



## ADAPTATION FUND

21 June 2021

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Adaptation Fund Board

***Accreditation Panel Recommendation on the re-accreditation of FUNDECOOPERACIÓN PARA EL DESARROLLO SOSTENIBLE (COSTA RICA) as a National Implementing Entity (NIE) of the Adaptation Fund.***

Having reviewed the re-accreditation application of *FUNDECOOPERACIÓN PARA EL DESARROLLO SOSTENIBLE (COSTA RICA)*, the Accreditation Panel recommended that *FUNDECOOPERACIÓN PARA EL DESARROLLO SOSTENIBLE* be re-accredited as a National Implementing Entity (NIE) of the Adaptation Fund;

A summary of the review is presented in Annex I below.

***Re-accreditation Decision:***

Having considered the recommendation of the Accreditation Panel, the Adaptation Fund Board decided to re-accredit *FUNDECOOPERACIÓN PARA EL DESARROLLO SOSTENIBLE* as a National Implementing Entity (NIE) of the Adaptation Fund for a period of five years. The accreditation expiration date is 20/06/2026.

**Decision B.36-37/2**

## **ANNEX I: REPORT OF THE ACCREDITATION PANEL ON AN ASSESSMENT OF THE FUNDECOOPERACIÓN PARA EL DESARROLLO SOSTENIBLE (COSTA RICA) FOR REGULAR RE-ACCREDITATION AS A NATIONAL IMPLEMENTING ENTITY (NIE) OF THE ADAPTATION FUND.**

### **BACKGROUND**

The Intergovernmental Panel on Climate Change identified Costa Rica as one of the hotspots where weather conditions will change the country's current landscape in the next 50 years. According to National Meteorological Institute projections, temperatures by 2070 will increase 3-6 degrees Celsius compared to average temperatures recorded between 1961-1990. The combination of geographic variations and economic factors implies high vulnerability to extreme climate events and natural hazards for Costa Rica. A world leader in sustainability, Costa Rica has designed a detailed plan to decarbonize its economy by 2050, in line with the Paris Climate Agreement and the UN's Sustainable Development Goals (SDGs). Already, more than 98 per cent of Costa Rica's energy is renewable and forest cover stands at more than 53 per cent after painstaking work to reverse decades of deforestation. In 2017, the country ran for a record 300 days solely on renewable power—aiming to achieve 100 per cent by 2030.

### **THE APPLICANT – FUNDECOOPERACIÓN**

The Fundecooperación para el Desarrollo Sostenible was founded in 1994 as a private foundation with multi-segment representation and a socio-environmental approach for the purpose of providing farmers and small enterprises with access to appropriate financing. It is governed by a six-member Administrative Board, representing public and non-governmental entities. It is headquartered in San José, the capital of Costa Rica. Fundecooperación's goal is to promote sustainable development in Costa Rica, in line with the SDGs, by financing and extensively supporting entrepreneurs and small and medium enterprises engaging in sustainable and innovative economic activities with an environmental commitment, providing technical assistance and aiding sustainable business plans with opportunities for environmental improvement, in addition to providing advisory services in the various stages of project growth. Fundecooperación was accredited as the national implementing entity for Costa Rica in November 2012. It has been implementing one Adaptation Fund (AF) 5-year program under a USD9.97m grant. Fundecooperación applied for regular re-accreditation by the AF in January 2019.

### **ASSESSMENT FOR REACCREDITATION**

Fundecooperación was assessed on the basis of EB Decision B.34/3 (Updated Re-accreditation Process) based on AFB/B.34/5; EB Decision B.32/36 (Accreditation Standards Related to Anti-Money-Laundering/Countering the Financing of Terrorism) based on AFB/EFC.23/4, and its annexes, and EB Decision B.31/26 (Use of external sources as complementary information) based on AFB/B.31/7 of March 2018. As it is currently

implementing an AF program, its performance regarding quality at entry and project/programme implementation on AF projects was also assessed.

### ***Financial Management and Fiduciary Standards***

#### **Legal status**

Fundecooperación has legal personality established under Costa Rica's Law on Foundations. Its capacity to sign legal agreements with and directly receive funds from foreign donors and public international organizations was evidenced through grants it has received. The Board Chair is legal representative and under the Civil Code of Costa Rica represents the applicant in judicial proceedings.

