



ADAPTATION FUND

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Project and Programme Review Committee
Twenty-ninth Meeting
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Agenda item 18

CLARIFICATION OF REGIONAL IMPLEMENTATION AND EXECUTION COSTS

Introduction

1. This report examines regional implementation and execution costs, including where IEs provide part or all of the execution services, pursuant to Decision B.37/1, subparagraph (b) and makes related recommendations.
2. Currently, the policies of the Fund do not provide specific guidance on whether capping the execution costs at 1.5% applies also to the regional projects/programmes, for which the administrative costs (Implementing Entity (IE) management fee and project/programme execution costs) have been capped to be at or below 20% of the total project/programme cost.
3. At its seventeenth meeting, the Board decided to cap execution costs for projects/programmes implemented and executed by the same entity at 1.5% of the project/programme cost (Decision B.17/17). This decision was followed by a number of Board decisions related to implementation and execution costs, which are for the most part summarized in the operational policy and guidelines (OPG) of the Fund, and in particular OPG Annex 7.
4. Notably, Decision B.18/30 confirms, as a principle, the separation between implementing and execution services, with the latter being provided by IEs only on an exceptional basis and at a written requests by the recipient country. Further, the decision requests the involvement of designated authorities in the process, which shall endorse such a request. The responsibility for these direct project services (DPS) shall be stipulated and budgeted under the execution costs of the project. Such services should be identified prior to project approval and may relate, for instance, to procurement and payment management. The exceptional nature of the involvement of IEs in the provision of DPS was also confirmed by Decision B.17/17(f) and is included in the OPG Annex 7, which sets forth provisions related to this aspect.
5. More recently, the Board clarified the application of the 1.5% cap in cases where the IE also executes a part of the project/programme activities in Decision B.37/1 (c). The language in the decision “[...] *To limit, for all projects where the implementing entity provides a portion of the execution services, the execution costs of the implementing entity proportionally to the cost of the part of the project or programme executed by the implementing entity*” implies that an IE should not claim execution services fees beyond those related to the activities for which it provides those services, and that these will be capped at 1.5% of the cost of those activities only.
6. In its report¹ to the 28th meeting of the Project and Programme Review Committee (PPRC), the Adaptation Fund Board secretariat (the secretariat) reported that it had identified that several proposals recently submitted for the Board’s consideration presented project/programme implementation arrangements whereby the Implementing Entity (IE) was involved in the execution of the project/programme. The secretariat highlighted the lack of guidance in two particular instances: the case of an implementing entity that only partially executed a project/programme; and in the case of regional projects/programmes.
7. Consequently, at its 37th meeting, the Board decided:

[...]

(b) To further request the secretariat to clarify regional implementation and execution costs, including where implementing entities provide part or all of the execution services, and present the findings to the PPRC at its twenty-ninth meeting;

¹ [AFB/PPRC.28/4](#): Report of the secretariat on initial screening/technical review of project and programme proposals

(c) To limit, for all projects where the implementing entity provides a portion of the execution services, the execution costs of the implementing entity proportionally to the cost of the part of the project or programme executed by the implementing entity;

[...]

(Decision B.37/1)

8. Namely, rules regarding project/programme execution costs for regional projects would benefit from being clarified, as would the rules in cases where the IE is involved in the execution of a regional project/programme, for those parts of a project/programme that are executed by the IE and those parts that are not executed by the IE.

Analysis of the Portfolio

9. In attempting to clarify regional implementation and execution costs, including where implementing entities provide part or all of the execution services, the secretariat reviewed all previous Board Decisions of relevance, the existing caps in the other funding windows by the Adaptation Fund, and undertook an analysis of regional projects submitted to the Fund between March 2019 and March 2022.

10. The Fund's project or programme funding windows – regional projects/programmes, Enhanced Direct Access projects/programmes, and Innovation Facility followed in most cases similar provisions for execution and implementation costs, including capping execution costs to 1.5% of the total project/programme cost in the case of the IE provides execution services. These are detailed in Table 1 below. Further details on the background of all related Board Decisions are included in Annex I.

