



ADAPTATION FUND

AFB/B.43/8  
28 August 2024

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Adaptation Fund Board  
Forty-third meeting  
Bonn, Germany, 8-11 October 2024

Agenda item 11

**AMENDMENTS TO THE ADAPTATION FUND STANDARD  
PROJECT LEGAL AGREEMENT – POLICY COMPLIANCE AND  
AUDITING REQUIREMENT**

## I. Background

1. At the fortieth meeting the Adaptation Fund Board (the Board) held a closed session to discuss a proposal to hold a wider discussion on matters related to accreditation and legal agreements, stemming from the discussions at the thirty-first meeting of the Ethics and Finance Committee (EFC) related to the two matters: (i) update on the implications of the fiduciary issues related to the United Nations Development Programme (UNDP); and (ii) the Food and Agriculture Organization (FAO)s' request for a revision of legal agreement.

2. Following the closed session, the Board adopted the decision below:

*The Adaptation Fund Board (the Board) decided to request the secretariat to prepare a document containing options for resolving the issues raised by implementing entities in relation to accreditation and the Adaptation Fund standard project legal agreement and their implications and submit it to the Board for consideration at its forty-second meeting.*

**(Decision B.40/82)**

3. In response to decision B.40/82 the secretariat prepared confidential document AFB/B.42/11 for the Board's consideration at the forty-second meeting. Following the discussion at the closed session, the Board decided:

*(a) With respect to the issue of policy compliance under section 3.02 of the Adaptation Fund's standard project legal agreement (the Legal Agreement), to pursue the option of allowing implementing entities to apply their own policies and procedures, which should enable them to comply with the Fund's standards, policies and procedures;*

*(b) With respect to the issue of the auditing requirement under section 7.01 (f) of the Legal Agreement, to pursue the option of allowing all multilateral implementing entities to submit certified financial statements as part of the annual performance report and after project closure;*

*(c) To request the secretariat:*

*(i) With regard to the issue of auditing requirements, to further consider options for additional measures to mitigate fiduciary risks, as appropriate, taking into account the practices of other climate funds;*

*(ii) To prepare a draft of amendments to the Legal Agreement to reflect paragraphs (a) and (b) above;*

*(iii) To submit the outcomes of the work referred to in paragraphs (c) (i) and (c) (ii) to the Board's for consideration at its forty-third meeting;*

*(iv) To communicate the present decision to the implementing entities.*

**(Decision B.42/53)**

4. The secretariat prepared this document AFB/B.43/8 in response to Decision B.42/53, and the draft amendments to the Legal Agreement are presented with track changes in red font and highlight in the Annex to this document.

## II. Policy compliance under section 3.02 and proposed amendments

5. With respect to the issue of policy compliance under section 3.02 of the Adaptation Fund's standard project legal agreement (the Legal Agreement), by decision B.42/53, the Board decided to "*pursue the option of allowing (all) **implementing entities** to apply their own policies and procedures, which should enable them to comply with the Fund's standards, policies and procedures and requested the secretariat to prepare a draft of amendments to the Legal Agreement to reflect this approach for the Board's consideration at the forty-third meeting.*"

6. In response to this decision, sections 3.02, 3.04 and 3.05 are proposed to be revised as follows, and a new provision is proposed to be added related to the implementing entity's representation and warranty on the substantial consistency between its rules, policies, procedures and standard practices and procedures, applicable to fulfill its obligations under the Fund's Legal Agreement, and the Fund's the Fund's Operational Policies and Guidelines (OPGs), and other relevant AF standards, policies and procedures.

7. The following table presents the relevant original texts and draft amendments.

<b>Section #</b>	<b>Current texts</b>	<b>Draft of amendments (changes are in red font)</b>
3.02	<p>3.02. The Implementing Entity shall carry out all its obligations under this Agreement <b>in accordance with: (i) the AF Operational Policies and Guidelines effective [MMYYYY]; and (ii) the Implementing Entity's standard practices and procedures</b>"</p> <p><i>[emphases added]</i></p>	<p>3.02. The Implementing Entity shall carry out all its obligations under this Agreement in accordance with:</p> <p><i>(a) its rules, policies, standard practices and procedures that should enable it to comply with the AF Operational Policies and Guidelines,<sup>1</sup> and other relevant AF standards, policies and procedures, to fulfill its obligations under this Agreement ; and</i></p> <p><i>(b) any conditions or requirements from the Board related to the [Project][Programme] as included in the Schedule(s) to this Agreement.</i></p>

<sup>1</sup> <https://www.adaptation-fund.org/documents-publications/operational-policies-guidelines/>

