



ADAPTATION FUND

AFB/EFC.32/7
5 October 2023

Adaptation Fund Board
Ethics and Finance Committee
Thirty-second Meeting
Bonn, Germany, 10-11 October 2023

Agenda item: 6

OPERATIONALIZATION OF THE EVALUATION POLICY OF THE ADAPTATION FUND

REVIEW OF BUDGET IMPLICATIONS AND OPTIONS FOR CONSIDERATION

Background

1. At its thirty-eighth meeting, following recommendations by the Ethics and Finance Committee (EFC), the Adaptation Fund Board (the Board), considered and approved through decision B.38/48 the evaluation policy of the Adaptation Fund (The Fund) as contained in annex 1 to document AFB/EFC.29/6/Rev.1. The Board also requested the AF-TERG to “develop, in consultation with the secretariat, evaluation guidance documents for the implementation of the Fund’s evaluation policy, including budget implications, and to submit them to the EFC for consideration at its thirty-first meeting”.

2. Following recommendations by the EFC, the Adaptation Fund Board (the Board), at its fortieth meeting, decided as follows:

Having considered the comments and recommendation of the Ethics and Finance Committee (EFC), the Adaptation Fund Board decided:

(a) To acknowledge and take note of the following guidance notes, provided by the Technical Evaluation Reference Group of the Adaptation Fund (AF-TERG) in the annexes to document AFB/EFC.31/8, in support of the operationalization of the Evaluation Policy of the Adaptation Fund:

- (i) Annex 1: Evaluation principles*
- (ii) Annex 2: Evaluation criteria*
- (iii) Annex 3: Evaluation budgeting*
- (iv) Annex 4: Commissioning and managing an evaluation*
- (v) Annex 5: Evaluation terms of reference*
- (vi) Annex 6: Evaluation inception report*
- (vii) Annex 7: Evaluation reporting*
- (viii) Annex 8: Mid-term review*
- (ix) Annex 9: Final evaluations*
- (x) Annex 10: Ex post evaluation*

(b) To request the AF-TERG:

(i) To continue the development of Evaluation Policy guidance documents, in consultation with the secretariat and the Evaluation Policy Guidance Advisory Group.

(ii) To present subsequent guidance notes to the Ethics and Finance Committee (EFC) for consideration at its thirty-second meeting in October 2023.

(c) To acknowledge and take note of the information in document AFB/EFC.31/8, specifically the timeline and information on roll-out, and request the AF-TERG to provide an update on progress related to socialization activities to the EFC at its thirty-second meeting;

(d) *To acknowledge and take note of the information in document AFB/EFC.31/8, specifically the proposed discussion on a separate budget line for evaluation costs and on evaluation budget guidance being provided to implementing entities as a specific range of the total project budget;*

(e) *To request the secretariat to prepare a review of implications and options for the consideration of the EFC at its thirty-second meeting with regard to subparagraph (d) above, including consulting with relevant stakeholders such as the AF-TERG and Adaptation Fund implementing entities.*

(Decision B.40/66)

3. This document is prepared by the secretariat in accordance with Board decision B.40/66, subparagraph (e). The secretariat has coordinated with AF-TERG during the preparation of this document.

Introduction

4. The purpose of this document is three-fold: (i) to provide an overview of current budget practice of the Fund in funding project evaluation costs including monitoring; (ii) review the practice of other climate funds in funding evaluation costs and on evaluation budgeting, and (iii) proposed options for project evaluation costs and on evaluation budget guidance being provided to implementing entities as a specific range of the total project budget, in response to Board decision B.40/66.

5. The secretariat has consulted with the relevant partners and organizations on current practice including the Green Climate Fund (GCF) and the Global Environment Facility (GEF). In accordance with Board decision B.40/66, the secretariat has also coordinated with AF-TERG on the proposed options for evaluation costs and on evaluation budget.

6. The proposed options for evaluation costs and on evaluation budget do not provide additional requirements and guidance on the evaluation principles, criteria, commissioning and managing and evaluation which are covered by the Fund's evaluation policy (EP) approved by the Board and guidance notes including the evaluation budgeting guidance note produced by the AF-TERG.