Table 1. Administrative costs for the different funding windows. Percentages referring to total project/programme cost.

| | IE costs limit | EE costs limit | EE costs limit in case IE also executing |
|---|---|-----------------------|---|
| Regular programme (single-country) | 8.5 % | 9.5 % | 1.5 % |
| Pilot Programme Regional projects/programmes | Not fixed, administrative costs (i.e., sum of IE and EE costs) up to 20.0 % | | Unclear |
| Enhanced Direct Access | 10.0 % | 12.0 % | 1.5 % |
| Innovation facility: Small grants | 8.5 % | 9.5 % | 1.5 % |
| Innovation facility: Large grants – single-country | 8.5 % | 9.5 % ² | 1.5 % |

² The review criteria have no provisions for the execution cost for single-country projects/programmes (AFB/PPRC.27/28).

| | | |
|---|---|---------|
| Innovation facility: Large grants – regional | Not fixed, administrative costs (i.e., sum of IE and EE costs) up to 20.0 % | Unclear |
|---|---|---------|

11. Pursuant to Board Decision B.37/1, the Secretariat undertook an analysis that examined all the fully-developed regional proposals submitted between March 2019 (PPRC 24) and March 2022 (Intersessional 28-29th PPRC). This with a view of identifying and describing the current practices in the AF regarding regional projects/programmes and the practice of IEs providing execution services. The analysis provides an overview of the occurrence of the involvement of IEs in regional project/programme execution, as well as an understanding of the extent to which those projects comply with the relevant Board decisions regarding IE involvement in project/programme execution.

12. The fully-developed regional proposals considered in the analysis, were submitted by five MIEs (UNDP, UNEP, UNESCO, UN-Habitat, and WMO) and two RIEs (CAF and OSS).

13. For all regional project submitted, the stated execution costs varied between 1.5 and 10.5 per cent of the total project cost, with a mean of 7.9 per cent. The average of the execution costs for the projects where the IE provides execution services was 7.5% and 8.6% when the IE did not provide execution services. The variation in the implementation cost was much smaller, between 8.0 and 9.3 per cent of the total project cost, with a average value of 8.4 per cent (for both cases).

14. Based on the existing decisions regarding the involvement of an IE in the execution of AF projects/programmes and the information on current practice in regional proposals for projects/programmes, it is clear that there is a need for further guidance to enhance consistency in the application of the AF rules. In the absence thereof there are various interpretations and practices, that may not be in line with the overall directions indicated by the Board regarding IE involvement in the execution of projects/programmes.

15. The additional guidance should cover various aspects of the current arrangements for IEs involved in the execution of a project/programme, including further clarifying the conditional elements and how the request for the IE to provide execution services complies with these. Currently, the justification required in order for an IE to provide also execution services for regional projects/programmes does not require an IE to demonstrate its unique position as the sole possible provider of those services. There is a lack of clarity regarding the nature of execution costs, and the proposal templates do not require sufficiently detailed information to be provided to justify the execution costs. The administrative costs are more often than not set close to the upper allowable limits rather than on the basis of the presented and justified actual cost.

16. It is possible that limiting the execution costs for IEs may effectively serve as a disincentive to IEs for providing execution services in their projects/programmes. However, this may also have the unintended consequence that insufficient funds are available for the effective and successful implementation of the activities involved, in those exceptional cases where execution by IEs is indeed justified.

17. An additional guidance on how to implement the Board Decision to cap execution costs to 1.5% in the case of regional projects/programme where an IE also provides execution services requires providing a guidance on limits for separating implementing and execution services (as per the principle outlined in Decision 18/30). Such guidance should also reflect the Board's intention to allow for higher and more flexible maximum level for administration costs, to help ensure regional cooperation (AFB/B.25/6/Rev.2).

18. From the analysis of the administrative costs of the regional projects submitted over the past 3 years, it is clear that both the implementing entity fee and the execution costs are generally below 10% (only in one case execution costs were at 10.5%). This confirms that

setting a cap of 10% of the project/programme cost for both the implementing entity fee and the execution costs, respectively, would not be detrimental and is largely consistent with the current practice.