<p><b>(a new section as 3.03.)</b></p>	<p>N/A</p>	<p><i>(new)3.03. The Implementing Entity represents and warrants, on the date of signing this Agreement and throughout the [Project][Programme] implementation, that its rules, policies, standard practices and procedures, applicable to fulfill its obligations under this Agreement, are substantially consistent with the AF Operational Policies and Guidelines, and other relevant AF standards, policies and procedures.</i></p>
<p>3.04</p>	<p>3.04.If, during the course of administering the Grant, the Implementing Entity identifies any material inconsistency between the AF Operational Policies and Guidelines and its own standard practices and procedures,</p> <p>(a) the [Implementing Entity] shall immediately notify the Board, through the Secretariat, of such inconsistency, and</p> <p>(b) the [Implementing Entity] and the Board shall discuss and promptly take any necessary or appropriate action to resolve such inconsistency.</p>	<p>3.05 If, during the course of administering the Grant, the Implementing Entity identifies any material inconsistency between the AF Operational Policies and Guidelines, <i>and other relevant AF standards, policies and procedures</i> and its own <i>rules, policies, standard practices and procedures</i>, the [Implementing Entity] shall:</p> <p>(a) immediately notify the Board, through the Secretariat, of such inconsistency, <i>and submit an assessment of the potential impact of such possible material inconsistency on the [Project][Programme] objectives, implementation, and compliance;</i></p> <p>(b) promptly take any necessary or appropriate action to <i>mitigate or resolve</i> such inconsistency, <i>as per the Board's guidance; and</i></p> <p>(c) <i>covenant that, in the event of any material inconsistency, which cannot be mitigated or addressed in accordance with paragraph 3.05 (b) above, the Implementing Entity shall apply the applicable AF Operational Policies and Guidelines, and other relevant AF standards, policies and procedures until the completion of the [Project][Programme], or until the material inconsistency has been resolved.</i></p>

3.05	3.05. <i>In the event that the Implementing Entity makes any disbursements of the Grant in a manner inconsistent with the AF Operational Policies and Guidelines, and these inconsistencies cannot be resolved as provided in paragraph 3.04, the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.</i>	3.06. <i>In the event that the Implementing Entity makes any disbursements of the Grant in a manner inconsistent with the AF Operational Policies and Guidelines, and other relevant AF standards, policies and procedures, and the potential impact of such material inconsistencies cannot be mitigated or resolved as provided in paragraph 3.05, the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.</i>
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### III. Independent Audited financial statements under section 7.01 and proposed amendments

8. With respect to the issue of the auditing requirement under section 7.01 (f) of the Legal Agreement, by decision B.42/53, the Board decided to “pursue the option of allowing **all multilateral implementing entities (MIEs)** to submit **certified financial statements as part of the annual performance report and after project closure** and requested the secretariat to prepare a draft of amendments to the Legal Agreement to reflect this approach [emphasis added].”

9. Current section 7.01(f) of the Legal Agreement stipulates the requirement of the independent audit financial statement at the project completion, while section 7.01 (b) outlines the financial information to be submitted by the implementing entity as part of the annual project performance report (PPR). To reflect the Board’s decision B.42/53, section 7.1 (b) and 7.01 (f) are proposed to be amended as follows and apply only to the Agreements to be entered with the MIEs, while the current sections 7.01 (b) and 7.01 (f) continue to apply to the Agreements with regional implementing entities (RIEs) and national implementing entities (NIEs).

10. In addition, by the same decision above, the Board “requested the secretariat to further consider options for additional measures to mitigate fiduciary risks, as appropriate, taking into account the practices of other climate funds and present it together with draft amendments to the Fund’s legal agreement for the Board’s consideration at the forty-third meeting.” In response to this decision, new sections 7.01 (g) and 7.02 are proposed to be added to the Agreement and apply to **all Implementing Entities** to mitigate potential fiduciary risks. Section IV of this document presents further analysis on this matter.

11. The following table presents the current sections 7.01 (b) and 7.01 (f) which will continue to apply to the Legal Agreements with the RIEs and NIEs, and draft amendments to section 7.01

(b) and (f) which are to apply to the Agreements with the MIEs as well as new sections 7.01 (g) and 7.02 to apply to all IEs to mitigate potential fiduciary risks.

Section #	Current texts (** <u>to continue to apply to the Legal Agreement with RIE and NIE</u> )	Draft of amendments (** <u>to apply to the Legal Agreement with MIE</u> )
7.01(b)	<p>7.01. The Implementing Entity shall provide to the Board, through the Secretariat, the following reports, and financial statements:</p> <p>...</p> <p>(b) Annual Project Performance Reports (PPR) on the status of the [Project]/[Programme] implementation, including the disbursements made during the relevant period and net investment income earned from the Grant funds and the associated expenditures, or more frequent progress reports if requested by the Board. The PPR shall be submitted on a yearly basis one (1) year after the start of [Project]/[Programme] implementation and no later than two (2) months after the end of the reporting year;</p>	<p>7.01. The Implementing Entity shall provide to the Board, through the Secretariat, the following reports, and financial statements:</p> <p>...</p> <p>(b) Annual Project Performance Reports (PPR) on the status of the [Project]/[Programme] implementation shall be submitted on a yearly basis one (1) year after the start of [Project]/[Programme] implementation and no later than two (2) months after the end of the reporting year, or more frequent progress reports if requested by the Board. <b>Together with the PPR, the Implementing Entity shall submit Project-specific annual financial statements of the Implementing Entity Grant Account, certified by the controllership or the chief financial officer of the Implementing Entity, containing the following financial information:</b></p> <p><b>(i) the dates and amounts of the Grant received and disbursed by the Implementing Entity during the relevant reporting period, as well as the respective cumulative amounts up to the period (statement of cash receipts and payments);</b></p> <p><b>(ii) a comparison of budgets and actual amounts for the Project activities during the relevant reporting period, as well as cumulative amounts up to the period, broken down by each Project activity (comparison of budgets and actual amounts); and</b></p> <p><b>(iii) a statement of net investment income earned from the Grant funds and the associated expenditures.</b></p>