Current practice of the Fund's evaluation costs and evaluation budget

7. The Fund's operational policies and guidelines and results framework defines the scope and cost implications of monitoring and evaluation for projects funded by the Fund. There is no specific standalone budget line for the associated cost for project's evaluation. [The Guidelines for Final evaluations endorsed by the Board in 2011](#) indicates the source of funding for project evaluation. The guidelines state that *"The cost of the Final Evaluation should be covered by the project; in particular, it should be part of the M&E budget."*

8. In addition, the Board through decision B.11/16 and B.18/30 has set a cap for project implementing entity fees and project execution cost which cover the cost associated with project's monitoring and evaluation matters. As such, the Fund through document summary available on the [website](#) provides a detailed explanation of the Fund's fees structure within the cap approved by the Board, including a "*List of activities funded by AF grant and covered by IE fees and execution costs*". However, the source and cost associated with M&E activities are just indicative and the exact cost allocation is decided by the implementing entities within the caps for implementing entity fees and project execution cost.

9. The table below provides an indicative source for the cost of monitoring and evaluation (M&E) as currently applied by the secretariat during project review and implementation.

Table 1 - List of M&E activities funded by AF grant and covered by IE fees and execution costs (current)

Cost item	Type of support		
	Covered by IE fees	Covered by project execution costs	Not covered by AF grant
Staff	IE staff salary or time for project development, monitoring and supervision	Salary of project staff	Government seconded staff
Monitoring and evaluation	Mid-term Evaluation costs, if mandatory for IE Supervision of preparation of annual project reports and project evaluation reports	Project financial reports RBM Final Evaluation costs Office facilities, equipment and communications	Independent reviews or evaluations of the projects and programmes by AF Board or the AF-TERG
Travel	Project supervision missions and steering committee meetings	Travel related to project execution	
Audit	Ensure compliance with audit requirements	Project financial audit	

10. In terms of cost associated with the nature and scope of evaluation activities, the Fund currently does not have a specific budget between different types of M&E activities which are covered under a single line. The Fund Project/Programme Review Criteria including its template for proposal review by the Board secretariat and PPRC requires entity to assess the adequacy of M&E budget, but without specific budget allocation. The template only requires implementing entities to respond to the following question "*Are arrangements for monitoring and evaluation clearly defined, including a budgeted M&E plan?*".

11. The newly approved evaluation policy of the Fund introduced a clear requirement for budgeting for mandatory project evaluations. The policy states that for mandatory project

evaluations *“IEs, with the input of DAs, are required to budget for and commission evaluative exercises noted below over the lifetime of each project. If a protracted disruption, such as a conflict, disaster, or pandemic, affects a project, the IE can seek Board approval to adjust the project evaluation requirement”*.

12. In addition, the policy specifically introduced a new requirement for a separate evaluation budgeting for project evaluations in compliance with the Fund’s policy. Under its section 7, the policy states that *“IEs – for resourcing their operational-level evaluations in line with the EP...Each project proposal will continue to reflect separate but complementary monitoring and evaluation budget lines in accordance with the Fund’s Operating Policies and Guidelines for Parties to Access Resources (OPG). This could include provision for the baseline data report, MTR or RTE (if duration is four years or more) and final evaluation, as well as other evaluation activities appropriate and relevant to the project”*.

13. The evaluation policy budgeting notes as presented to the EFC at its thirty-first meeting provide some guidance of budgeting and commissioning of project evaluations. However, the budgeting guidance notes do not provide an estimate or requirement for budget range or percentage.

14. The evaluation policy guidance does not currently include a recommended amount, range, or percentage for evaluation budgeting; however, the policy states that budget guidelines are to be developed.

Comparative peer practice by the climate funds

15. The secretariat has reviewed the current practice of project evaluation costs as implemented by the peer climate funds. While the size and scope of the projects funded by the other climate funds differ from the Adaptation Fund, such benchmark allows an informed decision by the Board on setting up a cost structure for the project evaluations.

16. Current practice in evaluation units at multilateral organizations tends to support setting aside a minimum recommended amount for M&E or MEL (monitoring evaluation and learning).

17. The Green Climate Fund : As defined in [GCF evaluation policy](#), the cost associated with the project interim and final evaluations are covered by the Accredited Entities (AE) fees and within a range of 2-5% of the project budget. The policy states that *“Overall evaluation budgets included within project budgets, consistent with global evaluation international best practices, should range from 2–5 per cent of the project budget.”* In addition, the policy states that such budget should be separate from the *“from the project management budget (which covers some costs of managing for results), an overhead line, and the AE fee (which covers the costs of interim and final evaluations)”*.

18. The Global Environment Facility : As defined in the [GEF evaluation policy](#), the cost associated with the project evaluations is structured by project size. The GEF advises a budget

cap for both monitoring and evaluation activities of 5% for projects with grant funding of up to USD 5 million, 3% for projects from USD 5 million to USD 10 million, and 2% for projects over 10 million. The GEF provides budget templates but no normative costing. M&E budgets are provided in the total project budget as a stand-alone component. In addition, the policy requests GEF agencies to ensure that *“evaluation must be an explicit part of the planning and budgeting of GEF-financed activities”*. However, although the policy does not explicitly require a separate and standalone budget for project evaluations only but refers to [the GEF policy on fees](#), the policy states that “Project allocations cover the requirement for monitoring and evaluation, including terminal evaluations. Consistent with good practice, budgetary resources should be allocated separately for monitoring and evaluation activities”.

