



ADAPTATION FUND

AFB/EFC.32/11/Rev.1
13 October 2023

ADAPTATION FUND BOARD

Ethics and Finance Committee

Thirty-second meeting

Bonn, Germany, 10–11 October 2023

REPORT OF THE THIRTY-SECOND MEETING OF THE ETHICS AND FINANCE COMMITTEE

Agenda Item 1: Opening of the meeting

1. The Chair of the Ethics and Finance Committee (EFC), Mr. Michai Robertson (Antigua and Barbuda, Small Island Developing States), opened the meeting and greeted the participants at 9:30 a.m. on 10 October 2023.

Agenda Item 2: Organizational matters

a) *Adoption of the agenda*

2. The EFC adopted the following agenda for its thirty-second meeting on the basis of the provisional agenda (AFB/EFC.32/1/Rev.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 2023.
4. Financial issues:
 - a) Financial status of the Trust Fund and CER monetization;
 - b) Reconciliation of the administrative budgets of the Board and the Secretariat, the Evaluation Function, and the Trustee for fiscal year 2023;

- c) Update on the indirect cost recovery issue by the World Bank.
- 5. Report of the Chair of the Technical Evaluation Reference Group, including:
 - a) Work update reporting;
 - b) Guidance in support of the operationalization of the Evaluation Policy;
 - c) Rapid evaluation of the Fund;
 - d) Approach to the work programme of the Technical Evaluation Reference Group of the Adaptation Fund for the period 2025–2027.
- 6. Review of implications and options for evaluation costs and evaluation budget guidance.
- 7. Management response to the rapid evaluation.
- 8. Update on implications of the fiduciary issues related to the United Nations Development Programme.
- 9. Request for a revision of legal agreement.
- 10. Implementation Matter 001.
- 11. Other matters.
- 12. Adoption of the recommendations and report.
- 13. Closure of the meeting.

b) Organization of work

- 3. The EFC adopted the organization of work proposed by the Chair based on the provisional timetable set out in the annotated provisional agenda (AFB/EFC.32/2).
- 4. The Chair welcomed Ms. Frida Jangsten (Sweden, Western European and Others), a new EFC member, noting that she would be required to sign the written oath of service as mandated by the rules of procedure of the Adaptation Fund Board. At the Chair's suggestion, all participants in the committee meeting introduced themselves to the new EFC member.
- 5. 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. He also drew attention to the Code of Conduct and Zero Tolerance Policy for the Board, which were available on the website of the Fund.
- 6. No member declared a potential conflict of interest in relation to any item on the meeting agenda.

Agenda Item 3: Annual performance report for fiscal year 2023

7. The representative of the secretariat presented the annual performance report (APR) for the fiscal year 2023 (AFB/EFC.32/3), which highlighted the portfolio results, provided information on the Fund's active portfolio and on the progress of the implementation of the second medium-term strategy covering the period 2023–2027. The APR also provided information on the active pipeline of proposals under development and the growth of the Fund's portfolio.

8. The Ethics and Finance Committee recommended that the Adaptation Fund Board (the Board) decide to:

- (a) Approve the Adaptation Fund annual performance report for the fiscal year 2023 as contained in document AFB/EFC.32/3; and
- (b) Request the secretariat to prepare a summarized version for the general public in a reader-friendly format, following the approval of the annual performance report by the Board.

(Recommendation EFC.32/1)

Agenda Item 4: Financial issues

- a) *Financial status of the Trust Fund and CER monetization*

9. Representatives of the trustee presented the Adaptation Fund Trust Fund financial report prepared by the trustee as at 30 June 2023 (AFB/EFC.32/4). At 30 June 2023, funds available for new decisions had amounted to \$358.7 million, net of the operational reserve, with an additional \$18.5 million in donations receivable and \$214 million in the form of pledges, for a total of \$591.2 million in potential funding availability. The representative of the Trustee informed the Ethics and Finance Committee that substantial progress was made in converting the outstanding pledges into signed donation agreements and payment following the end of reporting period. The trustee's latest report, along with its previous reports for the Fund, was available on the trustee's website.¹

10. A second representative of the trustee provided an update on the certified emission reduction (CER) market and CER monetization. Since October 2022, an additional \$3 million of CERs had been sold. However, the demand for CERs is expected to decrease moving forward as the market transitions towards the mechanism under article 6 of the Paris Agreement and CERs are gradually phased out with transfer of AF CERs restricted. The legal and operational feasibility of cancelling of CERs in CDM on behalf of buyers instead of delivering CERs to the buyers in future CER transactions by the Trustee need to be explored.