7.01(f)	<p><b><u>(f) A final audited financial statement</u></b> of the Implementing Entity Grant Account including net investment income earned, <b><u>prepared by an independent auditor or evaluation body</u></b>, within six (6) months of the end of the Implementing Entity's financial year during which the Project is completed". [emphases added]</p>	<p><b>(f) Final financial statements</b> of the Implementing Entity Grant Account including net investment income earned, <b>certified by the controllership or the chief financial officer of the Implementing Entity</b>, within six (6) months of the end of the Implementing Entity's financial year during which the Project is completed. <b>The final financial statements shall be Project-specific and contain the following financial information:</b></p> <ul style="list-style-type: none"> <li><b>(i) Statement of financial position (balance sheet) (accrual basis);</b></li> <li><b>(ii) Statement of changes in net assets/equity (accrual basis);</b></li> <li><b>(iii) Statement of cash receipts and payments (accrual basis);</b></li> <li><b>(iv) Comparison of budget and actual amounts;</b></li> <li><b>(v) Statement of net investment income earned from the Grant funds and associated expenditures;</b></li> <li><b>(vi) Notes (a summary of significant accounting policies and other explanatory notes)</b></li> </ul>
<p>To mitigate potential fiduciary risks, new sections 7.01 (g) and 7.02 are proposed to be added and apply to the Legal Agreement <b>with all IEs</b></p>		
7.01(g) (NEW)	<p><b>(g) Such other reports related to Grant funds and/or the Project, as may be reasonably requested by the Board from time to time.</b></p>	
7.02	<p><b>7.02. The Implementing Entity shall allow for verification missions by a third-party to be commissioned by the Board to verify the status of [Project][Programme] activities, use of the Grant funds, and compliance with the terms and conditions of the Agreement. The Implementing Entity shall provide access to all relevant records and documents during such verification missions. Following these missions, the Implementing Entity shall submit a report detailing the findings and any corrective actions taken, if necessary, to the Board, through the Secretariat.</b></p>	

#### IV. Options for additional measures to mitigate fiduciary risks related to changing auditing requirement for MIEs

12. This section presents the secretariat's consideration of options for additional measures to mitigate fiduciary risks, considering *the practices of other climate funds*, as per decision B.42/53.

13. As presented in document AFB/B.42/8, other funds have measures in place to mitigate potential fiduciary risks related to the administration of the funds and projects managed by their implementing agencies.

14. With respect to the Green Climate Fund (GCF), it does not require the UN entities to submit audited financial statements and instead allow them to submit certified financial statements for annual performance reports and project closure. However, it retains the right to request other reports related to funds disbursed by GCF to the accredited entity, in addition to the required financial reports set out in the accreditation master agreement, as may reasonably be requested by the GCF.<sup>2</sup> Furthermore, the GCF retains other options such as conducting periodic reviews, *ad hoc* checks and evaluations and requesting the entity to conduct an audit, to verify the status of a funded activity, use of GCF proceeds, and other GCF funds and compliance with the terms and conditions of the legal agreements between the GCF and the accredited entity or relevant funding.<sup>3</sup> In addition, the accredited entity is obligated to fully cooperate with the GCF conducting these functions.<sup>4</sup>

15. The Global Environment Facility (GEF) generally requires external audits from its partner agencies. In many cases, these are entity audits of the financial statements of the partner agency itself, conducted by the partner agency's own external auditor, where the financial statements disclose the GEF project information in the notes or annexes. The GEF may also require additional audits where or when it has reason for concern that GEF resources may not have been used in accordance with the agreed terms. In this case, the GEF would ask the partner agency for additional information on the use of its resources, and if, after this, the GEF continues to have concerns, it would ask in only exceptional circumstances for an additional audit by the partner agency's external auditor.

16. The fiduciary analysis conducted by a former member of the Accreditation Panel proposed additional mitigation measures for potential fiduciary risks related to changing auditing requirements for MIEs.<sup>5</sup>

<i>Options of requesting MIEs to submit additional financial reports</i>	<b>Other options for the Board to mitigate potential fiduciary risks</b>
<ul style="list-style-type: none"> <li>• Financial reports and financial statements for the Adaptation Fund funded activities and the applicable accounts that are certified by the</li> </ul>	<ul style="list-style-type: none"> <li>• The right to commission, as the Board deems necessary, an inspection or ad-hoc checks, and additional reviews and evaluations;</li> <li>• The obligation of the UN entity to submit the existing internal audit and/or evaluation</li> </ul>

<sup>2</sup> GCF Accreditation Master Agreement, Clause 17.02 (d).

<sup>3</sup> GCF Accreditation Master Agreement, Clauses 16.01-16.04 and 17.04.

<sup>4</sup> GCF Accreditation Master Agreement, Clauses 16.05 and 17.05.

