



ADAPTATION FUND

AFB/EFC.24/9
13 March 2019

ADAPTATION FUND BOARD

Ethics and Finance Committee
Twenty-fourth Meeting
Bonn, Germany, 12-13 March 2019

REPORT OF THE TWENTY-FOURTH 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. Sheida Asgharzadeh Ghahroudi (Iran, Asia Pacific) opened the meeting and greeted the participants at 10.07 a.m. on 12 March 2019.
2. The Chair welcomed new Board members to the EFC, Mr. Nilesh Prakash (Fiji, Small Island Developing States), Ms. Eleonora Cogo (Italy, Western European and Others) and Mr. Mattias Broman (Sweden, Annex I Parties) who briefly introduced themselves.

Agenda Item 2: Transition of the Chair and the Vice-Chair

3. Ms. Ghahroudi took over as the Chair of the EFC, and Mr. Broman took over as the Vice-Chair of the EFC.

Agenda Item 3: Organizational matters

a) Adoption of the agenda

4. The EFC adopted the following agenda for its twenty-fourth meeting on the basis of the provisional agenda set out in document AFB/EFC.24/1:
 1. Opening of the meeting.
 2. Transition of the Chair and the Vice-Chair.

3. Organizational matters:
 - a) Adoption of the agenda;
 - b) Organization of work.
 4. Implications of the reorganization of an implementing entity.
 5. Review of the Strategic Results Framework and the Fund Level Effectiveness and Efficiency Results Framework.
 6. Delays in project inception.
 7. Financial issues:
 - a) Financial status of the Trust Fund and CER monetization;
 - b) Work Plan for the fiscal year 2020; and
 - c) Administrative budget of the Board and Secretariat, and Trustee for fiscal year 2020.
 8. Other matters.
 9. Adoption of the recommendations and report.
 10. Closure of the meeting.
5. In adopting the agenda, under item 8, Other matters, no other matters were proposed.
- b) Organization of work*

6. The EFC adopted the organization of work proposed by the Chair based on the provisional timetable contained in document AFB/EFC.24/2.

7. 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 4: Implications of the reorganization of an implementing entity.

8. The Chair invited the secretariat to introduce document AFB/EFC.24/3. Decision B.32/37 had requested 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 (IE) is reorganized.

9. The document addressed the implications of IE reorganization, presented possible four scenarios of IE reorganization depending on the scope of change to IE and on whether the entity has a project or not, reviewed cases where the Fund had previously dealt with IE reorganization, and proposed two processes to address the implications: (i) a process to address its implications on project implementation; and (ii) a process to address its implications on accreditation and re-accreditation process. Acknowledging the difficulties in describing and predicting all possible situations, forms and/or types of reorganization of an IE, the document aimed to provide more predictability and consistency on the Fund's process for handling the reorganization of an IE, as well as for considering the range of possible implications on project implementation and accreditation and/or re-accreditation process.

10. Following the presentation, the secretariat responded to questions and comments. The secretariat recalled that the objective of the document is to provide more predictability and consistency to the process on how the Fund deals with IE reorganization in terms of (i) accreditation and re-accreditation process; and (ii) project implementation acknowledging it is difficult to predict and enumerate all the possible situations, forms and types of reorganization of IE and its caution, and that the extra caution was exercised in drafting the document not to prejudge possible Board decisions in the future. As for the question on the information on how the Green Climate Fund (GCF) has dealt with this issue, the secretariat indicated that the GCF is also experiencing this issue as the IEs which were reorganized are also the accredited implementing entities of the GCF, and that the GCF secretariat recently consulted with the secretariat on its same experience and sought the information on how the Adaptation Fund has dealt with this issue. In response to the GCF secretariat's question, the Adaptation Fund Board secretariat had provided information that the EFC would discuss this matter at its 24th meeting. The questions and comments also included on: possible implications for the grant agreement and the inclusion of criteria for what will happen to the funds; the type of information to be communicated to the IE on the action they should take; possible inclusion of explicit reference on possible outcomes and results of the processes in the conclusion of the document; and possibility of the inclusion of case-specific decisions to the Board in the document. The secretariat highlighted parts in the document that may address the questions and comment raised by the members.

11. Following consultations, the secretariat introduced proposed revisions to the document, as reflected in document AFB/EFC.24/3/Rev.1. The revisions note that, regarding the process to address implications on project implementation conducted by the secretariat in collaboration with the trustee, the outcome of the assessment will be submitted to the Board for consideration and decision if applicable. In addition, the revisions sought to make the end result of the process more clearly indicated in the document.

12. The Ethics and Finance Committee (EFC) took note of this information contained in document AFB/EFC.24/3/Rev.1 and recommended that the Adaptation Fund Board decides:

- a) To approve the process to address implications of the implementing entity's reorganization in terms of project implementation and the process to address

implications on accreditation and/or re-accreditation process, as described in document AFB/EFC.24/3/Rev.1;

- b) To request the secretariat to communicate this decision and document AFB/EFC.24/3/Rev.1 to the implementing entities; and
- c) To request the implementing entities to communicate any reorganization to the secretariat as early as possible.

