



ADAPTATION FUND

AFB/EFC.25/9
9 October 2019

ADAPTATION FUND BOARD

Ethics and Finance Committee
Twenty-fifth Meeting
Bonn, Germany, 8-9 October 2019

REPORT OF THE TWENTY-FIFTH 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 (Islamic Republic of), Asia-Pacific) opened the meeting and greeted the participants at 9:20 a.m. on 8 October 2019.
2. The Chair welcomed a new Board alternate member to the EFC, Mr. Arana Pyfrom (Bahamas, Latin America and the Caribbean), who briefly introduced himself. The Chair also welcomed Ms. Eva Lithman, Chair of the Technical Evaluation Reference Group (AF-TERG), as an ex officio member of the EFC.

Agenda Item 2: Organizational matters

a) *Adoption of the agenda*

3. The EFC adopted the following agenda for its twenty-fifth meeting on the basis of the provisional agenda set out in document AFB/EFC.25/1:
 1. Opening of the meeting.
 2. Organizational matters:
 - a) Adoption of the agenda;
 - b) Organization of work.
 3. Annual performance report for fiscal year 2019
 4. Proposed revision of the results tracker and an updated guidance on the revised results tracker
 5. Further analysis of project inception delays
 6. Financial issues:

- a) Financial status of the Trust Fund and CER monetization;
 - b) Reconciliation of the Board and secretariat, and trustee for fiscal year 2019.
7. Assessment of the accreditation standards of the Green Climate Fund, including a gap analysis
 8. Report of the Chair of the Technical Evaluation Reference Group
 9. Other matters.
 10. Adoption of the recommendations and report.
 11. Closure of the meeting.
4. In adopting the agenda, under item 9, Other matters, a Board member proposed to discuss the possibility of setting a deadline for finalization of AFB meeting reports, as well as the workload of the secretariat.

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.25/2.
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 fiscal year 2019

7. The Chair invited the secretariat to present the annual performance report for the fiscal year 2019, as contained in document AFB/EFC.25/3. The report provides a wide range of information on the progress of Medium-Term Strategy (MTS) implementation during the reporting period, following the strategic foci of: Action, Innovation, and Learning and Sharing. Additionally, it presents diverse analyses on information captured since the inception of the Fund in 2010.
8. The secretariat highlighted the growth of the Fund's portfolio, noting that a total of 84 projects representing US\$ 560 million that have been approved for funding (excluding Project Formulation Grant (PFG) and readiness grants), including 30 implemented by national IEs (NIEs). The approved projects are expected to directly benefit 6.5 million people. In addition, a total of 56 PFGs for single country proposals and for regional proposals for a total of US\$ 2,280,654, have been approved to date. The Fund's portfolio is maturing, with 12 projects that have reached completion, amounting to US\$ 71.7 million; and 60 projects currently under implementation, representing US\$ 384.8 million, of which 34 have gone through a mid-term review/evaluation. A total of US\$ 346.2 million has been transferred to implementing entities (61.7% of approved amount) and 48 projects have submitted at least one annual project performance report. Among the approved projects, funds are allocated across a variety of sectors, the most significant in terms of grant amount being water management, agriculture and food security projects/programmes,

and across a variety of regions, with the biggest flow of approved grant funds going to Africa, followed by Latin America and the Caribbean (LAC) and Asia-Pacific.

9. Following the presentation, the secretariat responded to questions and comments. In response to a question on the number of requested changes for projects, the secretariat noted that most of these were simple requests for project extensions and did not require in-depth analyses. Any requests for more substantial changes were addressed in accordance with the Fund's relevant policies and Board decisions on material changes. Board members also sought further information on the expectation that the Fund's projects would directly benefit 6.5 million people, specifically how this figure was reached and how it fits into the 'big picture' of the overall adaptation need. The secretariat noted that each project is required to report on the direct beneficiaries, and that the overall reach of the Fund is relative to the size of its portfolio. In response to a question on whether the impact of the Fund in its larger context had been assessed, the secretariat responded that an assessment of the Fund's impact alongside peer funds would be difficult, given that funds apply different definitions for beneficiaries and other key indicators, and a meaningful assessment of its impact within the wider world of adaptation action would be even more difficult to deliver. It was asked how evaluations would be reflected in future performance reports, as there are not many completed projects, and the secretariat responded that further thought will be needed on this matter. The TERG will be active in this area in an advisory role and an optimal approach for assessing project evaluations would need to be reached through considering possible roles for the secretariat and the TERG in that task.

