



ADAPTATION FUND

AFB/EFC.33/13
18 April 2024

ADAPTATION FUND BOARD

Ethics and Finance Committee

Thirty-third meeting

Bonn, Germany, 16–17 April 2024

REPORT OF THE THIRTY-THIRD MEETING OF THE ETHICS AND FINANCE COMMITTEE OF THE ADAPTATION FUND BOARD

Agenda Item 1: Opening of the meeting

1. The incoming Chair of the Ethics and Finance Committee (EFC), Frida Jangsten (Sweden, Western Europe and Others), opened the meeting at 2.20 p.m. on 16 April 2024.

Agenda Item 2: Transition of the Chair and Vice-Chair

2. Frida Jangsten (Sweden, Western Europe and Others) took over as the Chair of the meeting, having been elected by the Board in the organizational session of its forty-second meeting.

Agenda Item 3: Organizational matters

A. Adoption of the agenda

3. The EFC adopted the following agenda for its thirty-third meeting on the basis of the provisional agenda (AFB/EFC.33/1):

1. Opening of the meeting.
2. Transition of the Chair and Vice-Chair.
3. Organizational matters:
 - a) Adoption of the agenda;
 - b) Organization of work.

4. Financial issues:
 - a) Financial status of the trust fund and CER monetization;
 - b) Work plan of the secretariat for fiscal year 2025;
 - c) Administrative budget of the Board and secretariat, Technical Evaluation Reference Group of the Adaptation Fund and its secretariat, and trustee for fiscal year 2025;
5. Report of the Chair of the Technical Evaluation Reference Group of the Adaptation Fund, including:
 - a) Work update reporting;
 - b) Work programme and multi-year budget of the Technical Evaluation Reference Group of the Adaptation Fund for the period 2025–2027;
 - c) Revised terms of reference for the Technical Evaluation Reference Group of the Adaptation Fund;
 - d) Update on the thematic evaluation of scalability lessons and evidence from the Adaptation Fund and broader peers, including recommendations on supporting scalability through Adaptation Fund (and Technical Evaluation Reference Group of the Adaptation Fund) strategy and operations;
 - e) Update on the thematic evaluation of the Adaptation Fund accreditation process;
 - f) Update on the ex post evaluation 3, on ARG/MIE/Rural/2011/1 Increasing Climate Resilience and Enhancing Sustainable Land Management in the Southwest of the Buenos Aires Province, Argentina;
 - g) Update on ex post evaluation 4, on Enhancing the Adaptive Capacity and Increasing Resilience of Small-size Agriculture Producers of the Northeast of Argentina.
6. Observations on post-approval requests for changes received by the secretariat.
7. Approach to the design of the terms of reference for the comprehensive evaluation of the Adaptation Fund and the mid-term review of the second medium-term strategy of the Adaptation Fund.
8. Update on implications of the fiduciary issues related to the United Nations Development Programme.
9. Other matters.
10. Adoption of the recommendations and report.
11. Closure of the meeting.

B. Organization of work

4. The EFC agreed to the organization of work proposed by the Chair based on the provisional timetable set out in the annotated provisional agenda (AFB/EFC.33/2).

5. The Chair welcomed the following newly elected members, noting that they would be required to sign the written oath of service as mandated by the rules of procedure of the Adaptation Fund Board:

- Tae Hoon Kim (Republic of Korea, Asia-Pacific States)
- Diann Black Layne (Antigua and Barbuda, Small Island Developing States)

6. 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 they might have with any item on the agenda of the current meeting. She also drew attention to the Board's code of conduct and zero tolerance policy, which were available on the website of the Fund.

a. The following member declared a conflict of interest:

- Diann Black Layne (Antigua and Barbuda, Small Island Developing States)

Agenda Item 4: Financial issues

A. Financial status of the trust fund and CER monetization

7. A representative of the trustee presented the Adaptation Fund Trust Fund financial report prepared by the trustee as at 31 December 2023 (AFB/EFC.33/3). At 31 December 2023, funds available for new decisions had amounted to \$526.4 million received, net of the operational reserve, with an additional \$195.7 million in contributions receivable and pledges, most of which represented multi-year donor commitments, for a total of \$722.1 million in potential funding availability. The trustee's latest report, along with its previous reports for the Fund, was available on the trustee's website.¹