#### **Financial statements including Project Accounts and Provisions for Internal and External Audits**

Fundecooperación prepares annual financial statements in accordance with International Financial Reporting Standards. It has demonstrated capacity to oversee project financial statements prepared by executing entities to support donor reporting requirements. It is itself independently audited annually by an auditing firm that has international representation and is a member of the national accounting professional body. The accounting firm applies international standards meeting AF requirements on auditing, confirmed in the unqualified audit opinions.

Fundecooperación has established accounting policies and procedures and has contracted a local accounting firm, different from the external auditor, to perform the accounting function, and it replaced the accounting package in place at the time of initial accreditation. It outsources its internal audit function to an external firm which reports application of international standards, including a cyclical coverage of higher risk areas of the organization. Work plans, reports of audit work completed and follow up of audit recommendations are reviewed by the Audit Committee, whose terms of reference were updated in 2020, and which comprises a member of the Administrative Board (as the Chairman), a representative of the Executive Directorate, and the Administrative Coordinator as Secretary. The mandate of the committee covers oversight of risk management, internal control and internal and external audit.

#### **Internal Control Framework with Particular Reference to Controls over Disbursements and Payments**

Fundecooperación has in place an internal control framework, updated in 2018, that sets out roles and responsibilities, approval authorities and control processes. It has a well-established and documented payment/ disbursement system and provided an example of its continuing operation in respect of a project. Fundecooperación has adequate legally-compliant AML-CFT controls in the payment/disbursement process commensurate with its type of operations.

## **Preparation of Business Plans and Budgets and Ability to Monitor Expenditure in Line with Budgets**

Fundecooperación prepares non-financial multi-year strategic plans which are subject to monitoring by the Board and are the basis for Board-approved annual budgets. It has established a track record of maintaining a sound financial position, as indicated in its audited financial statements and based on continuing donor support. Fundecooperación provided updated evidence that it has well-established policies and financial system to prepare budgets and to monitor and account for their execution.

### ***Requisite Institutional Capacity***

#### **Procurement**

Fundecooperación has procurement policies and procedures in place that promote open, competitive bidding. Evaluation and selection of proposals is managed by the Administrative Department independent of requisitioners. There are adequate arrangements for bid protests, dispute resolution and AML-CFT risk management.

#### **Project cycle management (overview)**

Fundecooperación has demonstrated competence in the full range of steps comprising the project management cycle (project identification, preparation, appraisal/quality review, supervision, monitoring and evaluation, and closure). Its project policies and procedures provide guidance and its risk assessment system supports managing project risks, and it has a track record of experience managing a project portfolio.

#### **Project Preparation and Appraisal including impact (including environment, socio-economic, political, and gender assessment study with risk assessment and mitigation plans)**

Fundecooperación has institutional policies and procedures in place to guide project preparation. It has successfully presented a project proposal that meets AF requirements, prior to being awarded the funding for the current AF project. Fundecooperación presented its track record in appraising proposals for funding under the same project. Its policies and procedures require consideration of a broad range of impacts in assessing project proposals and it provided both AF-funded and other examples showing a track record in applying these requirements. Strengthened risk assessment and mitigation procedures are incorporated in its project cycle policies, and Fundecooperación has demonstrated capacity for implementation in projects.

#### **Project implementation planning, budgeting, and quality-at-entry review**

Project formulation procedures provide for quality control and Fundecooperación has built a track record in drawing on external technical experts to ensure quality at entry, including on the AF project. Budget formulation and monitoring procedures are in place and Fundecooperación's track record on projects indicates continuing capacity.

## **Project monitoring and evaluation (M&E) during implementation**

Since initial accreditation, Fundecooperación has formalized its project cycle management procedures to reinforce responsibilities for monitoring and evaluation during project implementation, and this is supported by an information system. Fundecooperación has established a strong track record, its system monitors project milestones, and it provided details and examples of how it can identify projects-at-risk. Its own entity financial statement audits cover all projects in its portfolio and it has demonstrated capacity to oversee the preparation and audit of financial statements for projects executed by third parties.

