ANNEX 1**Global Environment Facility (GEF)¹****According to the GEF financial procedures agreements:**

Section 8.1. Income earned on the investment of GEF Trust Fund funds transferred to the Agency (except for income earned on the investment of GEF Trust Fund funds transferred as Agency Fees) may be held by the Agency in the GEF Account until the Trustee requests the Agency to return it to such account as the Trustee may designate. The Agency will maintain a record of any such income and report to the Trustee pursuant to Section 12.2 below.

Section 8.2. Income earned on the investment of GEF Trust Fund funds transferred to the Agency as Agency Fees may be retained by the Agency and is not required to be reported or returned to the Trustee.

Global Fund²**According to the Global fund Core standard Terms and Conditions Agreement Article 11:**

a) Bank Account. The Principal Recipient shall ensure that:

- i. Grant funds in the possession of the Principal Recipient or Sub-recipients remain, to the extent practicable, in a bank account which bears interest at a reasonable commercial rate available in the Host Country until they are expended for Program purposes;
- ii. Grant funds are deposited in a bank that is fully compliant with all applicable local and international banking standards and regulations, including capital adequacy requirements; and
- iii. at all times, Grant funds are held in cash and may be withdrawn at any time, in full, upon demand.

(b) Interest. Any interest on Grant funds disbursed by the Global Fund to the Principal Recipient under this Agreement or by the Principal Recipient to Sub-recipients shall be accounted for and used solely for Program purposes.

¹ <https://www.thegef.org/gef/financial-procedures-agreements>

² www.theglobalfund.org/.../Core_StandardTermsAndConditions_Agreement_en/

(c) Revenues. Any revenues earned by the Principal Recipient or Sub-recipients from Program activities, including but not limited to revenues from “social marketing” activities, shall be accounted for and used solely for Program purposes.

Multilateral Fund for the implementation of the Montreal Protocol

Contributions not immediately required for the purposes of the Multilateral Fund (MLF) shall be invested under the authority of the Executive Committee and any interest so earned shall be credited to the MLF (*Decision II/8, Meeting of the Parties*). Agreements with and between the Treasurer and the implementing agencies require financial reporting for interest (Article II of the Agreement with the Treasurer) and stipulate that any interest income derived from all funds advanced by the MLF shall be credited to the MLF.

With regard to tracking interest income at the beneficiary level or country level, the implementing agencies advance funds for limited duration by UNDP and UNEP (3-6 months), and procurement and disbursements is centralized in UNIDO; therefore, the amount of interest is minimum at the beneficiary level and not tracked. The advances of the World Bank to the beneficiary or country level are audited and returned as required or reprogrammed into the approved project. Interest earned on advances from UNEP as an implementing agency is returned to the MLF including those advances that are held in local bank accounts for its institutional strengthening projects. Also, implementing agencies can enter into bilateral agreements with local agencies to implement projects on their behalf. The MLF requires annual financial reporting at the local level; any interest accrued from MLF resources held in local accounts will be offset in future funding tranches of projects (*decisions 69/28 and 70/20, Executive Committee*).