



ADAPTATION FUND

AFB/EFC.21/5
27 September 2017

Ethics and Finance Committee
Twenty-First Meeting
Bonn, Germany, 10-11 October 2017

Agenda item 5

**NEW ANNEX TO THE OPERATIONAL POLICIES AND
GUIDELINES RELATED TO PROJECT/PROGRAMME
IMPLEMENTATION**

Background

1. At its seventeenth meeting, the Ethics and Finance Committee (EFC) considered the annual performance report for the fiscal year 2015. It was noted that a number of project change requests had been received by the secretariat for the reporting period, for issues such as allowing direct project support services to be provided by implementing entities (IEs), proposed material changes and proposed project extensions.

2. Having considered the comments and recommendation of the EFC, the Adaptation Fund Board (the Board) decided to:

- a) *Approve the Adaptation Fund's Annual Performance Report for the fiscal year 2015 contained in document AFB/EFC.17/6/Rev.1;*
- b) *Take note of the report of the secretariat on the number of requests for direct project services (RDPS) requested by UNDP up to the end of fiscal year 2015;*
- c) *Request the secretariat to inform implementing entities (IEs) that the Board expects execution services provided by IEs to be submitted for consideration by the Board at the time of project approval, and such submissions to comply with the Board Decisions B.17/17 and B.18/30 on such services;*
- d) *Request IEs to clarify with partner executing entities the services that may be requested of the IEs before submission of fully-developed project/programme documents to the Board;*
- e) *Request that RDPS be submitted to the secretariat before an agreement is signed between the IE and the government or executing entity for the provision of those services;*
- f) *In cases where a request for direct project/programme services (RDPS) is submitted to the secretariat for a project/programme that has been already been approved by the Board, request that IEs submit all the relevant justification for the RDPS explaining how the costs were established, along with a letter from the Designated Authority of the Adaptation Fund for the country(ies) of the project/programme endorsing the RDPS;*
- g) *Request the Chair of the Board to discuss the matter with UNDP at the appropriate level; and*
- h) *Approve, on an exceptional basis, the provision by UNDP of Direct Project Services up to the amount of US\$ 100,000 for the project in Guatemala.*

(Decision B. 26/33)

3. At its twenty seventh meeting, the Board decided to:

- a) *Reiterate its request that Requests for Direct Project/programme Services (RDPS) be submitted to the secretariat before an agreement is signed between the implementing entity and the government or executing entity for the provision of those services, with an understanding that analysis of the requests may suggest alternative conclusions, such*

as revising the project to avoid direct services, or contracting such services to a third party;

b) Request the secretariat to include the provision under a) above in the template project agreement between the Board and the implementing entity;

c) Request the Accreditation Panel to take those issues into account when deliberating on the reaccreditation of an implementing entity; and

d) Request the Evaluation Task Force to include an analysis of the RDPS received by the secretariat from implementing entities in the terms of reference for the second phase of the evaluation of the Fund.

(Decision B.27/29)

4. At its nineteenth meeting, the EFC considered the annual performance report for the fiscal year 2016. During the presentation, the representative of the secretariat drew particular attention to the issue of material change requests received from implementing entities. Article 4.03 of the standard legal agreement between the Board and implementing entities defined a material change as a change involving ten per cent or more of the total budget. However, the change requests received by the secretariat in the past few years had made it clear that the current definition could give rise to different interpretations of what constituted a material change. While in the past the secretariat had done its best to interpret the rule, it had come to the conclusion that clarification was required regarding the type of changes that could be accepted without triggering a new review of a proposal by the Board.

5. The Board, at its twenty-eighth meeting, following the presentation of the annual performance report for the fiscal year 2016 by the EFC, decided to:

a) Approve the Adaptation Fund's annual performance report for the fiscal year 2016 as contained in document AFB/EFC.19/3; and

b) In light of paragraph 28 of document AFB/EFC.19/3, request the secretariat to prepare a proposal for consideration by the EFC at its twentieth meeting clarifying the scope of "material change" under Article 4.03 of the standard legal agreement between the Board and implementing entities (amended in October 2015).

(Decision B.28/34)

6. In its twenty-ninth meeting, the Board, having considered the comments and recommendation of the EFC with respect to the information contained in the requested document AFB/EFC.20/4, decided:

(a) To further define a material change as "any cumulative total budget change at output-level between the revised budget and the original budget that involves ten per cent (10%) or more of the total budget of the project/programme";

(b) To request implementing entities wishing to submit a request for a material change to do so through the secretariat prior to the implementation of the change described in the request;

(c) To specify that such requests for a material change should include at least a revised budget at output-level with comparison to the original, a revised results framework with comparison to the original, a written clarification on the material change itself and the reasons for the material change, and a letter from the designated authority endorsing the material change; and

(d) To recall that the existing caps on an implementing entity's fees and execution costs shall apply and shall not be exceeded due to budget changes.

