



ADAPTATION FUND

AFB/EFC.20/5

21 February 2017

Adaptation Fund Board
Ethics and Finance Committee
Twentieth meeting
Bonn, Germany, 14-15 March 2017

Agenda item 6 a)

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 earned by implementing entities (IEs) on amounts transferred to them for Fund projects and programs, 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 Fund transfers to them for projects and programs 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).

5. The Board, at its 27th meeting, having considered the comments and recommendation of the Ethics and Finance Committee (EFC), decided to request the secretariat to hold further discussions with the trustee on a proposal on the best approach to deal with the interest generated by implementing entities on amounts held in respect of project grants and to report back to the nineteenth meeting of the EFC (Decision B.27/32).

6. Due to insufficient comprehensive data to facilitate the Board to make an informed decision, the Board, at its 28th meeting has requested the secretariat to: a) Launch a survey of all implementing entities asking them to report their yearly investment income for the Adaptation Fund fiscal years 2014, 2015 and 2016, if available, to the secretariat by February 2017 and to: b) In consultation with the trustee, present a recommendation to the twentieth meeting of the EFC on an approach to deal with investment income generated by implementing entities on amounts held in respect of project grants, based on the survey results. (Decision B.28/42).

7. In response to the recommendation, the secretariat has launched a survey on 3 November 2016, followed by a reminder on 7 February 2017 to report to the secretariat the yearly investment income figures for the AF fiscal years 2014, 2015 and 2016. A sample form to be authorized by signature and date by the financial comptroller and/or the highest financial authority of the Entity has been provided to the implementing entities.

8. The secretariat has received the following information by 12 out of 28 entities that have AF projects implemented during the reporting period.

Investment income generated from the Fund grants¹

Implementing entities	Investment income generated (US\$)	As at [date]
MIEs		
UNDP	885,699.14	31-Dec-16
IFAD	4,316.81	30-Jun-16
IBRD (as Implementing Entity)	13,187.00	11-Nov-16
NIEs		
Micronesia Conservation Trust (Federated States of Micronesia)	-	31-Dec-16
Fundecooperacion para el Desarrollo Sostenible (Costa Rica)	16,240.00	30-Jun-16
Agencia Nacional de Investigacion e Innovacion (Uruguay)	-	24-Nov-16
Planning Institute of Jamaica	7,211.18	31-Oct-16
Fund's Environmental and Social Policy	20,000.00	31-Dec-16
Fundacion Natura (Panama)	30,000.00	
SANBI (South Africa)	33,756.51	30-Jun-16
Ministry of Planning and International Cooperation (Jordan)	-	9-Feb-17
Centre de Suivi Ecologique (Senegal)	-	2-Feb-17
TOTAL (US\$)	1,010,410.64	

¹ Please note that investment incomes reported by implementing entities, have been generated from a different number and scale of projects and in different reporting periods from one entity to another. The information here is not fairly comparable and should be used only for internal Board discussions.

Available options for consideration

9. While the standard grant agreement between the IEs and the Board specifies that upon termination of the agreement unused portion of the grant including any net investment income earned therefrom, are to be returned to the AF trust fund through the Trustee, it is silent on the treatment of the investment income attributable to undisbursed balances held by the IEs during the project implementation. Based on the result of the survey the amount reported are relatively small except for UNDP which is relatively significant. The secretariat, based on the factors specified in its document to the Board AFB/EFC.18/10 suggests the Board may wish to take into consideration two options:

10. Option 1: Investment Income remitted to AF trust fund through the Trustee

The income earned on the AF Trust Fund funds transferred to the Implementing Entity may be held by the Entity in the Implementing Entity Grant Account until the Secretariat requests the Entity to refund it to the AF Trust Fund, through the Trustee. The Secretariat will provide the Trustee with a copy of each such request, upon which basis the Trustee may issue a payment request to the Entity. The Entity should not be expected to hold separate Bank accounts to accounts for investment income on unused funds, but it will maintain a record of any such income and report to the Secretariat. The Trustee will report investment income received on an aggregate basis in its regular financial reporting.

The advantage of this option is that the investment income amounts are regularly remitted to the AF Trust Fund (on yearly basis) and can be allocated by the Board for other projects according to its decision.

The disadvantage of this option is that in the case where very small amounts are reported, the amounts would not be available for further use by the IEs and there would transactions costs associated incurred by the IEs, Secretariat and Trustee.

11. Option 2: Allowing the Implementing Entities to use the funds for project/program purposes

The income earned on the AF Trust Fund funds transferred to the Implementing Entity may be held by the Entity in the Implementing Entity Grant Account and reported as part of their regular financial reporting. The Entity should not be expected to hold separate Bank accounts to accounts for investment income on unused funds. The entity shall retain the income earned on the AF Trust Fund and use them solely for project/program purposes. 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.

The advantage of this option are the following: i) that Entities are incentivized to monitor the interest-bearing accounts where AF funds are deposited and maximize such income; ii) the Entity will gain additional liquidity to be used for the sole purpose of the

project/program; iii) the reporting requirements are relatively less complex as they are part of the Entity financial reporting to the Board according to the project/program grant agreement.

The disadvantage of this option is that the Board approves projects for a US\$ specific amount but IE reports on use of the approved amount plus Investment Income.

Recommendation

12. Following consultation with the Trustee, the secretariat advises the Ethics and Finance Committee that Option 2 is more advantageous for the Board and Entities and suggests that the Ethics and Finance Committee may wish to consider the analysis contained in this document and decide to recommend Option 2 to the Board:

The income earned on the AF Trust Fund funds transferred to the Implementing Entity may be held by the Entity in the Implementing Entity Grant Account and reported as part of their regular financial reporting. The entity shall retain the income earned on the AF Trust Fund and use it solely for project/program purposes.