



ADAPTATION FUND

AFB/EFC.23/7
10 October 2018

ADAPTATION FUND BOARD

Ethics and Finance Committee

Twenty-third Meeting

Bonn, 9-10 October 2018

REPORT OF THE TWENTY-THIRD MEETING OF THE ETHICS AND FINANCE COMMITTEE

Agenda Item 1: Opening of the meeting

1. The Chair of the Ethics and Finance Committee (EFC), Ms. Tove Zetterström-Goldmann (Sweden, Annex I Parties), opened the meeting and greeted the participants at 9.30 a.m. on 9 October 2018.
2. The Chair welcomed a new Board member to the EFC, Ms. Sheida Asgharzadeh Ghahroudi (Iran, Asia-Pacific), who briefly introduced herself.

Agenda Item 2: Organizational matters

a) Adoption of the agenda

3. The EFC adopted the following agenda for its twenty-third meeting on the basis of the provisional agenda set out in document AFB/EFC.23/1:
 1. Opening of the meeting.
 2. Organizational matters:
 - a) Adoption of the agenda;
 - b) Organization of work.
 3. Annual performance report for the fiscal year 2018.

4. Update on the establishment of the Fund's evaluation function.
5. Implementation of the management response to the second phase of the overall evaluation of the Fund.
6. Accreditation standards related to anti-money-laundering/ countering the financing of terrorism
7. Financial issues:
 - a) Financial status of the Trust Fund and CER monetization;
 - b) Reconciliation of the Board and secretariat and trustee budgets for the fiscal year 2018.
8. Other matters.
9. Adoption of the recommendations and report.
10. Closure of the meeting.

4. In adopting the agenda, the EFC agreed to discuss, under item 8, Other matters, the implications of reorganization of a national implementing entity.

b) Organization of work

5. The EFC adopted the organization of work proposed by the Chair based on the provisional timetable contained in document AFB/EFC.23/2.

6. In accordance with paragraph 29 of the rules of procedure, the Chair then called upon all EFC members to orally declare any conflict of interest that they might have with any item on the current meeting agenda. She also drew attention to the Code of Conduct and Zero Tolerance Policy for the Board, which were available on the website of the Fund. No conflicts of interest were declared.

Agenda Item 3: Annual performance report for the fiscal year 2018

7. Introducing the item, the Chair noted that the annual performance report for the fiscal year 2018 provided a wide range of information on the implementation of the medium-term strategy during the reporting period, organized around the strategy's foci of action, innovation and learning/ sharing.

8. The representative of the secretariat then presented the annual performance report (AFB/EFC.23/3).

9. Following her presentation, she responded to a number of questions and comments from members. Regarding the expected enhancements to the information technology platform, she

indicated that project data was not yet fully integrated into the system but would be in 2019. She also welcomed a suggestion that the secretariat provide a table showing the results on the ground, noting that the upcoming enhancements to the platform would make that possible. The manager of the secretariat added that if the EFC wished to have more information on completed projects, the secretariat could conduct a review of the result-based management framework in place for the EFC's consideration at its next meeting.

10. Addressing comments regarding to the large quantity of data presented, the manager of the secretariat also recalled that the Board had considered a more reader-friendly version of the annual performance report the previous year but had, in decision B.30/37, decided to request the secretariat to continue presenting the APR in the standard, more technical format, and to subsequently prepare a summarized version for the general public in a reader-friendly format.

11. The representative of the secretariat responded to a member who remarked on the low percentage of women in decision-making processes, noting that the 13 per cent referred to the proportion of projects that specifically targeted women's role in decision-making. Thirty-three projects had not been categorized, as they only reported women's involvement as beneficiaries of training exercises, which was insufficient for gender equity. The secretariat had recently amended the project performance report template, however, and a new section for reporting on progress in meeting the gender policy requirements should produce better results in the future.

12. With respect to project performance report submissions, she allowed that there had been a slight increase in the number of delayed reports but said that the new information technology platform would address this issue by sending an automatic reminder to the implementing agency one month before the report submission date, with a copy to the secretariat, allowing both parties to easily track when the reports were due.

13. There was also discussion on project delays, during which the representative of the secretariat provided additional information on the reasons for particularly lengthy project delays. One member suggesting that a cap should be placed on the allowed delay, after which a project should be cancelled.

