

# PROTECTING CLIMATE FINANCE

PROGRESS UPDATE ON THE ADAPTATION FUND'S  
ANTI-CORRUPTION POLICIES AND PRACTICES

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# TABLE OF CONTENTS

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TABLE OF CONTENTS.....	1
<b>EXECUTIVE SUMMARY</b> .....	<b>2</b>
INTRODUCTION .....	2
MAIN FINDINGS .....	2
PROGRESS UPDATE ON KEY 2014 RECOMMENDATIONS .....	3
NEW ASSESSMENT FINDINGS .....	4
NEW RECOMMENDATIONS .....	5
<b>ANNEX I: SUBSTANTIVE ASSESSMENT</b> .....	<b>7</b>
BACKGROUND .....	7
METHODOLOGY .....	7
ASSESSMENT TABLE .....	9

# EXECUTIVE SUMMARY

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## INTRODUCTION

In 2014, Transparency International<sup>1</sup> published its report *Protecting Climate Finance: An Anti-Corruption Assessment of the Adaptation Fund*.<sup>2</sup> The assessment reviewed the Fund's governance design and transparency, accountability, and integrity policies and procedures with a view to identifying and promoting best practice models for climate finance. The Assessment recognised a number of best practices exhibited by the Adaptation Fund, including its direct access, fiduciary, access to information and public participation policies. It also recommended areas where the Fund's policies and practices could be strengthened. This Progress Report follows-up on those recommendations to recognise progress achieved by the Fund's Board and Secretariat. Additionally, it includes an assessment and rating of three new indicators regarding the Fund's access to information, anti-money laundering and procurement safeguards policies and practices. The report is based on a desk review of Board decisions and Secretariat actions demonstrated in reports, information documents and website updates until December 2016. The report also takes into consideration comments provided by the Secretariat of the Adaptation Fund to the draft report.

## MAIN FINDINGS

The Adaptation Fund has made significant progress in addressing key recommendations TI put forward in 2014. The Board's adoption of a zero-tolerance policy on corruption and a complaints handling mechanism are two major advances. The strengthened capacity of the Fund's Secretariat, the continued policy to solicit public inputs to project proposals, and the policy to ensure downstream accountability and anti-corruption safeguards in project implementation, also stand out as areas of substantial progress.

The Fund's overall commitment to transparency, accountability and integrity should be the basis to further strengthen its Open Information Policy, Operational Guidelines and Risk Management Framework. The Fund would benefit from better demonstrating the effectiveness of its fiduciary standards. It should require that Implementing Entities have adopted and implement access to information policies and clarify that they are required to contractually obligate their Executing Entities and other contractors to implement fiduciary safeguards. A procedure to enable Board decisions to be appealed is also still wanting. In addition, the Fund's stakeholder engagement approaches deserve to be revisited, in particular the limited space for Observer participation at Board meetings. Finally, in the larger context of climate and environmental financing, it is important that the Fund work toward exploring innovative ways to address concerns related to the accountability and integrity of Designated Authorities such as through constructive dialogues with the Authorities and creating a forum for the Authorities to share best practices and report on their performance on a regular basis.

# PROGRESS UPDATE ON KEY 2014 RECOMMENDATIONS

## TRANSPARENCY

### MEDIUM PROGRESS

- The number of Adaptation Fund Secretariat full-time staff has increased from six in 2014 to ten by August 2016, increasing capacity to address related transparency and accountability safeguards

### NO/LITTLE PROGRESS

- The Adaption Fund Board has not updated its Open Information Policy, Rules of Procedure or other relevant policies in order to limit closed sessions of the Board to exceptional circumstances and to require a Board explanation for when closed sessions are necessary
- The Open Information Policy still does not provide timelines for disclosure and procedures for receiving information requests for non-disclosed information
- Access to the fiduciary policies and accountability information of the Fund's Implementing Entities is restricted on the Fund's website. Available information concerns the complaints handling functions of Implementing Entities but is limited to general contact information in the case of National Implementing Entities
- Actions are still needed to improve understandings of the accountability systems affecting Designated Authorities

## ACCOUNTABILITY AND INTEGRITY

### SUFFICIENT PROGRESS

- The Fund continues to enable and encourage stakeholders to comment and provide input on project proposals which are published on its website and open for public comment during a specified period. This is a best practice deserving of replication elsewhere
- The Fund's Zero Tolerance Policy for the Board, adopted in 2014, and the Fund's Risk Management Framework (amended October 2014) provide clear obligations and procedures for ensuring that "Board members and alternates refrain from condoning, supporting or otherwise failing to address fraudulent or corrupt behaviour...." and a procedure for termination in cases of non-compliance
- The Fund has established a new Ad Hoc Complaints Handling Mechanism, which demonstrates significant progress in providing for time-bound responses and action, guidance for complainants, and disclosure of implementing entities' corollary complaints handling functions

### MEDIUM PROGRESS

- The Fund's updated model legal agreement with Implementing Entities now specifies that acts of corruption can give rise to an Entity's obligation to refund money lost in that connection
- The Fund Secretariat has been active in organising a number of training sessions largely catered to Implementing Entities covering environmental and social safeguards, gender policy, and accreditation support