11. Subsequently, responding to a questions and comments from members, a representative of the trustee said that CERs have been held in a special account in CDM, at no cost to the Adaptation Fund currently. Certain CERs may be converted into carbon credits under the article

¹ <https://fiftrustee.worldbank.org/en/about/unit/dfi/fiftrustee/fund-detail/adapt>.

6 (4) mechanism. Hence, there is no urgency at the moment to dispose of AF CERs. Responding to a question, the secretariat noted that the Board would consider an item on transition from the carbon reduction mechanism under the Kyoto Protocol to the mechanism under the Paris Agreement and provide an update.

12. The Ethics and Finance Committee took note of the information provided.

b) Reconciliation of the administrative budgets of the Board and the secretariat, the evaluation function and the trustee for fiscal year 2023

13. A representative of the secretariat presented the reconciled administrative budgets of the Board and secretariat and the Coordinator of the AF-TERG secretariat presented the evaluation function for fiscal year 2023, covering the period from 1 July 2022 to 30 June 2023. The representative of the trustee presented the reconciled budget for the trustee for the same period (AFB/EFC.32/5).

14. Following the presentation, the representative of the secretariat provided a clarification on the allocated budget and actual expenses for the development of the Medium-term Strategy in response to a question from the Committee.

15. The Ethics and Finance Committee took note of the information provided.

c) Update on the indirect cost recovery issue by the World Bank

16. The Manager of the secretariat provided an oral report to the EFC on the update on the indirect cost recovery issue. He said that the fee levied by the World Bank on all trust funds and financial intermediary funds including the Adaptation Fund might increase substantially under the indirect cost recovery regime, although the exact rate had not been agreed upon, and the Global Environment Facility (GEF) that hosted the Adaptation Fund Board Secretariat had been conferring with the World Bank on its fixed cost recovery rate to be charged on actual administrative expenses. The GEF Council decided on what it considered an acceptable fixed cost recovery rate at its recent meeting and requested the World Bank to provide further justification for the increase. The Manager of the secretariat also provided an update on the secretariat office lease renewal that had not been agreed by the World Bank once in December 2022, was now back on track and in final negotiations with the landlord.

17. Responding to comments and questions from Committee members, the Manager of the secretariat noted that, while he appreciated members' concerns, in his view there was no need for the Adaptation Fund Board to take an active part in the negotiations between the GEF Council and the World Bank as of now, since the Council was defending the Fund's interests, and the secretariat was working closely with the GEF secretariat to ensure that the Fund's interested were being considered. Another representative of the secretariat said that it was not clear whether the indirect cost would be paid from the administrative budget or the trust fund itself.

18. The Ethics and Finance Committee took note of the secretariat's oral report.

Agenda Item 5: Report of the Chair of the Technical Evaluation Reference Group

a) Work update reporting

19. Introducing the item, the chair of the Technical Evaluation Reference Group of the Adaptation Fund (AF-TERG) provided an overview of the work of the AF-TERG, as more fully described in document AFB/EFC.32/Inf.2.

20. The chair of the AF-TERG, responding to a request for more information regarding the meetings with evaluation units from the four climate funds (AF, GCF, the GEF and CIFs), said that the second meeting had focused on sharing experiences in areas of focus, such as just transition. There had also been discussions on how to improve final evaluations and coordinate the work of evaluation units in external forums. The units were considering holding a joint meeting at the upcoming twenty-eighth Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change (UNFCCC) to address issues including evaluations of climate change adaptation and vulnerability.

21. The EFC took note of the information provided.

b) Guidance in support of the operationalization of the Evaluation Policy

22. The chair of the AF-TERG presented an update and the second set of evaluation guidance notes contained in documents AFB/EFC.32/Inf.4 and AFB/EFC.32/Inf.5/Rev.1.

23. The EFC took note of the information provided.

c) Rapid evaluation of the Fund

24. A member of AF-TERG, acting as the focal point, presented the rapid evaluation of the Fund (AFB/EFC.32/6/Rev.1), which had been carried out in accordance with decision B.39/57 and the terms of reference drafted by AF-TERG. The AF-TERG member also responded to questions related to the approach of analysing the Fund at three levels – macro, meso and micro.