8. A second representative of the trustee provided an update on the certified emission reduction (CER) market and CER monetization. He began by reporting that, as mentioned at the thirty-second meeting of the EFC, as the Kyoto Protocol was coming to an end, it had become impossible to transfer Adaptation Fund CERs out of the clean development mechanism (CDM) system in order to deliver them to a buyer. Since the last meeting, however, the trustee had found a way to instead executing CER transactions in which the Trustee can cancel the CERs directly within the CDM system on the buyer's behalf. The trustee had used that approach to raise approximately \$708,000 and was still negotiating the necessary agreement revisions with a several more potential buyers.

9. Overall, the trustee continued to look for buyers interested in purchasing CERs on a voluntary basis to offset their carbon footprint and would use cancellation as the mechanism for

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

such transactions. It was also monitoring the pathway to the Paris Agreement closely to see when that mechanism might start and what carbon asset might come to Adaptation Fund.

10. The Ethics and Finance Committee took note of the trustee's report (AFB/EFC.33/3).

B. Work plan of the secretariat for fiscal year 2025

11. The Manager of the secretariat reported on the actions taken to implement the work plan for fiscal year 2024 and presented the proposed work plan for fiscal year 2025 (AFB/EFC.33/4).

12. Members of the committee expressed a range of views on the use of artificial intelligence (AI) in the Fund's work. It was generally agreed that AI tools could be very useful in administrative areas, including for translation and in improving the accessibility, and thus the usefulness, of documentation and lessons learned. Some members urged the secretariat to explore potential uses of AI across the Fund's work, including learning from the AI experience of other entities working in adaptation, such as the World Bank Group, while others advised caution, particularly in using AI for project analysis given the specificity of local circumstances and projects.

13. One member asked that information be provided on an annualized rather than a cumulative basis, saying that a focus on results was particularly important in the light of the connection between the Adaptation Fund and the Global Goal on Adaptation.

14. Responding to the comments, the Manager of the secretariat said that secretariat staff had consulted AI experts but was still in the early stage of exploring how AI could be used in the Fund's work. He acknowledged the need for caution, stressing that the secretariat was careful to check any AI-generated information. While it was expected that AI would prove useful in administrative functions, the secretariat hoped that AI tools would also make it possible to distinguish patterns in the Fund's overall project portfolio, indicating what worked and what did not work in adaptation, for the benefit of the Fund's client countries; owing to the diversity of adaptation projects, such patterns had thus far proved impossible to distinguish using conventional analytical tools. He also acknowledge a suggestion to provide AI training for NIEs, observing that it could form part of the readiness programme.

15. The Ethics and Finance Committee recommended that the Adaptation Fund Board approve the secretariat's proposed work plan for fiscal year 2025 as set out in annex I to document AFB/EFC.33/4.

(Recommendation EFC.33/1)

C. Administrative budgets of the Board and secretariat, Adaptation Fund Technical Evaluation Reference Group and its secretariat, and trustee for fiscal year 2025

16. The Manager and another representative of the secretariat, the Coordinator of the secretariat for the Technical Evaluation Reference Group of the Adaptation Fund (AF-TERG) and a representative of the trustee presented the information related to the administrative budgets of

the Board and its secretariat, the AF-TERG and its secretariat and the trustee for fiscal 2025, as more fully described in document AFB/EFC.33/5.

17. With respect to the administrative budget of the Board and secretariat, one member, while affirming strong support for a robust Fund secretariat, noted the significant increases in office costs, logistics under the readiness programme and the overall staff budget and requested additional information on those items. He also asked that the administrative budget be presented as a percentage of overall expenditure, both for the present budget and in future budget proposals. Later in the committee meeting, the secretariat presented such information of past five years, and the member requested the secretariat to include it in future budget documents. Another member asked for a further explanation of the figure for resource mobilization.