14. The Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board (the Board):

(a) Approve the annual performance report for the fiscal year 2018, as contained in document AFB/EFC.23/3; and

(b) Request the secretariat to prepare, for the consideration of the EFC at its twenty-fourth meeting:

(i) A review of the Strategic Results Framework of the Adaptation Fund and the Adaptation Fund Level Effectiveness and Efficiency Results Framework, which were approved by the Board in decision B.10/13, to reflect the progress made by the Fund;

(ii) A report with an analysis of the reasons for delays in project inception, based on information received from the implementing entities, related to the cases listed in document AFB/EFC.23/3, Table 5; and

(iii) An overview of practices followed by other climate funds on how to address project delays.

(Recommendation EFC.23/1)

Agenda Item 4: Update on the establishment of the Fund's evaluation function

15. Introducing the item, the Chair recalled that in decision B.31/25, the Board had decided to approve the terms of reference for the Technical Evaluation Reference Group of the Adaptation Fund (AF-TERG) and to establish the AF-TERG Recruitment Working Group composed of Board members and alternates. The AF-TERG Recruitment Working Group, with the support of the secretariat, had done some work intersessionally and could provide an update on the progress made with the arrangements for the recruitment of the AF-TERG chair and its members.

16. The manager of the secretariat then presented the update on behalf of the AF-TERG Recruitment Working Group. He explained that during the intersessional period, the secretariat had prepared the terms of reference for the chair of the AF-TERG and circulated them to the Recruitment Working Group, which had provided helpful feedback. The terms of reference had then been posted online and distributed through various channels in August, following which the secretariat had received 50 applications. Five candidates had been short-listed and an initial round of interviews had recently been conducted. The results of the interviews would be discussed with the Recruitment Working Group in the margins of the current Board meeting to determine whether a second round of interviews was needed. Once the preferred candidate had been identified, he or she would be contracted by the secretariat and would then participate in the recruitment of the other AF-TERG members. The group would ultimately consist of the chair and four other members, and the goal was to complete the selection process by year-end.

17. The Ethics and Finance Committee took note of the information provided.

Agenda Item 5: Implementation of the management response to the second phase of the overall evaluation of the Fund

18. Introducing the item, the Chair recalled that by decision B.31/30, the Board had taken note of the draft report of the second phase of the overall evaluation of the Adaptation Fund as contained in document AFB/EFC.22/9 and requested the Independent Review Panel to supervise the finalization of the report.

19. The manager of the secretariat then briefed the Board on the subsequent developments. As requested, the IPR had supervised the finalization of the report by the evaluation team, taking into account the discussion at the twenty-second meeting of the EFC. The secretariat had received the final report from the evaluation team and the Independent Review Panel's updated

comments on the report, which had been circulated to the Board members and posted on the Fund's website. The secretariat had then supported the Chair in developing a management response that had been circulated to the Board for intersessional approval. In early October, the Board, by decision B.31-32/30, had approved the management response and requested the secretariat to post it on the Adaptation Fund website and send it to the independent review panel and to TANGO International for their information.

20. He then presented the management response (AFB/EFC.23/Inf.1), highlighting some of the more noteworthy aspects and subsequently responding to questions and comments from members. He began by flagging the first recommendation, that the Fund "should strengthen its support and guidance to IEs to address gaps found in project designs across the portfolio", as one of several findings that the secretariat had found difficult to connect to reality. Furthermore, that recommendation had been difficult to address, as the evaluation team had based their determination on a review of 22 projects but had failed to provide information on which projects or what kind of gaps they were referring to. He later responded to a question on the matter, reiterating that the lack of analysis made it difficult to understand where the finding had come from, and stressing that in his experience reviewing projects for the Fund, project proposals provided, as they were required to do, a clear explanation of the climate challenges, climate drivers, specific risks and baselines related to local climate risks and impacts.

21. He singled out recommendation 11, relating to barriers to gender outcomes in projects, as being particularly useful for the secretariat, and said that while the issue might be connected to projects that had been approved before the adoption of the gender policy, it merited further analysis by the secretariat.

22. Responding to comment regarding the recommendation for in-depth assessment of the readiness activities even though that had been one of the core tasks of the evaluation assessment, he informed the EFC that the secretariat was conducting a review of how readiness activities undertaken by the Fund were related to the broader climate convention architecture and to the activities of other bodies under the United Nations Framework Convention on Climate Change.