Recommendation EFC.24/1

Agenda Item 5: Review of the Strategic Results Framework and the Fund Level Effectiveness and Efficiency Results Framework.

13. The Chair invited the secretariat to introduce document AFB/EFC.24/4. The Board, at its thirty-second meeting, had decided to request the secretariat to prepare 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 Adaptation Fund.

14. Based on its analysis of the Review of the Strategic Results Framework and the Adaptation Fund Level Effectiveness and Efficiency Results Framework, the document suggested a number of revisions to foster more comprehensive Results Based Management tools. In addition, the secretariat highlighted that indicators for Adaptation Fund Level processes, contained in the Adaptation Fund Level Effectiveness and Efficiency Framework, are tracked and reported annually, and cover: (i) secure financing, financing mechanisms, and efficiency of use; (ii) project cycle efficiency; (iii) results driven performance; and (iv) accreditation processes. The document therefore suggested further revisions intended to promote a comprehensive Fund Level Effectiveness and Efficiency Results Framework in line with the three pillars of the Medium-Term Strategy, which constitutes the Fund's highest-level Results Framework for the 2018-2022 period.

15. The secretariat responded to questions on, inter alia: specific information on actual donor contributions; information reflecting changes to contributions from year to year to aid comparison; references to reflect the number of the targeted population benefiting from the direct access financing modality; and the impact of the latest decisions taken by COP 24 and CMP 14. Members also discussed possible improvements to the indicators and measuring points used in the document.

16. Following consultations, the secretariat introduced proposed revisions to the document, as reflected in document AFB/EFC.24/4/Rev.1. These revisions pertain to the new clustering of indicators, to ease information processing, as well as the document contains a new summarized Fund Level Effectiveness and Efficiency Framework, maintaining key indicators that could be of interest for the general public.

17. Having considered the analysis provided by the secretariat contained in document AFB/EFC.24/4/Rev.1, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide:

- a) To approve the Review of the Strategic Results Framework and the Adaptation Fund Level Effectiveness and Efficiency Results Framework as contained in document AFB/EFC.24/4/Rev.1; and
- b) To request the secretariat to prepare a document on a proposed revision of the results tracker and an updated document on guidance on the revised results tracker, to be presented at the twenty-sixth EFC meeting.

Recommendation EFC.24/2

Agenda Item 6: Delays in project inception.

18. The Vice-Chair invited the secretariat to introduce document AFB/EFC.24/5, which provided an analysis of the reasons for delays in project inception, as requested by decision B.32/35. The document recalls that the Board approved a Policy for Project/Programme Delays in its twenty-first meeting (Decision B.21/16), which was amended in October 2017 (decision 29 - 30/15). In that policy, the Board set a target of six months from the first cash transfer to project/programme start. Each implementing entity has its own internal project cycle with different definitions for various milestones, including project start dates.

19. To analyze the key reasons for project inception delays, the secretariat developed a survey for IEs to enquire about the challenges that prevent the timely commencement of implementation. The reasons, based on the survey responses received by the secretariat, were then compiled into a non-exhaustive list, as the context and experiences differ from country to country.

20. Key reasons noted were: unforeseen changes in essential personnel, such as the appointment of a new Designated Authority (DA) or changes in the project management team; cumbersome procurement and recruitment processes; unrealistic scheduling of project milestones in the project proposal; ad hoc execution arrangements, which may be necessitated by new political priorities; unstable political climate and natural disasters; coordination challenges faced by regional projects; and, the setting up of fund management structures and accountability mechanisms for transboundary projects. The document also provides an overview of practices followed by other climate funds to address project delays. The secretariat will continue to monitor and report on elapsed time, not only for project starts but also for project implementation and closure.

21. The secretariat responded to questions on how they can help implementation and strengthen capacity, including: the use of risk assessment matrices, the Green Climate Fund's 90-day approach; and ways to avoid the inclusion of unrealistic milestones.

22. The Ethics and Finance Committee (EFC) took note of the information contained in document AFB/EFC.24/5 and recommended that the Adaptation Fund Board decide to request the secretariat:

- a) To conduct an analysis of whether implementing entities identified risks associated with possible project inception delays and how the implementing entities have mitigated identified risks and unidentified risks;
- b) To expand the analysis contained in document AFB/EFC.24/5 by seeking further information on other climate funds' policies on addressing project inception delays and their implementation of such policies; and
- c) To prepare a document which contains the information related to subparagraphs (a) and (b) as well as recommendations on a possible course of action to the EFC at its 25th meeting.

Recommendation EFC.24/3

Agenda Item 7: Financial issues

a) Financial status of the Trust Fund and CER monetization

23. A representative of the trustee made a presentation on the Adaptation Fund Trust Fund financial report prepared by the trustee as at 31 December 2018, as contained in document AFB/EFC.24/6, highlighting that five new donation agreements had been processed, and a further four were in the process of execution. New contributions of US\$ 97 million had been received into the AF trust fund. The trustee also reported on the increase in investment income for 2018 and responded to questions on the issue.

