



ADAPTATION FUND

AFB/EFC.27/3
10 March 2021

Adaptation Fund Board
Ethics and Finance Committee
Twenty-Seventh Meeting
Bonn, Germany (held virtually), 24-25 March 2021

Agenda item 6

REPORT ON PROJECT INCEPTION DELAY AND PROPOSED OPTIONS

Introduction

1. This document provides an update to the Adaptation Fund Board (the Board) on the status of project/programme inception delays within the Adaptation Fund (the Fund) portfolio. It also describes the efforts being made by the Adaptation Fund Board Secretariat (the secretariat) to improve the portfolio performance in relation to inception delays over the last years.
2. The document further presents options for the Board's consideration and decision as mitigation measures to address project inception delays and contribute to portfolio performance.

Background

3. At its thirty-second meeting in October 2018, the Board, after having reviewed and approved the Fund's Annual Performance Report (APR) for fiscal year 2018 (FY18) (Document AFB/EFC, 23/4), requested the secretariat to prepare:

[...]

- (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.*

(Decision B.32/35)

4. The secretariat therefore prepared the analysis contained in document AFB/EFC.24/5 which presented in greater detail the reasons for which projects/programmes have taken more time from the first transfer of funds to project start. The document also presented in detail the practices followed by other climate funds to address project inception¹ delays.
5. Following the presentation of the analysis in the aforementioned document, the discussion by the Ethics and Finance Committee (EFC) centered around potential mitigation measures to manage project inception delays, including the possibility of early detection during the project/programme review process, as well as additional details on the approaches of other climate funds for addressing delayed project inception.
6. At its thirty-third meeting in March 2019, the Board, having considered the comments and recommendation of the EFC, requested 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*

¹ In this document, "project inception" and "project start" are used interchangeably as "inception" and "start" are both used in the Fund's various policy documents.

- 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 Ethics and Finance Committee at its twenty-fifth meeting.*

(Decision B.33/47)

7. Pursuant to decision B.33/47, the document AFB/EFC.25/5 recalled the Fund's policies and legal documents that are relevant for analyzing project inception. As per Board decision B.33/47, the documents presented an analysis of whether implementing entities (IEs) identified risks associated with possible project inception delays at project development stage (Section III.B Financial and project /programme risk management in the proposal template) and how the IEs have mitigated identified risks and unidentified risks, and subsequently expanded this analysis for the document. In addition, the document presented a comparative analysis of the Fund's policy with other climate funds in addressing inception delays. Finally, 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.

8. Following the presentation of the analysis contained in the aforementioned document at the twenty-fifth meeting of the EFC, the discussion by the EFC centered around the need for options for dealing with project inception delays, to address significant delays.

9. At its thirty-fourth meeting in October 2019, having considered the comments and recommendation of the EFC, the Board decided to:

- a) *Approve the form for notification of delay of project/programme inception as contained in Annex II to document AFB/EFC.25/5;*
- b) *Request the implementing entity 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) *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) *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.*

(Decision B.34/45)

10. As mandated by Decision B.34/45, the secretariat updated the Policy of Project and Programme Delays reflecting the changes referred to in subparagraphs a) and b) of the aforementioned decision and circulated the updated policy document (B.34-35/12) to the Board for intersessional approval. Following the approval of the updated policy by the Board through

Decision B.34-35/12, the secretariat communicated to the IEs regarding the mandatory requirement to comply with the notification requirement using Annex D of the Updated Policy for Project/Programme Delays. Since the approval of the updated Policy for Project and Programme Delays, the secretariat has been notified of inception delays using the template in Annex D for seven projects.

11. Pursuant to decision B.34/45, and as mandated by subparagraph (d) of the current document presents options that range from flexible to more stringent actions. Should the Board decide to approve one or more of the proposed options, the decision will be applied to the newly approved projects and programmes.