<sup>5</sup> See confidential Document AFB/B.42/8, section 4.



<p>controllership or chief financial officer of the UN entities</p> <ul style="list-style-type: none"> <li>• Internal audit or other evaluation reports pertinent to the Fund's projects and programmes, including final project closure reports, where available;</li> <li>• Request as needed specific external audits</li> </ul>	<p>reports and other UN entity's oversight reports which includes information pertaining to the Adaptation Fund-funded projects or programmes;</p> <ul style="list-style-type: none"> <li>• The right to request the IE, if the Board deems necessary, to conduct an external audit(s) and/or investigation(s).</li> </ul>
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17. There are several measures in place set out in the Fund's Operational Policies and Guidelines (OPG). This includes as follows:

- Implementing entity is responsible for investigating the allegation of the misuse of funds provided by the Fund and providing regular updates to the Board; a final report on the conclusion of such investigation; and regular updates on actions taken to address any illegal or corrupt practice involving the Fund's grants.<sup>6</sup>
- The Board can suspend or cancel the accreditation of an implementing entity for reasons such as misrepresentation or intentional provision of false information to the Board, substantive changes of the implementing entity's fiduciary standards and/or capacity and/or commitment to comply with the environmental and social policy and gender policy, or misuse of project resources.<sup>7</sup>
- The Board also reserves the right to carry out independent reviews, evaluations of all projects supported by the Fund.<sup>8</sup>

<sup>6</sup> The Adaptation Fund's Operational Policies and Guidelines, paras. 41 and 71.

"41. If there is any allegation or evidence of misuse of funds, the implementing entity will investigate the alleged misuse using its own internal investigators or hire investigator(s) acceptable to the Board. All investigations would be consistent with the general principles and guidelines for investigation based on the International Financial Institutions Principles and Guidelines for Investigation.

...

71. The implementing entity will provide regular updates to the Board on any investigation and a final report on the conclusions of the investigation as well as provide regular up-dates on actions taken to address any illegal or corrupt practice involving the Fund's funds. "

<sup>7</sup> Ibid. para. 42

"42. The Board may consider suspending or cancelling the accreditation of an implementing entity for reasons that include, but are not limited to:

- (a) Misrepresentation or intentional provision of false information to the Board;
- (b) Substantive changes of the implementing entity's fiduciary standards and/or capacity and/or commitment to comply with the environmental and social policy and gender policy as determined by a review in accordance with paragraph 40 above; or
- (c) Misuse of project/programme resources as determined by the Ethics and Finance Committee (EFC) or by the implementing entity's investigative function."

<sup>8</sup> Ibid. para. 68.

"68. The Board reserves the right to carry out independent reviews, evaluations of all projects and programmes as and when deemed necessary. The costs for such activities will be covered by the Fund. Lessons from evaluations will be considered by the PPRC when reviewing project/programme proposals."

- The Board also reserves the right to suspend or cancel a project for reasons, such as financial irregularities in the implementation of the project, material breach of the legal agreement, and poor implementation performance leading to a conclusion that the project/programme can no longer meet its objectives.<sup>9</sup>

18. In addition, the current Legal Agreement provides for the suspension of a project (section 5.01) as well as the refund of the Fund's grant if the grant: is used in consistent with the Fund's operational policies and guidelines (section 3.05); is used for purposes other than exclusively for the Project (section 4.02); and the disbursement of the grant is made in a manner inconsistent with the Fund's operational policies and guidelines, and such inconsistency cannot be resolved (section 6.01). The relevant texts are provided as follows:

*5.01. The Board may **suspend the [Project] [Programme]** for reasons that include, but are not limited to:*

*(a) financial irregularities in the implementation of the [Project] [Programme], or  
(b) a material breach of this Agreement and/or poor implementation performance leading the Board to conclude that the [Project] [Programme] can no longer achieve its objectives; provided, however, that before the Board makes its final decision (i) the Implementing Entity shall be given an opportunity to present its views to the Board, through the Secretariat; and/or (ii) the Implementing Entity may make any reasonable proposal to promptly remedy the financial irregularities, material breach or poor implementation performance.*

...

*3.05. In the event that the Implementing Entity makes any disbursements of the Grant in a manner inconsistent with the AF Operational Policies and Guidelines, and these inconsistencies cannot be resolved as provided in paragraph 3.04, **the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.***

...

*4.02. The Implementing Entity shall ensure that the Grant is used exclusively for the purposes of the [Project] [Programme], and **shall refund to the AF Trust Fund, through the Trustee, any disbursements made for other purposes.** Where the Board believes that the Grant has been used for purposes other than the [Project] [Programme], it shall inform the Implementing Entity of the reasons supporting its view and provide the Implementing Entity an opportunity to provide any explanation or justification for such use.*

...

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<sup>9</sup> Ibid. para. 75.

"75. At any stage of the project/programme cycle, either at its discretion or following an independent review-evaluation or investigation, the EFC may recommend to the Board to suspend or cancel a project/programme for several reasons, notably:

(a) financial irregularities in the implementation of the project/programme; and/or

(b) material breach of the legal agreement, and poor implementation performance leading to a conclusion that the project/programme can no longer meet its objectives."