10. The questions and comments also addressed: the need for clarification of the definition for 'enhanced direct access'; the differences between the wait lists for multilateral implementing entities and for regional projects; the timing for total cash transfers and how they compare against commitments; the impact of co-funding on project inception delays; the definitions used for ratings such as 'satisfactory' and other categories; the need to share detailed lessons learned from successfully completed projects as an example for implementing entities; the possibility of using more concrete impact indicators that reflect the challenges on the ground; and the possibility of raising the cap on funding, in light of rising adaptation needs around the world.

11. Having considered the information contained in document AFB/EFC.25/3, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decides:

- a. To approve the Adaptation Fund's Annual Performance Report (APR) for the fiscal year 2019, as amended based on comments by the EFC and contained in document AFB/EFC.25/3/Rev.1;
- b. To request the secretariat to prepare a summarized version for the general public in a reader friendly format, following the approval of the APR by the Board; and
- c. To request the secretariat to include in the reporting requirements of the APR for the fiscal year 2020 the following additional information:

- i) countries that have reached or almost reached the country cap;
- ii) a table of project extension requests received, including the stated reasons for the requests;
- iii) the number of waitlisted projects; and
- iv) reporting on the Fund level strategic outcomes that would link, if possible, financial investments towards those outcomes with project results achieved through those investments.

Recommendation EFC.25/1

Agenda Item 4: Proposed revision of the results tracker and an updated guidance on the revised results tracker

12. The Chair invited the secretariat to introduce document AFB/EFC.25/4. The Board, at its thirty-third meeting, approved the Review of the Strategic Results Framework and Adaptation Fund Level Effectiveness and Efficiency Results Framework. As per Board decision B.33/46, the secretariat presented a proposed revision of the results tracker and the project performance report (PPR), along with updated guidance on the revised results tracker as contained in annex II to document AFB/EFC.25/4. The secretariat has been monitoring reporting consistency in the PPRs and noticed that some revisions were needed to enhance the consistency in the reporting, which in turn would improve the information used in the Annual Performance Reports and other analyses. The proposed changes also seek to capture information on the new strategic areas and cross-cutting themes introduced in the MTS.

13. The secretariat responded to questions on the role of the TERG in the development of the revisions. The TERG is still in its early stages and, once they have their own work programme, the secretariat and the TERG will find a way forward for working together. The TERG Chair noted that the TERG will not collect data on individual projects but might instead examine the systems used by the secretariat to monitor their work; there is little risk of duplication. The secretariat also noted that the revisions to the PPR template would not place an additional burden on the implementing entities, as they should already have the data. The revisions should simply yield new and helpful information for the Board.

14. Having considered the analysis provided by the secretariat contained in document AFB/EFC.25/4/Rev.1, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide:

- a) To approve the amendments made to the project/programme performance report (PPR) template, as contained in Annex 1 to document AFB/EFC.25/4/Rev.1;
- b) To approve the guidance document for implementing entities (IEs) on the results tracker, as contained in Annex 2 to document AFB/EFC.25/4/Rev.1;

- c) To request the secretariat to inform IEs of the amendments to the PPR template and to make available the amended template and the guidance document, referred to above, on the Adaptation Fund website; and
- d) To request the secretariat to revise the Draft Guidance to Complete PPRs as contained in document AFB/EFC.9/4/Add.1, to align it with the new PPR template and to circulate it for intersessional approval by the Board between the Board's thirty-fourth and thirty-fifth meetings.

Recommendation EFC.25/2

Agenda Item 5: Further analysis of project inception delays

15. The Chair invited the secretariat to present document AFB/EFC.25/5. At the twenty-fourth meeting of the EFC, the secretariat presented a report that analyzed the reasons for delays in project inception and provided an overview of practices followed by other climate funds that addressed such delays. As per Board decision B.33/47, the secretariat conducted 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, and subsequently expanded this analysis for the present document. The document also recalls the Fund's policies and legal documents that are relevant for analyzing project inception delays. Lastly, the document presents an expanded comparative analysis on the policies of other climate funds in addressing inception delays.

16. The secretariat noted that practices by other multilateral climate funds are similar to the Fund's existing practice: setting a timeline from project/program approval to project inception and reporting by the implementing entity/agency, which is set out in a legal agreement between the relevant entity/agency and the Fund. However, there are important differences; in particular, the different climate funds apply different definitions for project/program inception, as these are related to the different project/program cycles and approval processes. To enhance implementation of the required notification by the IE regarding delay of project/programme start, the secretariat prepared a template to be used by the IE to notify the Board of the reasons for delay of project programme start through the secretariat, as contained in Annex II to the document.