19. In some particular cases, the execution costs may be higher than the suggested caps. This could be the case for some exceptionally complex projects. Such a scenario calls for the option to allow justifications for the fee, when it exceeds the cap limit, to be considered on a case-by-case basis, and potentially allowed, under well-justified circumstances.

20. Despite the standardized template table developed for breaking down project execution costs as contained in the Annex to document AFB/EFC.4/7 and the requirement to provide budget notes along with a detailed budget for project components (Decision B.13/17), the budgets submitted to the Fund in proposals are typically not sufficiently broken down to a level of detail that would be required to accurately identify or verify the execution costs.

Recommendation

21. Based on the background and the analysis carried out to regulate the involvement of IEs in the execution of regional projects/programmes, the PPRC may want to consider and recommend to the Board:

- (a) To request implementing entities (IEs), in the exceptional cases where an IE provides part or all of the execution services, to provide justifications to demonstrate its advantages compared to other entities, agencies or organizations that could provide the selected execution services, particularly for the execution of activities at national or sub-national level;
- (b) To set the upper limit for administrative costs of regional projects/programmes, at 10 per cent of the project/programme cost for implementing entity fees and at 10 per cent of the project/programme cost for execution costs;
- (c) When the IE also provides all or part of execution services for the project, to limit the execution costs of the IE to 1.5 per cent of the cost of the part of the project or programme executed by the implementing entity of the project/programme cost;
- (d) In exceptional cases where the actual execution costs of the IE exceed the 1.5 per cent cap, to require the IE to provide justification as part of its proposal submission.

Annex 1

Background on Board Decision related to execution costs under the various funding windows of the Adaptation Fund

1. The initial considerations by the Board of projects/programmes where IEs also provide execution services are recorded in the Report of the seventeenth Meeting of the Adaptation Fund Board (AFB/B.17/6).
2. Based on a concrete proposal submitted for funding where a Multilateral Implementing Entity (MIE) would also execute the whole project, concerns were raised regarding the potential for conflicts of interest (i.e., the issue of how an IE was to evaluate itself when acting as an EE) and the possibility that MIEs involved in such dual role might weaken the involvement of National Implementing Entities (NIEs); thus, weaken the direct access modality, and hinder the ability of developing countries to strengthen local institutional capacity. It had been proposed that any allowance for such a dual role be very limited given that at the time there was only one proposal for such an arrangement.
3. The Board decided that for that specific case, the MIE needed to provide a rationale for serving both as IE and EE, endorsed by the Designated Authority; the MIE needed to involve local/national institutions as co-executing entities; adequate arrangements had to be made for a clear separation of implementing and executing functions and responsibilities, including those of monitoring and evaluation, supervision and reporting; the executing arrangements needed to be evaluated independently mid-term; the MIE had to demonstrate its capacity to execute all the components, and that execution costs for projects/programmes implemented and executed by the same entity be capped at 1.5 per cent of the project/programme cost (Decision B.17/17).
4. The separation between implementing and execution services was confirmed, as a principle, by the Board (Decision B.18/30), which decided that execution services will only be provided by IEs on an exceptional basis and at the written request by the recipient country, involving designated authorities in the process, and providing rationale for such a request. The responsibility for these services shall be stipulated, their budget estimated in the fully developed project/programme document, and covered by the execution costs budget of the project/programme.
5. At its thirtieth meeting, the Board decided to approve the annex to document AFB/EFC.21/5 as a new annex³ to the operational policies and guidelines (OPG) related to project/programme implementation (Decision B.30/39). The new OPG Annex deals with a number of subjects related to project/programme implementation, including a section on Implementing entities providing execution services, as follows:
 1. *In the exceptional case when implementing entities are requested by governments to provide all or part of the execution services related to the project they seek to implement, the Adaptation Fund Board (the Board) had decided (decision B.17/17.f) to cap execution costs for projects/programmes implemented and executed by the same entity at 1.5% of the project/programme cost.*
 2. *The separation between implementing and execution services was confirmed, as a principle, by the Board (decision B.18/30), which decided that execution services will only be provided by Implementing Entities on an exceptional basis and at the written request by the recipient country, involving designated authorities in the process, and*

³ [OPG ANNEX 7](#)

providing rationale for such a request. The responsibility for these services shall be stipulated, their budget estimated in the fully developed project/programme document, and covered by the execution costs budget of the project/programme.