25. The recommendation for this agenda item is presented under agenda item 7. Management response to the rapid evaluation of the Fund.

d) Approach to the work programme of the Technical Evaluation Reference Group of the Adaptation Fund for the period 2025–2027

26. The Chair of the AF-TERG, noting that the AF-TERG's current work programme covered the period up to the end of fiscal year 2024 (June 2024), presented the process for developing the second work programme for the period fiscal year 2025 to fiscal year 2027 as more fully described in document AFB/EFC.32/Inf.3.

27. Subsequently, responding to comments and questions from AFB members, she said that AF-TERG would be pleased to participate in the Adaptation Gap Report initiative and other

forward-looking activities but the AF-TERG lacked the mandate to do that at present. Much of the work under the programme would be respective and seek to address shortcomings and persistent issues, as well as current and past problems, while providing learnings as inputs to the work of the Adaptation Fund. She stressed the importance of *ex post* evaluations as a learning tool and in understanding the situation on the ground, especially in vulnerable countries. The Coordinator of the AF-TERG secretariat, responding to a question from AFB members on the use of corporate procurement versus individual consultant procurement, noted that use of corporate vendors was often more cost effective than hiring individual consultants, especially in the case of larger evaluation assignments. The representative of the secretariat, in response to a comment from a member on the need for the AF-TERG to participate in international events, provided further responses, noting that the secretariat had sought to be involved in various national events as part of global climate finance initiatives.

28. Having considered the draft approach paper for the next multi-year work programme, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide to:

- (a) Proceed with further consultations with members of the EFC and with the secretariat to refine a shortlist of thematic priorities;
- (b) With respect to decision B.38/48, prepare a draft second work programme for the period 2025–2027 for consideration by the EFC at its thirty-third meeting, including an analysis of its budget implications in line with the Evaluation Policy and the second implementation plan for the medium-term strategy;
- (c) Develop a multi-year budget of implementing the work programme, for inclusion in the annual administrative budget of the AF-TERG and its secretariat for consideration by the EFC;
- (d) Submit to the EFC at its thirty-third meeting, a revised terms of reference for the AF-TERG that fits its renewed roles and responsibilities under the Evaluation Policy and considers the implications of implementing the second work programme.

(Recommendation EFC.32/2)

Agenda Item 6: Review of implications and options for evaluation costs and evaluation budget guidance

29. The representative of the secretariat presented a review of implications and options for evaluation costs (AFB/EFC.32/7) for consideration by the EFC. The secretariat recommended option 2, under which two options for evaluation budget for project funded by the Fund in line with international standards and practice by peers was proposed.

30. Responding to a question regarding the timeline for the implementation of the new fee structure, the representative of the secretariat said that the new budget structure is proposed to be implemented in line with the new evaluation policy which would enter into force from October 2023. All funded projects beginning from that month would use the new fee structure. The

representative of the secretariat also provided a clarification on the source of evaluation budget and the proposed range that applies to projects based on the amount.

31. Having considered the report in document AFB/EFC.32/10 and its annexes, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide to:

- (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) Request the IE to set the overall evaluation budget for proposed projects and programmes at 1 to 5 per cent of the project or programme budget, to be counted towards the IE fee, starting from the forty-second meeting of the Board;
- (c) Invite the implementing entities to consider “Proposed new structure of project evaluation cost” referred to in paragraph 30 of document AFB/EFC.32/10 as a guidance for allocating funding for evaluation activities;
- (d) Request the secretariat to:
 - (i) Update the “Instructions for Preparing a Request for Project Funding” contained in Annex 5 to OPG accordingly and submit it to the forty-second meeting of the Board for consideration and approval;
 - (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-fourth meeting.

(Recommendation EFC.32/3)

Agenda Item 7: Management response to the rapid evaluation

32. The representative of the secretariat presented a draft management response to the rapid evaluation of the Fund as contained in document AFB/EFC.32/6/Rev.1. The response is more fully described in document AFB/EFC.32/8.

33. Following the presentation, the representative of the secretariat provided a clarification on the proposed joint recommendation for both the rapid evaluation and the management response.