17. Board members raised questions and comments on: possible lessons learned from recent projects experienced extended delays; whether the current policy on delays needs to be revised; the benefits of incentivizing the timely start of projects, such as done by the GEF; whether a project should be sent back to the Board in the case of long delays; and the impact of slow project starts on the overall reputation of the Adaptation Fund.

18. Having considered the information contained in document AFB/EFC.25/5 and its Annexes I and II as well as the Fund's Policy for Project/Programme Delays (amended in October 2017), the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide:

- a) To approve the form for notification of delay of project/programme inception as contained in Annex II to document AFB/EFC.25/5;
- b) To request the implementing entity (IE) that experiences delay in its project inception to submit, to comply with its notification requirement as described in the Policy for Project/Programme Delays, the form referred to in subparagraph a) to the Board through the secretariat;
- c) To request the secretariat to revise the Policy for Project/Programme Delays by reflecting the changes as referred to in subparagraphs a) and b), and present the revised Policy for Project/Programme Delays for intersessional approval by the Board between its thirty-fourth and thirty-fifth meetings; and
- d) To request the secretariat to prepare a document which contains options for dealing with project inception delays, including measures to ensure compliance with the Policy for Project/Programme Delays and to address significant delays, and to present it at the twenty-seventh meeting of the Ethics and Finance Committee for consideration.

Recommendation EFC.25/3

Agenda Item 6: Financial issues

a) Financial status of the Trust Fund and CER monetization

19. The representative of the trustee introduced Mr. Alex Cebotari, who would be assuming the role as representative after the current meeting. The representative also referred to the Adaptation Fund Trust Fund financial report prepared by the trustee as at 30 June 2019, as contained in document AFB/EFC.25/7/Rev.1, highlighting that eight new donations had been processed and funds received into the AF Trust Fund. It was noted an additional six were in the process of execution, and a first ever multi-year donation agreement had just been concluded with Sweden. New contributions of approximately US\$ 120 million had been received into the AF trust fund over FY19. The trustee also reported on the increase in investment income for 2018 and reasons for subsequent decline during 2019 year to date. It was also noted work over FY19, as well as FY20, to provide comments to the secretariat on the implications of the AF serving the Paris Agreement, revising Terms and Conditions to reflect this, and advising on issues such as donations from non-sovereign entities and the impacts of lapses in accreditation on the trustee's ability to make fund transfers.

20. Another representative of the trustee joined the meeting via Skype to provide an update on the Certified Emission Reductions (CERs) monetization program. The representative 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. The representative also reported on the positive impacts of recently developed ETS and carbon tax schemes (i.e. Korea and Colombia) on higher prices, but that there was limited project eligibility. He also reported on the sales of CERs to UNFCCC for its climate neutrality drive, and other carbon tax scheme(s) in development.

21. The Ethics and Finance Committee took note of the trustee's report as contained in document AFB/EFC.25/7/Rev.1.

b) Reconciliation of the Board and secretariat, and trustee for fiscal year 2019.

22. The secretariat and the trustee presented document AFB/EFC.25/8, Reconciliation of the Board and secretariat, and the trustee budgets for the fiscal year 2019 (1 July 2018 – 30 June 2019). The presentation provided detailed information on overruns and underruns for the actual FY19 of the Board and the Secretariat, the Evaluation Function against the approved budget. On the trustee information, it was noted that the final FY19 budget was slightly below the approved amount. In addition, the trustee highlighted the notes contained in the document, particularly that the World Bank would be postponing implementation of a fee-based approach for calculating trustee costs, and that the established methodology used to date would continue to be used at the end of FY20 to adjust actual costs for the year. The trustee also explained the differences between approved and actual trustee costs for FY19. In response to questions from a Board member, the trustee outlined the methodology for calculating the investment management fee, i.e. that it was based on observed actual cash balances in the AF Trust Fund. In addition, a Board member raised the need to include an explanatory narrative in future Board and secretariat reconciliation budget documents.

23. The Ethics and Finance Committee (EFC) took note of the report, as contained in document AFB/EFC.25/7.

Agenda Item 7: Assessment of the accreditation standards of the Green Climate Fund, including a gap analysis

24. The Chair invited the secretariat to introduce document AFB/EFC.25/6, *Assessment of the accreditation standards of the Green Climate Fund, including a gap analysis*, which was produced in response to Board decision B.32/1. The document addresses: the benefit of fast-tracking, which aims to reduce the workload of an applicant and make the accreditation process more expedient and efficient; a comparative analysis on the accreditation processes of the Adaptation Fund and the GCF; and, the evolving accreditation process at the GCF, including the fast-track framework. Notably, the assessment concluded that the GCF accreditation procedures as at 1 September 2019 continue to be consistent with those of the Fund.