*6.01. The procurement of goods and services (including consultants' services) for activities financed by the Grant will be carried out in accordance with the [Implementing Entity's] standard practices and procedures, including its procurement and consultants' guidelines. **In the event that the Implementing Entity makes any disbursements in a manner which the Board considers to be inconsistent with the AF Operational Policies and Guidelines, it will so inform the Implementing Entity giving the reasons for its view and seeking a rectification of the inconsistency. If the inconsistency cannot be resolved, the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.***

19. Considering the available measures under the Fund's OPG and the Legal Agreement, to mitigate potential fiduciary risks, section 7.01 (b) and 7.01 (f) of the Legal Agreement are proposed to be amended to require the MIEs to submit financial statements, certified by the controllership or the chief financial officer of the implementing entity as part of the required annual project performance report and at the project closure.

20. In addition, new sections 7.01 (g) and 7.02 are proposed to be added and apply to the legal agreements with all the IEs. This would be particularly useful if unforeseen circumstances arise that require further scrutiny or if there is a need to assess and verify the status of the Fund-supported projects, use of the funds provided by the Adaptation Fund, and compliance with the terms and conditions of the Fund's legal agreement. The proposed texts are as follows:

*7.01. The Implementing Entity shall provide to the Board, through the Secretariat, the following reports, and financial statements:*

...

*(g) Such other reports related to Grant funds and/or the Project, as may be reasonably requested by the Board from time to time.*

...

*7.02. The Implementing Entity shall allow for verification missions by a third-party to be commissioned by the Board to verify the status of [Project][Programme] activities, use of the Grant funds, and compliance with the terms and conditions of the Agreement. The Implementing Entity shall provide access to all relevant records and documents during such verification missions. Following these missions, the Implementing Entity shall submit a report detailing the findings and any corrective actions taken, if necessary, to the Board, through the Secretariat.*

## V. Recommendation for the Board

21. Having considered document AFB/B.43/8 and its annex, the Adaptation Fund Board may want to consider and decide to:

- (a) Approve the amendments to the Adaptation Fund standard project legal agreement (Legal Agreement) contained in annex to document AFB/B.43/8;
- (b) Communicate the present decision to the Implementing Entities and post the amended Legal Agreement on the Adaptation Fund's website.



ADAPTATION FUND

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**ANNEX: DRAFT AMENDMENTS TO THE ADAPTATION FUND  
STANDARD PROJECT LEGAL AGREEMENT**



ADAPTATION FUND

**AGREEMENT**

(The \_\_\_\_\_ [Project] [Programme] in [Country])

**between**

**THE ADAPTATION FUND BOARD**

**and**

**[IMPLEMENTING ENTITY]**

**AGREEMENT**

[The \_\_\_\_\_ Project in [Country]]

between

**THE ADAPTATION FUND BOARD**

and

**[IMPLEMENTING ENTITY]**

**Whereas**, the Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) in its Decision 10/CP.7 decided that an Adaptation Fund (AF) shall be established to finance concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol to the UNFCCC (Kyoto Protocol);

**Whereas**, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in its Decision 1/CMP.3 decided that the operating entity of the AF shall be the Adaptation Fund Board (Board), with the mandate to supervise and manage the AF under the authority and guidance of the CMP;

**Whereas**, in its Decisions 5/CMP.2 and 1/CMP.3, paragraph 5 (b), the Board adopted the AF Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, including the Fiduciary Risk Management Standards to be met by Implementing Entities (AF Operational Policies and Guidelines<sup>1</sup>);

**Whereas**, the proposal submitted by the [Implementing Entity] to the Board seeking access to the resources of the AF in support of the [Project] [Programme], as set out in Schedule 1 to this Agreement, has been approved by the Board, and the Board has agreed to make a grant (Grant) to the [Implementing Entity] for the [Project] [Programme] under the terms of this Agreement; and

**Whereas**, the International Bank for Reconstruction and Development (IBRD) has agreed to serve as the Trustee of the AF Trust Fund (Trustee) and, in that capacity, to make transfers of the Grant to the [Implementing Entity] on the written instructions of the Board;

The Board and the [Implementing Entity] have agreed as follows:

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<sup>1</sup> <https://www.adaptation-fund.org/documents-publications/operational-policies-guidelines/>

## 1. DEFINITIONS

Unless the context otherwise requires, the several terms defined in the Preamble to this Agreement (Agreement) shall have the respective meanings set forth therein and the following additional terms shall have the following meanings:

1.01. "Grant" means the AF resources approved by the Board for the [Project] [Programme] under this Agreement and to be transferred by the Trustee to the Implementing Entity on the written instructions of the Board;

1.02. "Designated Authority" means the authority that has endorsed on behalf of the national government the Project proposal by the Implementing Entity seeking access to AF resources to finance the [Project][Programme];

1.03. "Executing Entity" means the [Executing Entity] that will execute the [Project] [Programme] under the overall management of the Implementing Entity;

1.04. "Implementing Entity" means the [Implementing Entity] that is the party to this Agreement and the recipient of the Grant;

1.05. "Implementing Entity Grant Account" means the account to be established by the Implementing Entity to receive, hold and administer the Grant;

1.06. "Secretariat" is the body appointed by the CMP to provide secretariat services to the Board, consistent with decision 1/CMP.3, paragraphs 3, 18, 19 and 31, which body is currently the Global Environment Facility (GEF); and

1.07. "AF Trust Fund" means the trust fund for the AF administered by the Trustee in accordance with the *Terms and Conditions of Services to be Provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund*.