18. The Manager of the secretariat confirmed that the secretariat had, and continued to have, a relatively lean structure in terms of delivering on its mandate, and that the growth in the budget was in line with the growing work programme and increased support for countries that the secretariat understood the Board wished to see, including through the readiness programme. The increase in office costs reflected space adjustments following many years of operating out of extremely cramped offices; the current space was expected to be sufficient through to 2029, with some flexibility for growth. The increase in logistics costs for the readiness programme arose from a clear request to enhance readiness programme, especially through outreach to designated authorities. Growth in staff costs resulted from the proposed addition of two new positions and the conversion of two consultant positions to staff positions, as well as the annual increase in the World Bank salary scale, which applied to Adaptation Fund Board secretariat staff.

19. Regarding resource mobilization, the Adaptation Fund resource mobilization strategy and action plan provided for communications and outreach to contributor governments, which had been limited in recent years but would now be enhanced. In addition, new sources of finance, including non-sovereign finance under articles 6.4 and 6.2 of the Paris Agreement, required strategic development and consultation, entailing costs that were also reflected in the resource mobilization budget line. Another representative of the secretariat added that the figure for resource mobilization also included the cost of maintaining and updating the resource mobilization website and the hiring of short-term communications staff dedicated to resource mobilization.

20. The Ethics and Finance Committee recommended that the Adaptation Fund Board (the Board):

- (a) Take note of the budget proposals contained in document AFB/EFC.33/5 and approve, from the resources available in the Adaptation Fund Trust Fund:

(Board and secretariat)

- (i) The proposed budget of \$12,158,122 to cover the costs of the operations of the Board and secretariat for fiscal year 2025, covering the period from 1 July 2024 to 30 June 2025, comprising \$10,301,697 for Board and secretariat administrative services (the main secretariat budget), \$566,800 for accreditation services and US\$ 1,289,625 for the readiness programme;

(Technical Evaluation Reference Group of the Adaptation Fund and secretariat)

(ii) The proposed revised budget of \$1,941,656 to cover the costs of the operations of the Technical Evaluation Reference Group of the Adaptation Fund and its secretariat for fiscal year 2025, covering the period from 1 July 2024 to 30 June 2025, comprising \$971,951 for the management component and \$969,705 for the evaluation component;

(Trustee)

(iii) The increase of \$66,000 in the estimated actual trustee budget for fiscal year 2024;

(iv) The proposed budget of \$991,000 for the trustee services to be provided to the Adaptation Fund during fiscal year 2025;

(b) Authorize the trustee to transfer the amounts in subparagraphs (a) (i) and (ii) to the respective secretariats and the amounts in subparagraphs (a) (iii) and (iv) to the trustee.

(Recommendation EFC.33/2)

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

A. Work update reporting

21. The Chair of the AF-TERG provided an update on progress made on the AF-TERG work programme in 2024 (AFB/EFC.33/Inf.2).

22. Subsequently, responding to questions from members, she specified that ex post evaluation work remained a key element of the AF-TERG work programme, originating from the Board's request that the AF-TERG develop post-implementation learning for Fund projects and programmes and provide accountability of results financed by the Fund. The framework developed by the AF-TERG was innovative and Fund-specific, and looked at the extent to which the selected project outcome had been sustained since completion and how the sustained outcome characteristics contribute to the system's resilience. The work has been piloted and field-tested initially in Samoa and Ecuador, followed by two more projects in Argentina. The next ex post evaluation was planned to start in financial year 2024 in Mauritania and another country, yet to be decided. The choice of country was determined by various criteria, including whether projects had been completed within the last three to five years, the quality of the evidence available, ease of access and the interest of the country itself given the collaborative nature of the work. The intent was to cover all regions by the end of the second AF-TERG work programme.

23. The Ethics and Finance Committee (EFC) took note of the information provided.

B. *Work programme and multi-year budget of the Technical Evaluation Reference Group of the Adaptation Fund for the period 2025–2027*

24. The Chair of the AF-TERG presented the group's proposed work programme and multi-year budgets for the period 2025–2027 (AFB/EFC.33/6).