(OPG ANNEX 7)

6. The other funding windows of the Fund – regional projects/programmes, the Enhanced Direct Access projects/programmes and the innovation facility – have additional provisions for execution costs as follows:

(i) Pilot Programme for Regional Projects and Programmes

7. Decision B.25/28: pilot programme on regional projects and programmes, as contained in document AFB/B.25/6/Rev.2:

15. Several implementing entities pointed out to the fact that implementing projects regionally would entail higher administrative costs due to the additional level of regional coordination needed in them. Therefore, it might be necessary enable allocating higher levels of administrative budget for regional projects than the current caps for single-country projects are.

30. It is proposed that regional project proposals and project formulation grant requests would be allowed a higher and more flexible maximum level for administration costs, to help ensure regional cooperation. The maximum level for the implementing entity management fee (for regular projects capped at 8.5 per cent of the total project cost) and execution costs (for regular projects capped at 9.5 per cent of the total project cost) together would be maximum 20 per cent of the total project cost. As with regular projects, proposals for regional projects/programmes would need to provide budgets for these two categories.

(ii) Enhanced Direct Access funding window

8. Decision B.35.b/10 by the Board to approve the Enhanced Direct Access (EDA) funding window determines the administrative costs for EDA projects/programmes as follows:

29. Having considered the recommendation of the Project and Programme Review Committee (PPRC), the Adaptation Fund Board (the Board) decided:

(d) That the execution costs for proposals submitted under the EDA window should be up to a maximum of 12 per cent of the total project/programme budget requested before the implementing entity fees, and should not exceed 1.5 per cent in cases where the Implementing Entity has also taken on the role of Execution Entity for the proposed project/programme activities, and that the implementing entity fee should be up to a maximum of 10 per cent of the total project costs;

(Decision B.35.b/10)

(iii) Innovation Facility

9. The Innovation Facility provides small grants (up to USD 250,000 each) either directly through the Fund's NIEs or through an MIE Aggregator Mechanism (referred to as the Adaptation Fund Climate Innovation Accelerator (AFCIA)) to other entities that are not accredited with the Fund. The USD 10 million available for the AFCIA programme is funded by AF and implemented by UNDP and UNEP. The innovation facility also includes a large grants mechanism (up to USD 5 million each) to roll out proven solutions in new countries and regions or to scale up innovations already demonstrated to work. Large grants are available to all AF accredited implementing entities (NIEs, MIEs, and RIEs).
10. The twenty-eighth meeting of the PPRC discussed issues related to the execution services and costs:

22. Several of the recent proposals submitted for the Board's consideration presented implementation arrangements whereby the implementing entities were involved in the

execution of the projects and programmes. Although that was possible on an exceptional basis, execution costs in those cases were capped at 1.5 per cent of the project programme costs. That rule, however, might not cover the case of an implementing entity that only partially executed a project or programme. In such a case it was unclear whether the 1.5 per cent cap applied to the whole project, or just to that part of the project or programme being executed by the implementing entity. Additionally, it was unclear whether the current policy applied to regional projects or programmes and the PPRC might wish to provide guidance on the scope of the policy.

11. Based on the ensuing PPRC recommendation (PPRC.28/1), at its thirty-seventh meeting the Board decided:

(c) To limit, for all projects where the implementing entity provides a portion of the execution services, the execution costs of the implementing entity proportionally to the cost of the part of the project or programme executed by the implementing entity;

(Decision B.37/1)

12. Figure 2 below shows the different policies and decisions the Board has taken regarding execution and implementation costs.

Figure 2. Timeline of Policies and Decisions Related to Entities Fees