➔ **NO/LITTLE PROGRESS**

- No progress appears to have been made regarding the scope of whistleblower protection policies to cover any person who reports cases of corruption, fraud or other unethical practices in relation to fund disbursements or funded activities, projects or programmes
- No steps have been taken to develop and adopt a formal appeals procedure to respond to requests that Fund decisions be explained, reviewed or revoked
- Space for Observer participation in Board meetings continues to be restricted, minimising Observer capacities to engage in meeting discussions in timely and relevant ways

## NEW ASSESSMENT FINDINGS

Transparency	Performance
<p><b>Indicator: Access to information policies of Implementing Entities</b></p> <p>The Fund does not require that Implementing Entities have an information disclosure policy and those policies are not accessible on the Fund’s website.</p>	<p><b>WEAK</b></p>
Accountability and Integrity	
<p><b>Indicator: Anti-money laundering policies and programmes of Implementing Entities</b></p> <p>The Fund’s anti-corruption requirements for Implementing Entities include anti-money laundering policies and programmes. However, as those requirements are not elaborated in the Fund’s accreditation criteria, the Board should consider doing so as well publicly reporting on the overall record of the effectiveness of anti-money laundering safeguards.</p>	<p><b>AVERAGE</b></p>
<p><b>Indicator: Procurement safeguards</b></p> <p>The Fund applies the World Bank policies for institutional procurement. Procurement safeguards are a component of the accreditation process. The Fund’s Secretariat and Accreditation Panel provide guidance on these standards to Implementing Entities. However, the Fund currently does not publicly reporting on the overall record of the effectiveness of procurement safeguards but would benefit from doing so.</p>	<p><b>STRONG</b></p>

## NEW RECOMMENDATIONS

The following recommendations are put forward for the consideration of the Adaptation Fund Board:

- ❖ Amend the Open Information Policy to:
  - limit the closure of Board Committee meetings, weighing the public right to know against confidentiality
  - require a Board explanation for closed sessions
  - introduce timelines for information disclosure prior to and following Board meetings
  - explain the applicability of the World Bank's Access to Information Policy in relation to the Fund regarding information requests and appeals and procedures for receiving information requests for non-disclosed information
  - Clarify the rationale for not disclosing its Legal Agreements with Implementing Entities
- ❖ Amend the Operational Guidelines and accreditation criteria to include access to information and anti-money laundering policies and programmes within the Fund's fiduciary standards
- ❖ Clarify the scope of anti-corruption obligations applicable to Implementing and Executing Entities referred to in the Standard Legal Agreement with Implementing Entities and develop accreditation criteria for anti-money laundering
- ❖ Adopt an appeals procedure which enables relevant stakeholders, including Implementing Entities and governments, to appeal decisions by the Board or to request decision reviews or explanations
- ❖ Require that Implementing Entities have adequate information disclosure policies in place and that those policies are accessible on the Fund's website
- ❖ On the establishment of the new Ad Hoc Complaints Handling Mechanism (ACHM):
  - Define the scope of complaints covered by the ACHM distinct from and complimentary to the grievance handling functions of Implementing Entities
  - Provide objective criteria for pursuing and rejecting complaints – e.g. clearer guidance on how to assess frivolous complaints
  - Ensure confidentiality in communications and identity protection
  - Provide whistleblower protection and support in events of retaliation
  - Permit anonymous complaints when whistleblower protection cannot be assured
  - Develop a strategy to promote the Mechanism through awareness-raising and outreach aided by user-friendly, easily understandable materials for public information. Ensure confidentiality in communications and permit anonymity when necessary
- ❖ Clarify the scope of the Fund's whistleblower protection standard applicable to Implementing Entities to ensure protection for any person who reports cases of corruption, fraud or other unethical practices in relation to fund disbursements or funded activities, projects or programmes
- ❖ Advance the Fund's monitoring, reporting and evaluation approaches to include indicators to measure the effectiveness of the Fund's fiduciary standards. Specifically, the Fund's 2017 second phase evaluation should assess how well Implementing Entities are implementing policies and procedures to prevent, mitigate and correct corruption, fraud and other unethical behaviour
- ❖ Adopt an Observer participation policy which enables Observers to engage as necessary on agenda items at Board meeting (similar to the Climate Investment Funds)<sup>3</sup> facilitates a parallel civil society space for Observers to share information with Board members to organise, and involves developing a web section explaining how Observers can interact with the Fund at its executive and programmatic levels

- ❖ Extend trainings to address integrity, transparency and accountability concerns and seek to include Designated Authorities and civil society stakeholders as participants
- ❖ Explore innovative ways to advance understandings of the accountability (and address perceptions of corruption) of Designated Authorities such as through constructive dialogues with the Authorities and creating a forum for the Authorities to share best practices and report on their performance on a regular basis.