Proposed options for evaluation costs under the new Evaluation Policy

19. Considering the assessment of current practice of evaluation costs by the Fund, the review of practices by the peer climate funds and considering the new requirements set by the Fund’s evaluation policy, the secretariat is proposing two options for consideration by the EFC. Under both options, the cost of project evaluations should be aligned with (i) the current fee structure as approved by the Board and the (ii) new requirements for project evaluations as defined by the evaluation policy.

20. The proposed options do not introduce any change or new requirements to the current implementing entity fees and project execution costs capped by the Board respectively at 8.5% and 9.5% of the total project/programme cost with the exception of regional projects and enhanced direct access projects¹.

21. As mandated by Board through decision B.39/3, the secretariat has prepared a paper for PPRC consideration, looking into the possibility of harmonizing the project fees across the Fund’s windows. As such, the proposed options under this paper do not propose any recommendation on such harmonization nor prejudge subsequent decisions by the Board on the fee structure.

22. The proposed options have been developed taking into account the following challenges faced by the current costing of project evaluations by the Fund, including, among others:

- The current evaluation policy guidance note on evaluation budgeting focuses on providing IEs with the information that they need to develop an evaluation budget that supports high-quality evaluation and learning and takes project size, operating environment, and complexity into account.
- Based on practical experience as conveyed by the AF-TERG and in compliance with the evaluation policy, independent evaluations for mid-term reviews and final evaluations require, at a minimum, the time of international or national consultancy

¹ For regional projects, IE fees and project execution cost are both capped at 10% of total project cost. For enhanced direct access projects, IE fees and project execution cost are capped respectively at 10% and 12%.

(individual or firm) to conduct a desk review, design an evaluation approach and submit an inception report, conduct field work including site visits and stakeholder interviews, compile a draft evaluation report, present the report to key partners, and incorporate feedback into a final evaluation report.

- There is a floor for evaluation costs that is not related to project size; i.e. minimum consultant time, general consultant daily rates, travel to project site, etc. For this reason, having a strict ceiling on evaluation costs, such as a percentage cap applied for all projects regardless of size, might result in a small-budget project not having sufficient funds to conduct the minimum activities needed for an acceptable evaluation that would comply with the evaluation policy in its scope and approach. Based on current overall consulting cost, such acceptable evaluation could cost at minimum approximately US\$50,000 regardless of the project size.
- Another issue related to evaluation budgeting in the portfolio is that of funding the mid-term review and final evaluation from the IE fee and project execution costs, respectively. For small projects, even modest evaluation costs could consume a significant share of these funding sources.
- Current portfolio practice varies in terms of costs, and there does not appear to be a strong correlation between project size and complexity and the M&E budget requested.
- While many IEs have complied with the Fund's reporting requirements including under new evaluation policy, there is a challenge associated with the adequate amount budgeted for M&Es that is left at the discretion of the IEs.

Option 1 – Project evaluation budget within current fee structure with minor adjustment

23. Under this option, the secretariat proposes to streamline the Fund's current fee structure and clarifies the source of funding of the project evaluation cost. As presented in table 1, the evaluation policy reporting requirements including the project mid-term evaluation is covered by the IE fees while the final evaluation is funded by the execution cost. Such structuring has been feasible under the previous evaluation framework without major issue. However, such structure is found to be complex and does not allow a full compliance check by the secretariat on the budgeting of evaluation matters during project design and implementation.

24. In line with the practice by peers and international standards, it is proposed to assign all project evaluation costs to IE fees. In addition, to avoid an unbalanced distribution of M&E costs between IE fees and project execution cost and in line with the practice by other peers, it is proposed to reassign the audit cost from IE fees to project execution cost. The newly proposed list of activities funded by the project grant and covered by IE fees and execution costs is described in table 2 below.