## **Project execution, closure and final evaluation**

Fundecooperación has adopted institutional project closure procedures which require assessments of project impacts, risk management performance and financial status. It has gained experience in satisfactorily applying AF requirements for closure reporting of sub-projects under the AF project and provided examples. Fundecooperación has in place the policy framework for oversight of programs/projects and has established a track record of successful implementation, confirmed independently in the AF project mid-term evaluation. Fundecooperación does not have its own evaluation policy but responds to donor requirements. The AF project mid-term evaluation, by independent experts contracted to carry out the evaluations, following international evaluation methodology, while not a final evaluation, indicates Fundecooperación's capacity to oversee such evaluations.

## ***Transparency, self-investigative powers, and anti-corruption measures***

## **Policies and Framework for Dealing with Financial Mismanagement and Other Forms of Malpractice**

Fundecooperación has updated its zero tolerance to fraud policy, applicable to staff and third parties under contract, that sets out its commitment to investigate cases of alleged fraud and illegal activities and to take appropriate actions in response to established cases. Together with its code of ethics, Fundecooperación has in place the policy framework and procedures to address violations and apply sanctions. There is a system in place for staff to report if there are any potential or actual conflicts of interest, and adequate reporting channels which are publicly accessible, including for whistleblower protection. There is no standing in house investigation section, however Fundecooperación's ethics code sets out how investigations are to be conducted in conformity with the National Labor Code. There are suitable arrangements for investigation in the case of allegations against senior officials who would otherwise oversee the process. Fundecooperación advised that it has not received fraud allegations against staff but provided an example of an investigation into eligibility of a beneficiary which shows its capacity to manage complex investigations.

Since 2018, Fundecooperación has strengthened its procedures and mechanisms to ensure compliance with Costa Rican AML-CFT Laws and regulations, implementing know-your-customer processes in respect of its purchasing and disbursements of grant funds to assist

with detecting potential breaches of AML/CFT laws. Internal investigations of any AML/CFT related issues are handled in the same way as other investigations, and transactions confirmed as being suspicious are reported to the competent national authorities, in particular the Financial Intelligence Unit of the Costa Rican Institute on Drugs. Costa Rica is a member of the regional body (GAFILAT) which is associated with the Financial Action Task Force's (FATF), and is undertaking reforms to ensure that national systems align fully to the FATF Recommendations.

### **Commitment by the entity to apply the Fund's Environmental and Social (E&S) Policy and Gender Policies**

Fundecooperación has provided a written commitment from its Executive Director to abide by the AF's E&S and Gender Policies. It has also put in place its own high-level E&S and Gender Policies consistent with the AF's and has cross-referenced these policies into its internal project cycle procedures. Through the AF project, it has built a track record of implementation.

### **Mechanism to Deal with complaints on Environmental and Social Harms and Gender Harms Caused by Projects/Programs**

The Fundecooperación transparency and results webpage which posts the E&S and Gender policies as well as the code of ethics and zero tolerance for fraud policy has a reporting link for breaches of all these and other policies, including harms caused by projects. Fundecooperación advises that no written, formal complaints have yet been received.

### **Assessment of the Implementing Entity's Performance Regarding Project/Programme Implementation**

Fundecooperación has thus far submitted three Project Progress Reports (PPRs) for its AF programme (the Adapta2+), all given a self-rating of satisfactory, with no major issue encountered. The AF Board approved an extension of the programme completion date to 7 April 2022, and a request by Fundecooperación to provide Direct Project Services (DPS) to some of its Executing Entities, without a budget increase or reallocation. A mid-term evaluation (2018) and a virtual portfolio monitoring mission (August 2020) both broadly confirmed Adapta2+'s effectiveness and efficiency. Three third-party evaluations of Fundecooperación were conducted with positive results.

## **CONCLUSION**

The Accreditation Panel concludes that the Fundecooperación para el Desarrollo Sostenible (Costa Rica) meets the AF's legal and fiduciary standards, the AF's environment and social policy and gender policy, while demonstrating capacity regarding the program/project management cycle, and appropriate investigation and grievance mechanisms. It therefore recommends that Fundecooperación be reaccredited as a National Implementing Entity of the Adaptation Fund.