Relevant Policy Updates

12. Following the outbreak of the Coronavirus 2019 (COVID-19) which developed into a pandemic in early 2020, impacting the timely implementation of project/programme activities, the secretariat presented a report on the Fund's response to the COVID-19 pandemic and adaptive measures to mitigate its impact on the Fund's portfolio (Document AFB/EFC.26.b/4).

13. The document provided an update on the ongoing impact of the COVID-19 pandemic on the Fund's portfolio and presented the steps being taken by the secretariat to mitigate that impact. The secretariat had also conducted a survey of the IEs in June 2020, the results of which indicated that 78 per cent of them expected the pandemic to have a moderate to high impact on their portfolios, with NIEs being especially affected. Monitoring and evaluation had also been affected, projects delivery had been delayed, and the pandemic had generally increased vulnerability to climate change.

14. Having considered the recommendation of the Ethics and Finance Committee, the Adaptation Fund Board (the Board) decided to:

- (a) *Take note of the Report on the Adaptation Fund's response to the COVID-19 pandemic and adaptive measures to mitigate its impact on the Fund's Portfolio, which highlights the importance of taking immediate actions to enable the projects and programmes supported by the Fund to continue delivering on their objectives;*
- (b) *Temporarily approve a blanket no-cost extension of the project completion date up to 12 months for eligible projects/programmes which have been delayed due to COVID-19 and were set to be completed within 24 months from the date of the extension request provided that an implementing entity's request of such extension meets the criteria as described in paragraph 33 of document AFB/EFC.26.b/4;*

[...]

(Decision B.35.b/16)

15. Since the beginning of the pandemic, the secretariat has continued to work closely with IEs to respond to project implementation issues and other related requests. The secretariat has processed an increasing number of project milestones changes including postponement of project inception date in line with decision B.34/45. So far, the secretariat has received seven notifications of project inception delays.

16. While the aforementioned policy related to COVID-19 specifies short term measures for projects/programmes that are experiencing delays in implementation as a result of the impediments caused by the pandemic, it is important to address project/programme inception delays with a longer term measure to avoid significant delays in project inception which can affect the portfolio performance and undermine the project deliverables on the ground.

Status overview of the current portfolio's inception delay

17. According to the Policy for Project/Programme Delays (amended in October 2017), the Adaptation Fund will consider the start date of a concrete adaptation project to be the first day of the project/programme's inception workshop. The IE must therefore submit a notification on both the date of the inception workshop and the project's inception report to the secretariat no later than one month after the workshop has taken place. Based on this definition, there are 68 projects that are under implementation and 21 that have completed implementation 31 January 2021.

18. As of June 30, 2020, as reported in Annual Performance Report FY 20, the Fund's portfolio included a total of total of 16 projects that had received the first cash transfer but had not yet started.

Projects Approved Not Started

TABLE 1: PROJECTS APPROVED NOT STARTED AS OF JUNE 30, 2020

Country	Implementing Entity	Sector	Project Approval (Date)	First cash transfer (date)	Elapsed Time*
Regional (Benin, Burkina Faso, Ghana, Niger, Togo)	BOAD	Food Security	7/16/2018	1/25/2019	17
Regional (Chile, Ecuador)	CAF	DRR	7/16/2018	1/25/2019	17
Regional (Mauritius, Seychelles)	UNDP	Food Security	10/12/2018	2/28/2019	16 ²
El Salvador	UNDP	Ecosystem-Based Adaptation	10/11/2019	6/16/2020	8
Sierra Leone	IFAD	Multi-Sector	7/8/2019	11/6/2019	7
Tajikistan	UNDP	Rural Development	7/8/2019	11/6/2019	7
Lesotho	WFP	Food Security	7/8/2019	12/27/2019	6

2 This regional project experienced a significant delay in signing the letter of agreement with the governments. The inception workshop is planned to take place in Q4 2020.