34. Having considered the report on the rapid evaluation of the Adaptation Fund by the Technical Evaluation Reference Group of the Adaptation Fund (AF-TERG), as contained in document AFB/EFC.32/6/Rev.2, as well as the management response prepared by the secretariat, as contained in document AFB/EFC.32/8, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board decide to:

- (a) Take note of the key findings and evidence gaps at the respective macro, meso and micro levels in the rapid evaluation synthesis framework and the inputs from the rapid evaluation for the preparation of the future comprehensive evaluation as contained in the report on the rapid evaluation of the Adaptation Fund referred to in chapter 7 of document AFB/EFC.32/6/Rev.2, as well as the discussion during the thirty-second meeting of EFC and forty-first meeting of the Board and the management response contained in document AFC/EFC.32/8 when developing the TORs of the comprehensive evaluation of the Fund to be prepared in accordance with decision B.39/57.(b) Request the secretariat, in consultation with the Technical Evaluation Reference Group of the Adaptation Fund, to prepare an action plan to respond to the findings arising from the rapid evaluation mentioned above, for consideration by the Board during the intersessional period between the forty-first and forty-second meetings of the Board;
- (c) Request the secretariat to report to the EFC, at its thirty-third meeting, on the progress made in implementing the action plan.

(Recommendation EFC.32/4)

Agenda Item 8: Update on implications of the fiduciary issues related to the United Nations Development Programme

35. The representative of the secretariat presented an update on the implications of the fiduciary issues related to the United Nations Development Programme (UNDP) (confidential document AFB/EFC.32/10).
36. Having considered the report in document AFB/EFC.32/10 and its annexes, the Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board (Board) decided to:
- (a) Take note of the update report contained in document AFB/EFC.32/10 and its annexes;
 - (b) Reiterate the Board's request to the UNDP as contained in decision B.40/68, subparagraph (c) (i) and (ii);
 - (c) Request the secretariat to:
 - (i) Continue engaging with the United Nations Development Programme (UNDP) with a view to ensuring that all completed projects funded by the Adaptation Fund and implemented by the UNDP are financially closed, and that final audited financial statements including the IE fee, are prepared and submitted in compliance with the Adaptation Fund's Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund (OPG) and the project legal agreements signed between the Board and the UNDP;

- (ii) To provide an update on the matter referred to in paragraph (b) to the Ethics and Finance Committee at its thirty-second meeting.

(Recommendation EFC.32/5)

Agenda Item 9: Request for a revision of legal agreement

37. The representative of the secretariat presented the issues related to a request by the Food and Agriculture Organization of the United Nations (FAO) to amend the Fund's standard legal agreement for the project on "Strengthening resilience to climate and COVID-19 shocks through integrated water management on the Sudan-Chad border area" (confidential document AFB/EFC.32/9).

38. Having considered documents AFB/EFC.31/10, AFB/EFC.32/9 and its Annexes I and II, the Ethics and Finance Committee (EFC) recommended that the Board decide to:

- (a) Take note of the update as contained in document AFB/EFC.32/9 including the response letter from FAO as contained in Annex 2 of document AFB/EFC.32/9;
- (b) Recall decision B.40/70, paragraph b) that the Fund's standard legal agreement applies uniformly to all implementing entities (IEs), is not open to different readings or negotiations and cannot be amended to accommodate an individual IE's requests or to make an exception exclusively for an individual IE;
- (c) Request the secretariat to send letters to the relevant designated authorities informing them about the Board decision on relation to the legal issues raised by FAO;
- (d) Request the secretariat to communicate to FAO the present decision;

(Recommendation EFC.32/6)

Agenda Item 10: Implementation matter 001

39. The representative of the secretariat provided an oral report to the EFC on an implementation matter in a project funded by the Fund (Implementation Matter 001). Following the update by the secretariat that the matter has been successfully reviewed and closed by the implementing entity, the committee has closed this matter.

40. The Ethics and Finance Committee took note of the secretariat's oral report.

Agenda Item 11: Other matters

41. No other matters were raised.

Agenda Item 12: Adoption of the recommendations and report

42. The EFC adopted the recommendations in the present report at its thirty-second meeting and agreed to entrust the preparation of the report to the secretariat for later adoption. The present report was subsequently adopted by the EFC intersessionally.

Agenda Item 13: Closure of the meeting

43. The meeting closed at 2.15 p.m. on 11 October 2023.

ANNEX I

Ethics and Finance Committee

Thirty-second Meeting

10 and 11 October 2023

EFC members present in the meeting

Mr. Michai Robertson (Chair) (Antigua and Barbuda, Small Island Developing States)

Mr. Ali Daud Mohamed (Kenya, Africa)

Mr. Kenrick Williams (Belize, Latin America and the Caribbean)

Ms. Mariana Kasprzyk (Uruguay, Latin America and the Caribbean)

Mr. Naresh Sharma (Nepal, Least Developed Countries)

Mr. Kevin Adams (United States of America, Annex I Parties)

Ms. Frida Jangsten (Sweden, Western Europe and Others)

Mr. Antonio Navarra (Italy, Western Europe and Others)