Table 2 - List of activities funded by project grant and covered by IE fees and execution costs (revised)

Cost item	Type of support		
	Covered by IE fees	Covered by project execution costs	Not covered by project grant
Staff	IE staff salary or time for project development, monitoring and supervision	Salary of project staff	Government seconded staff
Monitoring and evaluation	Mid-term Evaluation costs, if mandatory for IE Supervision of preparation of annual project reports and project evaluation reports Final Evaluation costs	Project financial reports RBM Office facilities, equipment and communications	Independent reviews or evaluations of the projects and programmes by AF Board
Travel	Project supervision missions and steering committee meetings	Travel related to project execution	
Audit		Project financial audit Ensure compliance with audit requirements	

25. While the proposed new table 2 addresses the clarification needed for evaluation items, it does not allow a standalone and specific budget amount for the project evaluation. Such fee structure will not necessarily have an impact on the quality of the evaluation as required by the new evaluation policy. IEs will still be the ones deciding on the amount to be allocated for the project evaluation based on their own assessment and in line with their internal policy.

Option 2 – Proposed new budget range for project evaluation in line with peers and international standards

26. In line with global evaluation standards and international best practices and considering the practice of peer funds, the Option 2 proposes a standalone and separate budget for the project evaluation, within the IE Fee. Such costing structure would have the benefits of (i) ensuring a minimum budget line for a quality evaluation as mandated by the new evaluation policy, (ii) allowing a compliance check of such budget allocation during project review and implementation and (iii) ensuring that all projects regardless of size have an adequate budget specifically allotted to project evaluation.

27. Recognizing that a single budget amount or percentage is not adequate for all types of projects which differ by size and complexity, the proposed option includes a range for different

size of projects. Such particularity has already been recognized by in the evaluation policy guidance note which states that *“Typically, larger interventions can meet evaluation needs at a lower percentage of the operational budget versus smaller interventions with a lower operational budget. For instance, a \$50,000 evaluation would be 5% of a smaller project with an overall operational budget of 1 million dollars, but only 2.5% of a larger project of \$2,000,000”*.

28. The proposed option includes a range of 2-5% of total project cost for evaluation activities in Fund-supported projects and will depend upon total project size, operating environment, and complexity.

29. As stated above, such proposed range does not impact the current structure of the fee including the caps approved by the Board for both IE fees and project execution cost. It is proposed that the total cost for project evaluations will be funded by the IE fees in line with the practice by peer funds.

30. Considering the budget constraints for smaller projects and IE fees as the source of evaluation budget, the table below allows some flexibility for IE in defining the budget allocation within the proposed range.

Table 3 – Proposed new structure of project evaluation cost

Project size	Evaluation cost %	Comment
Up to US\$ 1 million	Min 5%	Evaluation cost as % of total project cost and deducted from IE fees
US\$1 – US\$5 million	Between 2-5%	Evaluation cost as % of total project cost and deducted from IE fees IE has the ability to assess adequate budget for evaluation based on project size and proposed range
US\$5 – US\$10million	Between 1-2%	Evaluation cost as % of total project cost and deducted from IE fees Max 2% of total project cost applied regardless of project size.

31. Although appearing as a significant change, the proposed range of 2-5% is aligned with the actual cost of evaluation activities as currently practiced by IEs with a minimum cost of US\$50,000 for an acceptable evaluation.

32. As for the option 1, the proposed option 2 has a slight implication of the current fee structure of the Fund since the project evaluation cost is deducted at 100% from the IE fee compared to current practice where for example the final evaluation is covered by the project execution cost.

Conclusion and next steps

33. Considering the review of current practice of the Fund and peers and to ensure clarity of current fee structure, and compliance with the new EP, the proposed Option 2 seems more feasible.

34. If approved by the Board, such separate budget line under Option 2 for project evaluation would have several benefits including among others (i) alignment with current practice by peers, (ii) enhance quality of evaluation in accordance with new EP, (iii) provides clarity of budget allocation with current Fund's fees structure and (iv) facilitate compliance with EP during project review and implementation.

35. To ensure alignment with the Fund's OPG, and subject to Board approval of one of the options, the secretariat will update the Fund's template and policy documents including the structure of the fee and the project review sheet as well as the EP budget guidance note.

Draft Recommendation

36. Having considered the report in document AFB/EFC.32/10 and its annexes, the Ethics and Finance Committee (EFC) may want to consider and recommend that the Adaptation Fund Board (Board):

- a) Take note of the report on the review of budget implications and options for EP implementation as contained in document AFB/EFC.32/10;
- b) Decides to approve the proposed [Option1] or [Option2] with associated budget implication for project evaluation cost [of XXX]
- c) Request the secretariat to:
 - (i) Update the Fund's operational policies and guidelines and its annexes in accordance with the new budget allocation for project evaluation;
 - (ii) Communicate the present decision to the implementing entities and ensure compliance during project reviews and monitoring;
 - (iii) Report on the implementation of the new budget allocation for project evaluation budget to the Ethics and Finance Committee at its [thirty-fifth?] meeting.