## 2. THE PROJECT AND THE GRANT

2.01. The Board agrees to provide to the [Implementing Entity] the Grant in a maximum amount equivalent to \_\_\_\_\_ United States Dollars (US \$\_\_\_\_\_) for the purposes of the [Project] [Programme]. The [Project] [Programme] document, which details the purposes for which the Grant is made, is set out in Schedule 1 to this Agreement. The disbursement schedule and special conditions that apply to the implementation of the Grant are set out in Schedule 2 to this Agreement.

2.02. The Trustee shall transfer the Grant funds to the [Implementing Entity] on the written instructions of the Board. Any subsequent transfer of Grant funds to the Implementing Entity



after the first tranche shall only be transferred after the Board approved the annual Project Performance Reports (PPR) referred to in section 7.01.b) Transfers shall be made to the following bank account of the Implementing Entity in accordance with the disbursement schedule set out in Schedule 2 to this Agreement:

[Insert Implementing Entity's bank account details]

2.03. The Implementing Entity shall make the disbursed Grant funds available to the [Executing Entity] in accordance with its standard practices and procedures.

2.04. The Implementing Entity may convert the Grant into any other currency to facilitate its disbursement to the Executing Entity.

2.05. Any investment income earned from the Grant funds shall be held in the Implementing Entity Grant Account and used for the same purposes and administered in accordance with the terms of this Agreement.

### 3. ADMINISTRATION OF THE GRANT

3.01. The Implementing Entity shall be responsible for the administration of the Grant and shall carry out such administration with the same degree of care used in the administration of its own funds, taking into account the provisions of this Agreement.

3.02. The Implementing Entity shall carry out all its obligations under this Agreement in accordance with:

- (a) its rules, policies, standard practices and procedures that should enable it to comply with the AF Operational Policies and Guidelines,<sup>2</sup> and other relevant AF standards, policies and procedures, to fulfill its obligations under this Agreement; and
- (b) any conditions or requirements from the Board related to the [Project][Programme] as included in the Schedule(s) to this Agreement.]

3.03. The Implementing Entity represents and warrants, on the date of signing this Agreement and throughout the [Project][Programme] implementation, that its rules, policies, standard practices and procedures, applicable to fulfill its obligations under this Agreement, are substantially consistent with the AF Operational Policies and Guidelines, and other relevant AF standards, policies and procedures.

3.04 The Implementing entity:

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<sup>2</sup> <https://www.adaptation-fund.org/documents-publications/operational-policies-guidelines/>.

(a) undertakes to use reasonable efforts, consistent with its standard practices and procedures, including those pertaining to combating financing for terrorists, to ensure that the Grant funds provided to the Implementing Entity by the Trustee are used for their intended purposes and are not diverted to terrorists;

(b) shall not use the Grant funds for the purpose of any payment to persons or entities, or for the import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, including under United Nations Security Council Resolution 1373 and related resolutions;

(b) shall immediately inform the Board in the event the Grant funds are not being used or have not been used for the implementation of the Project or of any illegal or corrupt practice. The Implementing Entity consistent with its standard practices and procedures and integrity of the investigative process shall keep the Board informed of the progress of any formal investigation concerning the misuse of Grant funds and provide a final report to the Board on the findings of such investigation upon its conclusion; and

(c) shall include provisions corresponding to subparagraphs (i) – (ii) above in any agreements that the Implementing Entity enters into with executing entities to which the Implementing Entity makes Grant funds available.

3.05 If, during the course of administering the Grant, the Implementing Entity identifies any material inconsistency between the AF Operational Policies and Guidelines, and other relevant AF standards, policies and procedures and its own rules, policies, standard practices and procedures, the [Implementing Entity] shall:

(a) immediately notify the Board, through the Secretariat, of such inconsistency, and submit an assessment of the potential impact of such possible material inconsistency on the [Project][Programme] objectives, implementation, and compliance;

(b) promptly take any necessary or appropriate action to mitigate or resolve such inconsistency, as per the Board's guidance; and

(c) covenant that, in the event of such material inconsistency, which cannot be mitigated or addressed in accordance with paragraph 3.05 (b) above, the Implementing Entity shall apply the applicable AF Operational Policies and Guidelines, and other relevant AF standards, policies and procedures until the completion of the [Project][Programme], or until the material inconsistency has been resolved.

3.06. In the event that the Implementing Entity makes any disbursements of the Grant in a manner inconsistent with the AF Operational Policies and Guidelines, **and other relevant AF standards, policies and procedures, and the potential impact of such material** inconsistencies cannot be **mitigated or** resolved as provided in paragraph 3.05, the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.

#### **4. [PROJECT] [PROGRAMME] IMPLEMENTATION**

4.01. The Implementing Entity shall be responsible for the overall management of the [Project] [Programme], including all financial, monitoring and reporting responsibilities.