23. He then turned to a question regarding the recommendation to reduce the cap on multilateral implementing entities (MIEs) to encourage more proposals from national implementing entities (NIEs) as a means of supporting direct access. Suggesting that the recommendation might indicate a misunderstanding by the evaluation team, he explained that the 50 per cent allocation to MIEs had never constrained the availability of funding for NIEs, as the NIEs, along with the regional implementing entities in the same group, had not yet reached the other 50 per cent of the Fund's portfolio and thus still had funding available. A more effective way of increasing direct access might be to increase the US\$ 10 million country cap, which would be the subject of a separate discussion by the Board at its upcoming meeting.

24. Finally, responding to a query regarding the cost implications of the changes to the readiness programme suggested in recommendation 8, the manager of the secretariat said that designated authorities had been invited to regional workshops organized since 2014. Regional

workshops, which were quite costly, had been organized with various partners such as MIEs and other regional organizations. Collaboration with the Green Climate Fund was also increasing, although the designated authorities were not necessarily the same for both funds, and the potential for economies of scale was therefore limited.

25. The Ethics and Finance Committee took note of the information provided.

Agenda Item 6: Accreditation standards related to anti-money-laundering/countering the financing of terrorism

26. Introducing the item, the Chair recalled that in decision B.31/26, the Board had requested the Accreditation Panel to consider whether there was a need to introduce accreditation standards related to anti-money-laundering/countering the financing of terrorism, and if it determined that there was, to identify which capacities should exist within the implementing entity applicant and which capacities of other institutions could be relied on, and to present a proposal on the matter to the EFC at its twenty-third meeting.

27. The representative of the secretariat then presented the proposed changes to the accreditation form, as contained in document AFB/EFC.23/4, as well as the rationale for the proposed changes, as discussed by the Accreditation Panel at its twenty-eighth and twenty-ninth meetings (confidential document AFB/EFC.23/4/Add.1).

28. Subsequently, responding to questions from members, she provided clarifications regarding the new requirements for NIEs arising from the proposed changes to the accreditation form. She noted in particular that the legal agreement between the Board and implementing entities already contained obligations relating to countering the financing of terrorism. Entities seeking reaccreditation would have met those obligations and would therefore simply be required to provide documentation on their policies and mechanism already in place. In the case of entities seeking accreditation, the new requirement would help prepare them to sign the legal agreement. She underscored the fact that the proposed changes did not impose any new criteria for accreditation, but rather clarified what documentation was required as supporting documentation for the existing criteria. Furthermore, it is likely that organizations dealing with international funding would already have such mechanisms and systems in place and would only need to provide evidence of that under the new requirements.

29. Having considered documents AFB/EFC.23/4 and AFB/EFC.23/4/Add.1 on the accreditation standards related to anti-money-laundering/countering the financing of the terrorism, the Ethics and Finance Committee recommended that the Adaptation Fund Board:

- (a) Approve the following revised “examples of supporting documentation” related to the “internal control framework”, “procurement” and “policies and framework to deal with

financial mismanagement” criteria in the accreditation application form, as highlighted in annex 2 to document AFB/EFC.23/4:

- (i) Policies and procedure related to anti-money-laundering/countering the financing of the terrorism;
 - (ii) Screening system which documents all individuals and/or entities before the agency transfers money to them; and
 - (iii) Decision-making process that the agency follows when it identifies risks related to any individuals and/or entities;
- (b) Approve the revised accreditation application form, as contained in annex 2 to document AFB/EFC.23/4; and
- (c) Request the secretariat to update the following documents to reflect subparagraph a) above:
- (i) Reaccreditation application form;
 - (ii) Fast-track reaccreditation form;
 - (iii) Fast-track accreditation form, subject to the decision of the Board on the Fund's fast-track accreditation process as proposed in document AFB/B.32/5; and
 - (iv) Fiduciary risk management standards to be met by implementing agencies (annex 2 to the Operational Policies and Guidelines).

(Recommendation EFC.23/2)

Agenda Item 7: Financial issues

a) Financial status of the Trust Fund and CER monetization

30. A representative of the trustee presented the Adaptation Fund Trust Fund financial report prepared by the trustee as at 30 June 2018 (AFB/EFC.23/5), as well as an update to 30 September 2019. He informed the EFC that new donations had been received from the Walloon Region (€4 million) and Sweden (SKr 85 million) since the previous meeting. Funding available for new decisions had amounted to US\$ 226 million as 30 June 2018 and US\$ 193 million as at 30 September 2018.