(Decision B.29/31)

7. Having considered the comments and recommendation of the EFC with respect to the information contained in document AFB/EFC.20/4 with respect to requests for revision of the original target indicators for activities, outputs or outcomes, the Board decided:

(a) For changes in project activities or associated indicators or targets, including introductions, modifications and deletions, to request the implementing entities to inform the secretariat and the designated authority of such changes as soon as possible;

(b) For changes in project outputs, including introductions, modifications and deletions, to request the implementing entities:

(i) To obtain prior approval from the Board;

(ii) To communicate such changes to the secretariat; and

(iii) To submit a letter from the designated authority endorsing such changes to the secretariat, in order to obtain such approval;

(c) For changes in project outcomes, including introductions, modifications and deletions, on the understanding that such changes would only be accepted in exceptional circumstances, to request the implementing entities:

(i) To obtain prior approval from the Board following a full technical review of the revised fully-developed project/programme document by the Project and Programme Review Committee;

(ii) To communicate such changes to the secretariat; and

(iii) To submit a letter from the designated authority endorsing such changes to the secretariat, for the purposes of such technical review and approval; and

(d) For changes in project output or outcome indicators and/or associated targets, including modifications and deletions, on the understanding that such changes would only be accepted in exceptional circumstances and up to the submission of the first Project Performance Report for the project/programme, to request the implementing entities:

(i) To obtain prior approval from the Board following a full technical review of the revised fully-developed project/programme document by the Project and Programme Review Committee;

- (ii) *To communicate such changes to the secretariat; and*
- (iii) *To submit a letter from the designated authority endorsing such changes to the secretariat, for the purposes of such technical review and approval.*

(Decision B.29/32)

8. Having considered the comments and recommendation of the EFC, the Board also decided:

- (a) *To request the secretariat:*
 - (i) *To consolidate all previous decisions related to requests for direct project services, requests for material change, and requests for revision of original activity/output/outcome and/or associated indicators and targets into a new annex of the Operational Policies and Guidelines related to project/programme implementation; and*
 - (ii) *To present the new annex to the EFC at its twenty-first meeting.*

(Decision B.29/33)

9. The present document introduces a new annex to the Operational Policies and Guidelines related to project/programme implementation, as requested in decision B.29/33 above.

Recommendation

The EFC may wish to consider and recommend to the Board to approve the Annex to this document (AFB/EFC.21/5) as a new Annex to the Operational Policies and Guidelines.



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**ANNEX TO THE OPERATIONAL POLICIES AND GUIDELINES
RELATED TO PROJECT/PROGRAMME IMPLEMENTATION**

Implementing entities providing execution services

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 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.

Direct project services (DPS)

3. While projects/programmes approved by the Board are expected to present viable implementation arrangements with differentiated roles for implementing and executing entities, respectively, sometimes such roles need to be revisited during project implementation. Direct project/programme services are services provided by the implementing entity to an executing entity by undertaking some of its execution duties on its behalf. Such services could be identified prior to project approval or during implementation, as the executing entities that are to provide those services can estimate that they are unable to do so. Such services may relate for instance to procurement and payment management.

4. The Board has requested (decision B.26/33) that execution services provided by IEs be submitted for consideration by the Board at the time of project approval, and such submissions to comply with the Board Decisions B.17/17 and B.18/30 on such services. Implementing entities are expected to clarify with partner executing entities the services that may be requested of them before submission of fully-developed project/programme documents to the Board. The RDPS shall also be submitted to the secretariat before an agreement is signed between the IE and the government or executing entity for the provision of those services.

5. In cases where a RDPS is submitted to the secretariat for a project/programme that has been already been approved by the Board, which is only possible on an exceptional basis, the IEs shall submit all the relevant justification for the RDPS explaining how the costs were established, along with a letter from the Designated Authority of the Adaptation Fund for the country(ies) of the project/programme endorsing the RDPS.

Material change

6. A material change is defined by the Board (decision B.29/31) as “any cumulative total budget change at output-level between the revised budget and the original budget that involves ten per cent (10%) or more of the total budget of the project/programme”.

7. Implementing entities wishing to submit a request for a material change shall do so through the secretariat prior to the implementation of the change described in the request. Such requests for a material change should include at least:

- a revised budget at output-level with comparison to the original,
- a revised results framework with comparison to the original,
- a written clarification on the material change itself and the reasons for the material change, and
- a letter from the designated authority endorsing the material change.

8. Lastly, the existing caps on an implementing entity's fees and execution costs shall apply and shall not be exceeded due to budget changes.

Revision of the original target indicators for activities, outputs or outcomes

9. Implementing Entities are requested to inform the secretariat and the designated authority of changes in project activities or associated indicators or targets, including introductions, modifications and deletions, as soon as possible (decision B.29/32).

10. For changes in project outputs, including introductions, modifications and deletions, the implementing entities should:

- (i) obtain prior approval from the Board;
- (ii) communicate such changes to the secretariat; and
- (iii) submit a letter from the designated authority endorsing such changes to the secretariat, in order to obtain such approval.

11. For changes in project outcomes, including introductions, modifications and deletions, on the understanding that such changes would only be accepted in exceptional circumstances, the implementing entities should:

- (i) obtain prior approval from the Board following a full technical review of the revised fully-developed project/programme document by the Project and Programme Review Committee;
- (ii) communicate such changes to the secretariat; and
- (iii) submit a letter from the designated authority endorsing such changes to the secretariat, for the purposes of such technical review and approval; and

12. For changes in project output or outcome indicators and/or associated targets, including modifications and deletions, on the understanding that such changes would only be accepted in exceptional circumstances and up to the submission of the first Project Performance Report for the project/programme, the implementing entities should:

- (i) obtain prior approval from the Board following a full technical review of the revised fully-developed project/programme document by the Project and Programme Review Committee;
- (ii) communicate such changes to the secretariat; and
- (iii) submit a letter from the designated authority endorsing such changes to the secretariat, for the purposes of such technical review and approval.