4.02. The Implementing Entity shall ensure that the Grant is used exclusively for the purposes of the [Project] [Programme], and shall refund to the AF Trust Fund, through the Trustee, any disbursements made for other purposes. Where the Board believes that the Grant has been used for purposes other than the [Project] [Programme], it shall inform the Implementing Entity of the reasons supporting its view and provide the Implementing Entity an opportunity to provide any explanation or justification for such use.

4.03. Any material change made in the original budget allocation for the Project by the Implementing Entity, in consultation with the Executing Entity, shall be communicated to the Board for its approval and shall be made in conformity with the Operational Policies and Guidelines of the Fund. "Material change" shall mean 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].

4.04. The Implementing Entity shall promptly inform the Board, through the Secretariat, of any conditions that may seriously interfere with its management, or the Executing Entity's execution, of the [Project] [Programme] or otherwise jeopardize the achievement of the objectives of the [Project] [Programme], providing detailed information thereof to the Board for its information.

4.05. The Implementing Entity shall be fully responsible for the acts, omissions or negligence of its employees, agents, representatives and contractors under the Project. The Board shall not be responsible or liable for any losses, damages or injuries caused to any persons under the Project resulting from the acts, omissions or negligence of the Implementing Entity's employees, agents, representatives and contractors.

#### **5. [PROJECT] [PROGRAMME] SUSPENSION**

5.01. The Board may suspend the [Project] [Programme] for reasons that include, but are not limited to:

- (a) financial irregularities in the implementation of the [Project] [Programme], or
- (b) a material breach of this Agreement and/or poor implementation performance leading the Board to conclude that the [Project] [Programme] can no longer achieve its objectives; provided, however, that before the Board makes its final decision (i) the Implementing Entity shall be given an opportunity to present its views to the Board, through the Secretariat; and/or (ii) the Implementing Entity may make any reasonable proposal to promptly remedy the financial irregularities, material breach or poor implementation performance.

## **6. PROCUREMENT**

6.01. The procurement of goods and services (including consultants' services) for activities financed by the Grant will be carried out in accordance with the [Implementing Entity's] standard practices and procedures, including its procurement and consultants' guidelines. In the event that the Implementing Entity makes any disbursements in a manner which the Board considers to be inconsistent with the AF Operational Policies and Guidelines, it will so inform the Implementing Entity giving the reasons for its view and seeking a rectification of the inconsistency. If the inconsistency cannot be resolved, the Implementing Entity shall refund to the AF Trust Fund, through the Trustee, any such disbursements.

## **7. RECORDS AND REPORTING**

7.01. The Implementing Entity shall provide to the Board, through the Secretariat, the following reports and financial statements:

- (a) An inception report submitted to the secretariat no later than one (1) month after the inception workshop has taken place. The start date of the [Project] [Programme] is considered the date of the inception workshop;
- (b) Annual Project Performance Reports (PPR) on the status of the [Project]/[Programme] implementation, including the disbursements made during the relevant period and net investment income earned from the Grant funds and the associated expenditures, or more frequent progress reports if requested by the Board. The PPR shall be submitted on a yearly basis one (1) year after the start of [Project]/[Programme] implementation and no later than two (2) months after the end of the reporting year;

**[ (applicable only to MIEs)** (b) *Annual Project Performance Reports (PPR) on the status of the [Project]/[Programme] implementation shall be submitted on a yearly basis one (1) year after the start of [Project]/[Programme] implementation and no later than two (2) months after the end of the reporting year, or more frequent progress reports if requested by the Board. Together with the PPR, the Implementing Entity shall submit Project-specific annual financial statements of the Implementing Entity Grant Account, certified by the controllership or the chief financial officer of the Implementing Entity, containing the following financial information:*

*(i) the dates and amounts of the Grant received and disbursed by the Implementing Entity during the relevant reporting period, as well as the respective cumulative amounts up to the period (statement of cash receipts and payments);*

*(ii) a comparison of budgets and actual amounts for the Project activities during the relevant reporting period, as well as cumulative amounts up to the period, broken down by each Project activity (comparison of budgets and actual amounts); and*

*(iii) a statement of net investment income earned from the Grant funds and the associated expenditures.*

(c) A mid-term evaluation, prepared by an independent evaluator selected by the Implementing entity for any [Project]/[Programme] that is under implementation for over four years; the mid-term evaluation should be submitted to the Fund Secretariat within six months of the mid-point of [Project]/[Programme] implementation;

(d) A [Project]/[Programme] completion report, including any specific [Project]/[Programme] implementation information, as reasonably requested by the Board through the Secretariat, within six (6) months after [Project]/[Programme] completion;

(e) A final evaluation report, prepared by an independent evaluator selected by the Implementing Entity. The final evaluation report shall be submitted within nine (9) months after [Project]/ [Programme] completion. Copies of these reports shall be forwarded by the Implementing Entity to the Designated Authority for information; and

(f) A final audited financial statement of the Implementing Entity Grant Account including net investment income earned, prepared by an independent auditor or evaluation body, within six (6) months of the end of the Implementing Entity's financial year during which the Project is completed.