25. Subsequently, in response to a question on how results could inform design of future projects to ensure sustainability, she spoke briefly about the innovative work of the AF-TERG on ex post evaluations. She began by noting that the ex post evaluations were undertaken three to five years after project completion and that learnings could help to inform future project design. The AF-TERG also planned to introduce a management action tracking tool as a means to support the uptake of evaluation recommendations. Furthermore, the AF-TERG held webinars and delivered presentations at various event, such as the twenty-eighth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to enable evaluation findings to be taken up more broadly. The AF-TERG also discussed findings of ex post evaluations with the designated authorities and implementing entities and worked with the secretariat on knowledge that should be taken back into programming.

26. The Manager of the secretariat added that the proposed work programme represented the start of operationalizing of the evaluation policy, which had entered into force in October 2023. The policy was shared by the secretariat and the AF-TERG and it therefore made sense to implement it using a whole-of-Fund approach. The first of the three work streams of the AF-TERG, on generation of evaluations, required that the AF-TERG be independent, but work streams 2 and 3 were more operational and were closely related to knowledge management and readiness, offering opportunities to generate synergies and avoid duplication.

27. The Ethics and Finance Committee recommended that the Adaptation Fund Board approve the draft second work programme of the Technical Evaluation Reference Group of the Adaptation Fund for the period 2025–2027 as set out in document AFB/EFC.33/6/Rev.1.

(Recommendation EFC.33/3)

C. *Revised terms of reference for the Technical Evaluation Reference Group of the Adaptation Fund*

28. The Coordinator of the AF-TERG secretariat presented the proposed revised terms of reference for the AF-TERG (AFB/EFC.33/7, annex I).

29. The Ethics and Finance Committee recommended that the Adaptation Fund Board approve the revised terms of reference for the Technical Evaluation Reference Group of the Adaptation Fund as set out in document AFB/EFC.33/7.

(Recommendation EFC.33/4)

D. Update on the thematic evaluation of the Adaptation Fund accreditation process

30. A representative of the AF-TERG provided a summary of the main findings of the thematic evaluation on the Adaptation Fund accreditation process (AFB/EFC.33/11).

31. Members welcomed the findings of the evaluation but noted that further discussion would be difficult without first seeing the management response of the secretariat. It was also generally agreed that in formulating its response, the secretariat should not be restricted to the strategic options presented in the evaluation report.

32. In response to a comment, the representative of the AF-TERG provided additional clarifications regarding the potential involvement of the private sector in the accreditation process. She noted that Adaptation Fund was present in 90 countries but only had 32 NIEs, and that should the Fund wish to increase the number of NIEs, engaging the private sector in that process was one option. That approach presented a number of advantages, including eliminating certain risks, such as the risk of misconduct, from the secretariat and the Board. She stressed, however, that the option was a proposal rather than a recommendation.

33. The representative of the secretariat informed the members that the secretariat was in the process of formulating its response, which would be developed in the usual spirit of collaboration with the AF-TERG. Among other things, the management response would address certain incorrect assumptions used in the evaluation. She also noted that the evaluation covered a single 15-year period rather than two distinct periods, which had certain consequences, including the failure to capture significant changes in the accreditation process over the years.

34. The Ethics and Finance Committee recommended that the Adaptation Fund Board (the Board):

(a) Take note of the key findings of the thematic evaluation of the Adaptation Fund's accreditation process, particularly areas for improvement, in informing the overall strategic direction and future accreditation process;

(b) Request the secretariat to prepare a draft management response to the recommendations of the thematic evaluation of the accreditation process, for the consideration of the Ethics and Finance Committee at its thirty-fourth meeting.

(Recommendation EFC.33/5)

E. Update on the thematic evaluation of scalability lessons and evidence from the Adaptation Fund and broader peers, including recommendations on supporting scalability through Adaptation Fund (and Technical Evaluation Reference Group of the Adaptation Fund) strategy and operations

35. Owing to the hospitalization of the AF-TERG member in charge of the matter, the EFC agreed to defer its consideration of the matter to its thirty-fourth meeting.

F. Update on the ex post evaluation #3 of project ARG/MIE/Rural/2011/1, on increasing climate resilience and enhancing sustainable land management in southwest Buenos Aires province, Argentina

36. Owing to the hospitalization of the AF-TERG member in charge of the matter, the EFC agreed to defer its consideration of the matter to its thirty-fourth meeting.