Regional (Argentina, Uruguay)	CAF	DRR	7/15/2019	1/27/2020	5
Regional (Djibouti, Kenya, Sudan, Uganda)	OSS	DRR	10/11/2019	1/14/2020	5
Regional (Chile, Colombia, Peru)	WMO	DRR	7/8/2019	2/20/2020	4
Congo	WFP	Food Security	10/11/2019	2/20/2020	4
MIE Aggregator (Global)	UNDP	Innovation	10/11/2019	4/2/2020	2
Indonesia	Kemitraan	Food Security	7/8/2019	5/22/2020	1
Georgia	IFAD	Agriculture	10/11/2019	5/18/2020	1
Republic of Moldova	IFAD	Food Security	10/11/2019	5/8/2020	1
MIE Aggregator (Global)	UNEP	Innovation	10/11/2019	5/18/2020	1

* Month is the time unit used for the elapsed time calculations, which are made as of June 30, 2020

19. To provide a more accurate analysis of the portfolio, Table 2 below presents only those projects that have delayed inception of more than six months from the first cash transfer as of 31 January 2021.

20. Although the situation has slightly improved, there are still a large number of projects with significant inception delays which limit the funding flow to beneficiaries and therefore undermine the projects ability to build resilience on the ground.

TABLE 2: PROJECTS APPROVED NOT STARTED AS OF JANUARY 31, 2021

Country	Implementing Entity	First cash transfer (date)	Elapsed time*
Regional (Argentina, Uruguay)	CAF	01/27/2020	12
Regional (Chile, Colombia, Peru)	WMO	02/20/2020	11
Sierra Leone	IFAD	11/06/2019	14
Tajikistan	UNDP	11/06/2019	14
Congo	WFP	02/20/2020	11
Georgia	IFAD	05/18/2020	8
El Salvador	UNDP	06/16/2020	7
Republic of Moldova	IFAD	05/08/2020	8

* Month is the time unit used for the elapsed time calculations, which are made as of January 31, 2021

Options for addressing inception delays

21. The secretariat, after conducting a comprehensive analysis of the current portfolio of

projects with inception delays and taking into account rationale included in the notification by the IEs, recommends the Board that it consider one or more of the proposed four (4) actions to help address the inception delays in the long term. These options are proposed as long-term measures and do not affect the recently approved fund's response to the COVID19 pandemic (Decision B.35.b/16).

Option 1: Status quo approach

22. Under option 1, the EFC may recommend that the Board continue applying the existing policy for project and programmes delays which includes a notification of delays by IEs. This option does not introduce a change and is in line with the current practice of IEs submitting a notification of inception delay using Annex D in the Policy on Project/Programme Delays.

23. As per the Policy on Project/Programme Delays, the Board set a target of six months from the first cash transfer as a target for project/programme start. Each IE has its own internal project cycle with different definitions for various milestones, including project inception dates. The IE must therefore both notify the secretariat of the date of the inception workshop and submit the project's/programme's inception workshop report to the secretariat no later than one month after the workshop has taken place. In the case of inception delays, as per the updated policy (updated October 2019), IEs are required to submit a Notification of Inception Delay using the notification template in Annex D of the Policy on Project/Programme Delays. The secretariat reports to the Board on delays in project/ programme inception in the Annual Performance Report (APR).

24. While this option gives more flexibility to IEs to start project only when necessary preparatory activities are completed, it does not strongly encourage avoiding significant delays in inception which negatively affects the Fund's portfolio implementation.

Option 2: Project inception extension managed by the secretariat

25. Recognizing the need for efficiency and expedience in the Fund's response to request for extension of project inception, the Board might allow the secretariat to review and approve the request for extension of project inception timeline when justified.

26. Under option 2, the EFC may recommend that Board mandate the secretariat to review the request and grant an extension of the project start date based on justified need and rationale on a case by case basis, following a request by the IE with endorsement from the designated authority (DA) of the country(ies) where the project is to be implemented.