[ **(applicable only to MIEs)** (f) *Final financial statements* of the Implementing Entity Grant Account including net investment income earned, **certified by the controllership or the chief financial officer of the Implementing Entity**, within six (6) months of the end of the Implementing Entity's financial year during which the [Project]/[Programme] is completed. **The final financial statements shall be Project-specific and contain the following financial information:**

(i) **Statement of financial position (balance sheet) (accrual basis);**

(ii) **Statement of changes in net assets/equity (accrual basis);**

(iii) **Statement of cash receipts and payments (accrual basis);**

(iv) **Comparison of budget and actual amounts;**

(v) **Statement of net investment income earned from the Grant funds and associated expenditures;**

(vi) **Notes (a summary of significant accounting practices and other explanatory notes). ]**

(g) **Such other reports related to the Grant funds, as may be reasonably requested by the Board from time to time.**

7.02. **The Implementing Entity shall allow for verification missions by a third-party to be commissioned by the Board to verify the status of [Project][Programme] activities, use of the Grant funds, and compliance with the terms and conditions of the Agreement. The Implementing Entity shall provide access to all relevant records and documents during such verification missions. Following these missions, the Implementing Entity shall submit a report detailing the findings and any corrective actions taken, if necessary, to the Board, through the Secretariat.**

## **8. MANAGEMENT FEE**

8.01. **The Board authorizes the Implementing Entity to deduct from the total amount of the Grant and retain for its own account the management fee specified in Schedule 2 to this Agreement.**

## **9. OWNERSHIP OF EQUIPMENT**

9.01. **If any part of the Grant is used to purchase any durable assets or equipment, such assets or equipment shall be transferred upon the completion of the [Project] [Programme] to the Executing Entity/Entities or such other entity as the Designated Authority may designate.**

## **10. CONSULTATION**

10.01. The Board and the Implementing Entity shall share information with each other, at the request of either one of them, on matters pertaining to this Agreement.

**11. BRANDING**

11.01. The Implementing Entity shall, where feasible, endeavor to maximize opportunities for acknowledging the identity of the [Project]/[Programme] grant provided by the Adaptation Fund (e.g. through use of the Adaptation Fund logo, and appropriate references in reports, publications, information given to beneficiaries and press, related publicity materials, and any other forms of public information).

**12. COMMUNICATIONS**

12.01. All communications between the Board and the Implementing Entity concerning this Agreement shall be made in writing, in the English language, to the following persons at their addresses designated below, by letter or by facsimile. The representatives are:

For the Board:

Adaptation Fund Board Secretariat

1818 H Street, NW

Washington, D.C. 20433

USA

Attention: Adaptation Fund Board Chair

Fax: \_\_\_\_\_

For the Implementing Entity:

\_\_\_\_\_

\_\_\_\_\_

Attention: \_\_\_\_\_

Fax: \_\_\_\_\_

**13. EFFECTIVENESS AND AMENDMENT OF THE AGREEMENT**

13.01. Upon receipt by the Adaptation Fund Board of this countersigned copy, this Agreement shall become effective as of the date of countersignature by the Implementing Entity.

13.02. This Agreement may be amended, in writing, by mutual consent between the Board and the Implementing Entity.

[ (applicable to only RIEs and MIEs) 13.03. Nothing in this Agreement is intended to be a waiver or should be construed as a waiver of the privileges and immunities of the Parties or their officers and employees, which privileges, and immunities are hereby specifically reserved.]

#### **14. TERMINATION OF THE AGREEMENT**

14.01. This Agreement may be terminated by the Board or the Implementing Entity, by giving prior written notice of at least ninety (90) days to the other.

14.02. This Agreement shall automatically be terminated in the event of:

- (a) cancellation of the Implementing Entity's accreditation by the Board; or
- (b) receipt of a communication from the Designated Authority that it no longer endorses the Implementing Entity or the [Project] [Programme].

14.03. Upon termination of this Agreement, the Board and the Implementing Entity shall consider the most practical way of completing any ongoing activities under the [Project] [Programme], including meeting any outstanding commitments incurred under the [Project][Programme] prior to the termination. The Implementing Entity shall promptly refund to the AF Trust Fund, through the Trustee, any unused portion of the Grant, including any net investment income earned therefrom. No Grant funds shall be disbursed after termination.

14.04. In the event of expiration of accreditation and/or the Board's decision to not re-accredit the Implementing Entity, the responsibilities and obligations in this Agreement survive and shall be unaffected, and the Implementing Entity shall continue to disburse the Grant funds, in accordance with its standard practices and procedures and the AF Operational Policies and Guidelines to the extent necessary to fulfill the Implementing Entity's obligations hereunder.

#### **15. SETTLEMENT OF DISPUTES**

15.01. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, will be settled amicably by discussion or negotiation between the Board and the Implementing Entity.

15.02. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, which has not been settled amicably between the Board and the Implementing Entity shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as presently in force.

#### **THE ADAPTATION FUND BOARD**



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**[Name], Chair**

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**Date**

**[IMPLEMENTING ENTITY]**

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**[Name, Title]**

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**Date**

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[The following Schedules will be attached to the Agreement: Schedule1 ([Project] [Programme] Proposal) and Schedule 2 (Disbursement Schedule)].