



ADAPTATION FUND

AFB/EFC.21/6  
9 October 2017

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Adaptation Fund Board  
Ethics and Finance Committee  
Twenty-first meeting  
Bonn, Germany, 10-11 October 2017

Agenda item 6 a)

## **INVESTMENT INCOME EARNED BY IMPLEMENTING ENTITIES**

## Background

1. The Adaptation Fund Board (the Board), at its twenty-fifth 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 twenty-fifth and twenty-sixth 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 seventeenth meeting of the Ethic and Finance Committee (EFC), 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 specific 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.
4. The Board, at its twenty-sixth 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 twenty-seventh meeting, having considered the comments and recommendation of the 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 twenty-eighth meeting 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*
  - 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 launched a survey on 3 November 2016, followed by several reminders between February and April 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 21 out of 28 entities that have AF projects implemented during the reporting period, which compares to 12 entities that had done so by March 2017. The remaining 7 have projects which have been approved recently and thus, disbursements do not fall in the AF fiscal years 2014, 2015 and 2016 but 2017 and 2018 instead. Some of these projects have yet to start. The secretariat requested IEs who reported significant amount to provide more details (breakdown) per projects on the yearly investment income figures for the AF fiscal years 2014, 2015 and 2016. Most of them sent the breakdown, with the exception of UNEP.

9. The Board at its twenty-ninth meeting requested the secretariat:

*a) to compile a comprehensive analysis after following up with the implementing entities that did not respond to the survey launched pursuant to decision B.28/42; and*

*b) to prepare, in consultation with the trustee, a recommendation on an approach for dealing with investment income generated by the implementing entities on amounts held in respect of project grants, to be presented to the EFC at its twenty-first meeting.*

*(Decision B.29/35)*

10. In response to the comprehensive analysis, the secretariat collected missing data from the IEs that had not responded to the survey launched pursuant to decision B.28/42. In addition, the secretariat collected a breakdown / more details from IEs who had earned substantial interests generated from amount of project grants. The tables below present the information collected before and after the twenty-ninth Board meeting.

**Investment income generated from the Fund grants as of September 2017**

Implementing entities	Investment income generated (US\$)	As at September 2017
<b>MIEs</b>		
<b>IBRD</b> (as Implementing Entity)	13,187.00	11-Nov-16
<b>IFAD</b>	4,316.81	30-Jun-16
<b>UNDP</b> (Please see breakdown details by project)	885,699.14	2011-2016
- Columbia	59,372.00	2012-2016
- Cook Islands	32,851.01	2012-2016
- Cuba	14,620.00	2014-2016
- Djibouti	23,558.53	2012-2016
- Eritrea	39,010.13	2011-2016
- Georgia	37,112.53	2012-2016
- Guatemala	9,451.16	2015-2016
- Honduras	42,655.35	2011-2016
- Maldives	92,665.16	2012-2016
- Mali	41,502.77	2015-2016
- Mauritius	33,350.32	2012-2016
- Mongolia	23,647.20	2012-2016
- Myanmar	40,797.28	2014-2016
- Nicaragua	71,599.30	2011-2016
- Pakistan	53,654.40	2011-2016
- Papua New Guinea	86,964.13	2012-2016
- Samoa	63,885.50	2012-2016
- Seychelles	13,456.54	2014-2016
- Solomon Islands	66,746.66	2011-2016
- Turkmenistan	24,780.33	2012-2016
- Uzbekistan	13,302.10	2014-2016
- Ghana	548.24	2016
- Regional: Cuba, Dominican Republic and Jamaica	87.10	2016
- Regional: Mauritius and Seychelles	80.63	2016
<b>UNEP</b>	97,459.64	31-Dec-16
<b>WFP</b>	3,730.94	2013-2017
<b>NIEs</b>		
<b>Agence pour le Développement Agricole (Morocco)</b>	36,399.08	

<b>Agencia de cooperacion internacional</b> (Chile)	0	2013-2014
<b>Agencia Nacional de Investigacion e Innovacion</b> (Uruguay)	0	24-Nov-16
<b>Centre de Suivi Ecologique</b> (Senegal)	0	2-Feb-17
<b>Desert Research Foundation of Namibia (DRFN)</b>	NIL	2014-2016
<b>Fundacion Natura</b> (Panama) - Project - Fund's Environmental and Social Policy	25,274.56 20,000.00	31-Dec-16
<b>Fundecooperacion para el Desarrollo Sostenible</b> (Costa Rica)	16,240.00	30-Jun-16
<b>Ministry of Natural Resources (MINIRENA)</b> (Rwanda)	0	02-Oct-2017
<b>National Bank for Agriculture and Rural Development (NABARD)</b>	107,395.93	30-Jun-17
<b>Micronesia Conservation Trust</b> (Federated States of Micronesia)	NIL	31-Dec-16
<b>Ministry of Planning and International Cooperation</b> (Jordan)	0	9-Feb-17
<b>National Environment and Climate Fund (FNEC - Benin)</b>	0	August 2017
<b>NEMA</b> (Kenya)	NIL	30-April-17
<b>Planning Institute of Jamaica</b>	7,211.18	31-Oct-16
<b>SANBI</b> (South Africa)	33,756.51	30-Jun-16
<b>Unit for Rural Change (UCAR -Argentina)</b>	0	2012-2017
<b>TOTAL (US\$)</b>	<b>1,250,670.02</b>	

11. The total amount of interest generated from amount of project grants is USD 1,25 million of which seventy per cent is linked to UNDP due to the size of its portfolio.

12. The secretariat at the twentieth meeting presented to the Ethics and Finance Committee available options on an approach for dealing with investment income generated by the Implementing Entities on amounts held in respect of project grants. The options and recommendation are presented below:

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

The income earned on the AF 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.

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

The income earned on the AF 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 funds 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

15. Following consultation with the Trustee, and in light of the analysis above, the secretariat advises the EFC that Option 2 may be more advantageous for the Board. Accordingly, the EFC may wish to consider and decide to recommend to the Board to:

Adopt Option 2 for dealing with investment income generated by the Implementing Entities on amounts held in respect of project grants presented in document AFB/EFC.21/6, according to which the income earned on the Adaptation 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 Adaptation Fund funds and use it solely for project/program purposes.