G. Update on ex post evaluation #4 of project ARG/NIE/Agri/2011/1, on enhancing the adaptive capacity and increasing the resilience of small-size agriculture producers in the northeast of Argentina

37. Owing to the hospitalization of the AF-TERG member in charge of the matter, the EFC agreed to defer its consideration of the matter to its thirty-fourth meeting.

Agenda Item 6: Observations on post-approval requests for changes received by the secretariat

38. The representative of the secretariat presented the secretariat's observations on project post-approval requests for changes received (AFB/EFC.33/8).

39. Members were generally in favour of the proposed gap analysis of the current policies pertaining to project post-approval requests for changes, but also sought additional details on the project post-approval change requests being received. One member observed that the most challenging situations for the Fund were those involving changes in project targets and in particular project sites, which could have a major impact from a safeguards perspective and would be important for the Board to consider. Another expressed the view that the accreditation process was weak in assessing entities' capacity for project implementation in addition to the fiduciary standard. She also urged the use of a step-in trigger to allow the secretariat to take immediate action and avoid incurring additional project delays by returning to the Board for approval of requests for project revisions.

40. Responding to the comments and questions, the representative of the secretariat specified that 71 requests had been received since the beginning of 2013. Project change requests varied widely in nature, from delays in project inception and no-cost extension of the project completion date to revision of targets and changes in project budget. She further pointed out that the proposed gap analysis could include comprehensive consultations with the other members of the secretariat and perhaps even with other climate funds to determine how countries could be better supported on the new types of adaptation projects, such as innovation and locally-led projects.

41. She also provided additional information on how the secretariat currently addressed the issue of delays in the project change request approval process, explaining that the policies outlined different processes depending on the nature and degree of the changes involved. If a change was not material and only involved project activities, the implementing entity would usually notify the secretariat through the annual project performance report, and there was no Board approval requirement. Many types of project revision request could be approved by the Board

intersessionally, which entailed a two-week non-objection period. The secretariat also encouraged adaptive management practices for project under implementation; some of the questions in the project performance report were on lessons learned, specifically focusing on the adaptive management practices used by implementing entities to cope with project implementation risks. In terms of the nature of the proposed gap analysis, it was intended to be fairly comprehensive, focusing both on current gaps in the policies and on how entities currently responded to the reporting requirements, with the goal of determining potential policy revisions and providing further guidance to the Fund's client countries.

42. The Ethics and Finance Committee recommended that the Adaptation Fund Board (the Board) request the secretariat:

- (a) To prepare a gap analysis of the current policies pertaining to project post-approval requests for changes, namely the policy on project/programme implementation (annex 7 to the Operational Policies and Guidelines) and the policy on project/programme delays (AFB/B.34-35/6);
- (b) To develop options for addressing the gaps identified, including, as necessary, suggestions for amendments to the policies;
- (c) To present the results of (a) and (b) above to the Ethics and Finance Committee for its consideration at its thirty-fourth meeting.

(Recommendation EFC.33/6)

Agenda Item 7: Approach to the design of the terms of reference for the comprehensive evaluation of the Adaptation Fund and the mid-term review of the second medium-term strategy of the Adaptation Fund

43. A representative of the AF-TERG presented the proposed approach for developing terms of reference for the comprehensive evaluation of the Adaptation Fund and the mid-term review of the Fund's second medium-term strategy (AFB/EFC.33/10).

44. One member asked why the AF-TERG was proposing to have the final terms of reference approved intersessionally, particularly if they had budgetary implications. The Coordinator of the AF-TERG secretariat explained that waiting until the Board's forty-third meeting would cause problematic delays in the procurement schedule, and the AF-TERG had therefore opted to present the overall approach at the current meeting and to take members' comments into consideration in finalizing the terms of reference for intersessional approval. He also affirmed that the terms of reference would not have additional budgetary implications, as the AF-TERG budget for fiscal year 2025, which was being presented separately under another item at the current meeting, already covered the costs of the comprehensive evaluation and the mid-term review of the second medium-term strategy of the Fund. Additionally, the indicative budget of the AF-TERG included in the second draft work programme of the AF-TERG, which incorporated the costs of both evaluations; however, for the sake of clarity, the final terms of reference would be

accompanied by a note explaining the financial implications for the two-and-a-half-year period covered by the comprehensive evaluation.