25. The discussion focused on a range of issues, including: the underlying mandate for the gap analysis, in particular the Board's recognition that harmonizing the procedures and policies

of the two funds raises many challenges; the increasing interest in re-accreditation by implementing entities, even those that have already reached the funding cap; whether communication by the Fund could better highlight the positive impact that accreditation has on accredited entities; and the growing interest in the fast-track accreditation process for entities already approved by one of the bodies.

26. Having considered the gap analysis contained in document AFB/EFC.25/6, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decides:

- a) To take note of the gap analysis contained in document AFB/EFC.25/6 and in particular that:
 - i. the GCF accreditation procedures as at 1 September 2019 continue to be consistent with those of the Fund;
 - ii. the previous gap analysis as contained in AFB/EFC.19/7/Rev.1 is valid; and
 - iii. the summary of the previous gap analysis conclusions continues to be the guideline used by the Accreditation Panel of the Fund during the fast-track accreditation and re-accreditation processes:
- b) To take note of the Accreditation Panel's request to engage in discussions with the Green Climate Fund (GCF) Accreditation Panel facilitated by the secretariats of the Adaptation Fund (the secretariat) and of the GCF, to improve the efficiency of the fast-track accreditation and fast-track re-accreditation processes;
- c) To request the secretariat to initiate discussion with the GCF secretariat with a view to facilitating the exchanges between the accreditation panels of the two funds; and
- d) To request the secretariat to assess, in collaboration with the Accreditation Panel, the Green Climate Fund's (GCF) accreditation standards, including a gap analysis when the need arises, given the continuing evolution of the GCF accreditation process and related policies.

Recommendation EFC.25/4

Agenda Item 8: Report of the Chair of the Technical Evaluation Reference Group

27. The Chair of the Technical Evaluation Reference Group (AF-TERG) made an oral report on the latest developments for the new body. Recalling the Terms of Reference of the AF-TERG, as contained in Annex III to the report of the thirty-first meeting of the Board (AFB/B.31/ 8), she noted the key goals of evaluation, advice and oversight, and shared the expected timeline for activities. She also introduced Mr. Dennis Bours, who serves as the Coordinator for AF-TERG secretariat, and shared preliminary studies feeding into the emerging evaluation work programme and the tentative evaluative topics for review: AF Mid-term Strategy; ex-post evaluations; direct access modality; readiness program; scaling up; innovation; AF Strategic Results Framework;

gender policy; and knowledge management. This is not an exhaustive list and open to suggestions and discussion.

28. The AF-TERG Chair sought views from Board members on their priorities, concerns, expectations and communications needs. The discussion covered: identification of specific methodologies for ex-post evaluation of projects; interaction with implementing entities; approaches to capacity building and the potential links to readiness efforts by the secretariat; and how the AF-TERG will interact with the AFB in the future, noting the EFC will serve as the main interface. The TERG Chair stressed that the body was keen to understand how the current system work and how policies work out on the ground.

29. The Ethics and Finance Committee (EFC) took note of the report of the Chair of the AF-TERG.

Agenda Item 9: Other matters

30. A Board member proposed to discuss the possibility of setting a deadline for finalization of AFB meeting reports, as well as the workload of the secretariat. At present, there is no set date for publication and the delivery time has varied, which can cause problems when reporting back to national authorities. It was suggested that the draft report be made available for the Board review 30 days after the meeting and that the final report should be published immediately after approval by the Board. The secretariat responded that, given its limited resources and substantial workload, it faces many conflicting priorities immediately following a meeting, such as the delivery of decisions and any necessary follow-up actions. Acknowledging the concerns raised on this matter, the secretariat assured Board members that this request would be met in the future.

Agenda Item 10: Adoption of the recommendations and report

31. [The present report was adopted based on the draft report contained in document AFB/EFC.25/L.1, as orally amended].

Agenda Item 11: Closure of the meeting

30. [The meeting closed at 1:13 p.m. on 9 October 2019].

ANNEX I

**Adaptation Fund Board
Ethics and Finance Committee
Twenty-fifth Meeting
Bonn, Germany, 8 - 9 October 2019**

EFC members present in the meeting

Ms. Sheida ASGHARZADEH GHAIROUDI (Chair) (Iran (Islamic Republic of), Asia-Pacific)

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

Mr. David KALUBA (Zambia, Africa)

Mr. Mohamed ZMERLI (Tunisia, Africa)

Mr. Mirza Shawkat ALI (Bangladesh, Asia-Pacific)

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

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

Mr. Arana Pyfrom (Bahamas, Latin America and the Caribbean)

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

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

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

EFC Ex Officio members present in the meeting

Ms. Eva Lithman, Chair of the AF-TERG