27. The approval of the 'Request for extension of Project Inception' by the secretariat would follow the standard review process of such request by the secretariat and reviewed against the following criteria:

- i. The request for extension of inception delays should be reasonable and sufficiently justified considering the context, rationale and with a proposed plan for improvement of the overall project implementation;
- ii. Any request for extension of inception delay which might lead to project restructuring, disbursement schedule changes and other major changes in the project design and implementation will be considered ineligible for this option, and therefore IEs will be advised to submit a request in accordance with OPG Annex 7;

- iii. The extension cannot exceed a maximum period of 12 months and IEs will be required to submit a revised project implementation plan taking into account the 12-month delay;
- iv. In line of the policy on project and programme delays, the request for extension of project start date must be submitted by the IE at least 2 months prior to the initial project start date as indicated in the approved proposal document.

28. The secretariat will annually report on the projects for which a request for extension of project inception has been approved, through the Annual Performance Report to the EFC and the Board.

29. The proposed option 2 presents the advantage of introducing efficiency in the Fund's response to requests for extension of project inception delays. It also helps the Fund to adequately and timely address inception delays based on justified rationale. While the Board will be kept informed, and the secretariat will only submit to the Board for review and decision, only those requests which were not found justifiable.

Option 3: Revision of project's implementation schedule

30. Under option 3, the EFC may recommend that the Board decide to require IEs to submit to the Board, through the secretariat, for projects experiencing delays in inception (exceeding the standard timeline of six months from the transfer of the Fund's grants from the trustee to the IE), a 'request for revision of the project implementation schedule including a revised inception date'. Decision on such request will be made by the Board if no objection is made following its two-week review, like the standard intersessional decision.

31. While it seems to be a possible measure to deal with increasing delays of project inception, this option might create inefficiency and additional delays in project implementation given the necessary time taken for Board review and approval of each inception delay. In addition, in line with the Fund's OPG, any revision of project implementation schedule needs to be reflected in the legal agreement between the IE and the Board, which might lead to additional delays.

Option 4: Request the secretariat to conduct a study on possible options for project's suspension or cancellation

32. Under option 4, the EFC may recommend that the Board request the secretariat to prepare a study on the topic of project cancellation that delves deeper into the practices in other funds specifically related to the criteria for cancellation, including a legal assessment from the Fund's perspective. The study will analyze possible options for project's suspension or cancellation in line with the Fund's OPG, and to ensure project performance is achieved throughout the portfolio.

33. The IE's responsibilities and obligations in relation to project implementation and reporting are stipulated in the Fund's standard legal agreements between the Board and IE. The approved project proposal template is attached as Schedule 1 to the Agreement while the disbursement schedule and special conditions that apply to the implementation of the project grant are attached as Schedule 2 to the Agreement. Under the legal agreement, as described in Section 4.04, the IE must promptly inform the Board, through the Secretariat, of any conditions that may seriously interfere with its management, or the Executing Entity's execution, of the project or programme or otherwise jeopardize the achievement of the objectives of project/programme of the legal agreement. Regarding 'poor implementation performance' if it leads to the Board to conclude that the project can no longer achieve its objectives, the Board may suspend the project following the

process described in the section 5.01 of the legal agreement.

34. While the clauses in the legal agreement (though not limited to) mentioned in paragraph 33, allows for potentially triggering suspension or cancellation, there has not been clear criteria for triggering cancellation under the Fund. The study would identify options for triggering a cancellation, including but not only limited to inception delays and other project implementation delays that would be considered a significant risk for achieving results by the Fund. The outcomes of the study would be used as a basis for developing a comprehensive cancellation policy under the Fund.

Recommendation

35. Having considered document AFB/EFC.27/3, the Ethics and Finance Committee may want to recommend that the Board decides:

- a) To approve option [1], [2], [3], [and/or], [4] for addressing project inception delays;
- b) To grant a maximum 12 months extension to projects and programmes, subject to their compliance with the requirements under the option [X above approved by the Board];
- c) To request the secretariat to communicate to implementing entities of the monitoring requirement under the option [X].