45. Responding to a comment regarding the importance of data and the need to improve data collection, especially for ex post evaluations, the representative of the AF-TERG acknowledged that getting uniform data was a problem, although key indicators allowed some degree of harmonization. Currently, evaluation was moving into more creative, innovative methods of analysing impact and results, such as satellite imagery. Artificial intelligence was also now producing efficient ways of collecting data. The Coordinator of the AF-TERG secretariat added that the AF-TERG and the secretariat planned to go through the existing database to assess exactly what data was already available prior to starting the comprehensive evaluation, which would allow them to move forward with more confidence.

46. Addressing a question on apparent repetition in the evaluation questions, the representative of the AF-TERG confirmed that the first question could be viewed as an overarching question, with the second and third questions as subsidiary questions. It was subsequently suggested that the first question be used to determine the extent to which the Fund was delivering on its mandate, which was the intent of a comprehensive evaluation, with the subsidiary questions used to establish the results and capture the efficiency and effectiveness aspect, including the volume of results and the contribution of the Fund's strategies, policies and implementation processes, with an indication of areas where the strategies contributed positively and areas where they were a hindrance.

47. There was also a suggestion that implementing entities be informed at an early stage of a project regarding the data to be collected, and that one of the outputs of the comprehensive evaluation could be a standard data set that implementing entities would be asked to report on, to provide the information needed for overall fund assessment.

48. One member suggested that the AF-TERG be formally requested to take the discussion at the current meeting into account in preparing the final terms of reference.

49. The Ethics and Finance Committee recommended that the Adaptation Fund Board (the Board):

(a) Take note of the proposed approach contained in annex 1 to document AFB/EFC.33/10;

(b) Request the Technical Evaluation Reference Group of the Adaptation Fund:

(i) To continue with the preparation of draft terms of reference for the comprehensive evaluation of the Adaptation Fund and the mid-term review of the Fund's second medium-term strategy, taking into consideration the discussion at the thirty-third meeting of the Ethics and Finance Committee;

- (ii) To present the draft terms of reference and their financial implications to the Ethics and Finance Committee for its consideration during the intersessional period between the forty-second and forty-third meetings of the Board.

(Recommendation EFC.33/7)

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

50. The representative of the secretariat presented an update on the implications of the fiduciary issues related to the United Nations Development Programme (confidential document AFB/EFC.33/9).

51. The Ethics and Finance Committee (EFC) recommended that the Adaptation Fund Board (the Board):

- (a) Take note of the update report contained in document AFB/EFC.33/9 and its annexes;
- (b) Close the matter as a United Nations Development Programme fiduciary issue;
- (c) Request the secretariat to follow up with the United Nations Development Programme on specific clarifications for individual project cases as needed.

(Recommendation EFC.33/8)

Agenda Item 9: Other matters

52. There were no other matters.

Agenda Item 10: Adoption of the recommendations and report

The EFC adopted the recommendations in the present report at its thirty-third 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 11: Closure of the meeting

53. The meeting closed at 2.35 p.m. on 17 April 2024.

ANNEX

**Ethics and Finance Committee
Thirty-third meeting
Bonn, Germany, 16-17 April 2024**

EFC members present in the meeting

Patience Dampney (Ghana, Africa)

Washington Zhakata (Zimbabwe, Africa)

Tae Hoon Kim (Republic of Korea, Asia-Pacific)

Masoud Rezvanian Rahaghi (Islamic Republic of Iran, Asia-Pacific)

Kenrick Williams (Belize, Latin America and the Caribbean)

Mariana Kasprzyk (Uruguay, Latin America and the Caribbean)

Victor Vinas (Dominican Republic, Latin America and the Caribbean)

Frida Jangsten (Sweden, Western European and Others)

Kevin Adams (United States of America, Western European and Others)

Diann Black Layne (Antigua and Barbuda, Small Island Developing States)

Naresh Sharma (Nepal, Least Developed Countries)

Lucas di Pietro (Argentina, Non-Annex I Parties)