31. A second representative of the trustee joined the meeting via Skype to provide an update on the market for Certified Emission Reductions (CERs) and CER monetization. He reported that CER sales had continued at a modest pace, generating US\$ 1.57 million in fiscal year 2018 from the sale of CERs equivalent to 432,000 tonnes of CO₂. The average sale price had been approximately US\$ 3.65 per tonne, compared to a prevailing market price of approximately €0.10 per tonne. He subsequently responded to questions regarding the market for CERs and whether higher prices for European Union Allowances were affecting CERs, explaining that CERs had

seen only a moderate increase in price (€0.24 to €0.26) as the market remained oversupplied. Responding to a query about the cost/benefit of continuing to sell CERs, the representative of the trustee reported that the cost in fiscal year 2018 had been US\$ 180,000.

32. The Ethics and Finance Committee took note of the trustee's report as contained in document AFB/EFC.23/5.

b) Reconciliation of the Board and secretariat and trustee budgets for the fiscal year 2018

33. The representative of the secretariat and the representative of the trustee presented document AFB/EFC.23/6. Following their presentation, they responded to questions and comments from members.

34. The Ethics and Finance Committee took note of the information contained in document AFB/EFC.23/6.

Agenda Item 8: Other matters

Implications of national implementing entity reorganizations

35. The member who had proposed the topic for discussion opened the discussion by noting that a paragraph in the report of the twenty-seventh meeting of the Accreditation Panel indicated that if the implementing entity ceases to exist and becomes a new entity through, inter alia, legal, organizational, and/or functional changes, the implementing entity would need to pursue an accreditation rather than 're-accreditation.' The Panel would assess the need on a case-by-case basis. He also referred to the case of a reorganized entity that had arisen during the intersessional period. Noting that a reorganization could be in different forms, ranging from a simple name change to a more complex change in legal status or even elimination of the NIE, he proposed that the Accreditation Panel be requested to prepare guidance on how such cases would be dealt with, to clarify the question for both the Board and the implementing entities.

36. Subsequently, in response to a question from a member, the manager of the secretariat explained that changes to entities had occurred a number of times over the life of the Fund. Simple name changes had not required reconsideration of whether the organization continued to meet the accreditation standards. The more recent case was different, however, as it constituted the removal of a small part of the accredited entity, and the secretariat had to determine whether entity without that part continued to meet the accreditation criteria. The Board, supported by an assessment and taking into consideration the fact that closing the project early would have negative implications, had decided that the entity in its new form should continue in the implementation role.

37. A representative of the secretariat added that such cases can be categorized into two situations: (i) to address the issue of continuation of the project implementation; and (ii) to assess whether the reorganized entity needs to pursue re-accreditation or accreditation. The current practice is to address the situations on a case-by-case basis by the Accreditation Panel based on whether the organization in question continued to meet the accreditation criteria to continue

implementing a project. In addition to legal aspects, the panel also took fiduciary and financial management aspects into consideration in its decision.

38. Having considered the possible implications of the reorganization of a national implementing entity for project implementation and its accreditation and/or reaccreditation, the Ethics and Finance Committee recommended that the Adaptation Fund Board request the secretariat, in collaboration with the Accreditation Panel, to prepare and submit a background document reflecting specific cases to the EFC for consideration at its twenty-fourth meeting, as well as options for dealing with cases where the national implementing entity is reorganized.

(Recommendation EFC.23/3)

Agenda Item 9: Adoption of the recommendations and report

39. The present report was adopted based on the draft report contained in document AFB/EFC.23/L.1, as orally amended.

Agenda Item 10: Closure of the meeting

40. The meeting closed at 10:50 a.m. on 10 October 2018.

ANNEX I

**Ethics and Finance Committee
Twenty-third Meeting
Bonn, Germany, 9 and 10 October 2018**

EFC members present in the meeting

Ms. Tove ZETTERSTRÖM-GOLDMANN (Chair) (Sweden, Annex I Parties)

Ms. Patience DAMPTEY (Vice-Chair) (Ghana, Non-Annex I Parties)

Mr. David KALUBA (Zambia, Africa)

Mr. Mohamed ZMERLI (Tunisia, Africa)

Ms. Sheida ASGHARZADEH GHAHROUDI (Iran, Asia-Pacific)

Ms. Umayra TAGHIYEVA (Azerbaijan, Eastern Europe)

Mr. Aram TER-ZAKARYAN (Armenia, Eastern Europe)

Ms. Yadira GONZALES COLUMBIE (Cuba, Latin America and the Caribbean)

Mr. Chebet MAIKUT (Uganda, Least Developed Countries)

Ms. Sylviane BILGISCHER (Belgium, Western Europe and others)