24. A second representative of the trustee joined the meeting via Skype to provide an update on the Certified Emission Reductions (CERs) monetization program. He reported that the trustee had been able to continue sales at a considerable price premium by selling on the over-the-counter market, but that such sales were not possible at larger volumes.

25. The Ethics and Finance Committee took note of the trustee's report as contained in document AFB/EFC.24/6.

b) Work Plan for the fiscal year 2020

26. The secretariat presented the work plan proposal for fiscal year 1 July 2019 – 30 June 2020 (FY20), as contained in document AFB/EFC.24/7. The secretariat noted that the run up to COP 24 in Katowice had been busy but yielded many positive outcomes, such as a decision -/CMA.1 and a decision -/CMP.14 that the Fund serves the Paris Agreement and the official launch of arrangements for new grants. Concerning FY 20, the secretariat noted several activities, including: the roll out of the window for enhanced direct access; plans to share lessons learned on accreditation with other entities; two portfolio monitoring missions;

communications activities such as project stories and podcasts; increased work on knowledge management activities; and publications on adaptation issues such as gender mainstreaming. The secretariat responded to questions on expected challenges, plans for orientation sessions for new members, and awareness raising activities for gender policy and actions plans.

27. Having considered the proposal by the secretariat, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide to approve the draft secretariat work schedule and proposed work plan for FY20, as contained in document AFB/EFC.24/7.

Recommendation EFC.24/4

c) Administrative budget of the Board and Secretariat, and Trustee for fiscal year 2020

28. The Vice-Chair invited the secretariat and the trustee to present the administrative budget request for fiscal year 1 July 2019 – 30 June 2020 (FY20), as contained in document AFB/EFC.24/8. The document provided an overview of the budgets of the Board and secretariat, the newly established evaluation function, and of the trustee, for FY20, which are explained in detail as follows: Section II presents the Board and Secretariat budget, Section III the Evaluation Function budget, and Section IV the Trustee budget.

29. The representative of the secretariat presented the administrative budget for the Board and secretariat for FY20 and provided explanations for those budget items that would deviate from figures in FY19. The secretariat also briefly explained the budget cycle and its associated cash flows between the Adaptation Fund Trust Fund and the secretariat account for the administrative budgets.

30. The Chair of the Technical Evaluation Reference Group (TERG) presented the administrative budget of the Evaluation Function for FY20 and provided an overview of the approaches and planned activities of the TERG, including its interactions with the Board. Regarding the question on how the TERG would disseminate information on successful projects, the Chair of the TERG responded that the TERG recommendations will be fact-based, and that while the TERG has not yet initiated its work, it could also be viewed as a strategic resource for the Fund.

31. The representative of the trustee presented the estimated costs and expenses for FY20. For the trustee budget, costs are expected to increase, as the World Bank's methodology for recovering trust fund costs will be amended from FY20, adopting a fixed fee approach that includes increased cost recovery of the Bank's treasury costs for investment management of liquid balances in the AF Trust Fund. The representative also responded to questions on the revised methodology used to formulate the budgets.

32. Having considered the budget proposals by the secretariat and trustee as contained in document AFB/EFC.24/8, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide:

a) To approve, from the resources available in the Adaptation Fund Trust Fund:

- (i) The proposed budget of US\$ 5,247,437 to cover the costs of the operations of the Board and secretariat over the period 1 July 2019 to 30 June 2020, comprising US\$ 4,054,723 for the secretariat administrative services (the main secretariat budget), US\$ 537,900 for the accreditation services and US\$ 654,814 for the Readiness Programme;
- (ii) The proposed budget of US\$ 793,843 to cover the costs of the operations of the evaluation function of the Adaptation Fund over the period 1 July 2019 to 30 June 2020, comprising US\$ 493,843 for the general operations and US\$ 300,000 for evaluations; and
- (iii) The proposed budget of US\$ 682,150 for the trustee services to be provided to the Adaptation Fund over the period 1 July 2019 to 30 June 2020; and

b) To authorize the trustee to transfer the amounts in subparagraph a) (i) and (ii) to the secretariat, and the amount in subparagraph a) (iii) to the trustee.

Recommendation EFC.24/5

Agenda Item 8: Other matters

33. There were no other matters.

Agenda Item 9: Adoption of the recommendations and report

34. The present report was adopted based on the draft report contained in document AFB/EFC.24/9, as orally amended.

Agenda Item 10: Closure of the meeting

35. The meeting closed at 13:14 p.m. on 13 March 2019.

ANNEX I

**Ethics and Finance Committee
Twenty-fourth Meeting
Bonn, Germany, 12 and 13 March 2019**

EFC members present in the meeting

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

Mr. (Vice-Chair) Mattias BROMAN (Sweden, Annex I Parties)

Mr. David KALUBA (Zambia, Africa)

Mr. Mohamed ZMERLI (Tunisia, Africa)

Mr. Nilesh PRAKASH (Fiji, Small Island Developing States)

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

Mr. Victor Viñas (Dominican Republic, Latin America and the Caribbean)

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)

Ms. Eleonora COGO (Italy, Western Europe and others)