## ANNEX I: SUBSTANTIVE ASSESSMENT

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### BACKGROUND

In 2014, Transparency International published its report *Protecting Climate Finance: An Anti-Corruption Assessment of the Adaptation Fund*.<sup>4</sup> The Report was one of five assessments which TI conducted regarding multilateral climate funds including the Global Environment Facility's Least Developed Countries Fund and Special Climate Change Fund, the Climate Investment Funds, the Forest Carbon Partnership Facility and the UN REDD Programme. The assessments reviewed the Funds' governance design and transparency, accountability and integrity policies and procedures with a view to identifying and promoting best practices for effective governance models for climate finance. The Adaptation Fund Assessment recognised a number of best practices including its direct access, fiduciary, access to information and public participation policies. It also recommended areas where the Fund's policies and practices could be strengthened. TI submitted and presented the assessment findings to the Adaptation Fund Board at its 24<sup>th</sup> meeting in October 2014.<sup>5</sup> TI has also raised relevant recommendations at subsequent Fund Board meetings through the civil society forum and requested that the Board address them.

### METHODOLOGY

This Progress Update is a follow-up assessment to TI's 2014 report. It aims to track the Fund's progress in responding to TI's recommendations in that report. Its purpose is to both recognise best practices and draw attention to key policies and practices which the Adaptation Fund Board may consider strengthening. The Update also includes an assessment and rating of three new indicators regarding the Fund's access to information, anti-money laundering and procurement safeguards policies and practices. These fiduciary standards are incorporated to ensure a wider view of the overall anti-corruption and integrity fitness of the Fund.

The methodology used for assessing and rating the new indicators is the same as applied in the 2014 report. Performance ratings were assessed as **green/strong** (signalling Fund-wide implementation of sufficient policy), **orange/average** (demonstrating that policies and practices exist but improvements are needed) and **red/weak** (indicating lacking policies and insufficient practices).

**The methodology applied to assess progress is similar.** The Update was prepared based on a desk review of Board decisions and Secretariat actions demonstrated in reports, information documents and website updates up to December 2016. In addition, a draft version of the present report was submitted to the Adaptation Fund Secretariat for review and comment. In response, the Secretariat provided detailed feedback including clarifications on the interpretation of Board policies and decisions. The Adaptation Fund CSO Network was also consulted and provided inputs. This publication incorporates those responses.

Progress Indicator	Progress mark
<p>Sufficient progress: Practice by the Fund's secretariat has significantly improved; the governing body has taken a decision to request the Secretariat to improve its work performance or has taken a policy decision with regard to the recommendation.</p>	<p> <b>SUFFICIENT PROGRESS</b></p>
<p>Medium progress: Practice by the Fund's Secretariat has improved in certain areas but needs to be strengthened to be consistent and coherent; the governing body has reviewed policy and working papers but has not taken a decision on policy or requested the Secretariat to improve its work performance.</p>	<p> <b>MEDIUM PROGRESS</b></p>
<p>No/little progress: Some action may have been initiated but much more needs to be done to address recommendation.</p>	<p> <b>NO/LITTLE PROGRESS</b></p>

# ASSESSMENT TABLE

## TRANSPARENCY

### TRANSPARENCY REPORTING

Question: Secretariat capacities

Progress

Has the Adaption Fund Board taken steps to ensure that its Secretariat has sufficient resources and capacity to support required transparency and accountability standards?

➔ MEDIUM  
PROGRESS

TI Review

The Adaptation Fund Secretariat staff number have increased from six in 2014 to ten in August 2016. In addition, two short-term staff and one consultant are employed. This demonstrates some progress. However, as demonstrated in the initial assessment, more staff capacities may be needed to meet the scope of recommended actions to enable strengthened transparency and accountability of the Fund. The Fund may consider hiring a staff member specifically for this purpose.

### EXECUTIVE DECISION-MAKING TRANSPARENCY

Question: Transparency of Board and Committee meetings

Progress

Has the Adaption Fund Board taken steps to update its Open Information Policy, rules of procedure or other relevant policies in order to limit closed sessions of the Board and Board Committees to exceptional circumstances and to require a Board explanation for when closed sessions are necessary?

➔ NO/LITTLE  
PROGRESS

TI Review

In review of the Adaptation Fund Board's decisions taken between its 24<sup>th</sup> and 27<sup>th</sup> Board meetings, no steps to address this recommendation could be identified. According to the Rules of Procedure of the Adaptation Fund Board, Board meetings are to be open generally but may be closed to Observers if the Board so decides.<sup>6</sup> While a Board decision is likely to be based on considerations outlined in its Open Information Policy,<sup>7</sup> neither the Policy nor the Rules of Procedure make that clarification, nor do they require that the Board explain its reasons for holding closed sessions. Although an independent evaluation of the Fund also recommended that the Board "adopt a more consistent and less discretionary approach to closed meetings", no action appears to have been taken.<sup>8</sup>

Board committee meetings are closed in principle. The reasons for this are stated in the Fund's Open Information Policy: "The Fund...needs space to consider and debate, away from public scrutiny. In practice, the Fund operates by consensus, and it needs room to develop that consensus. During the process it seeks, and takes into account, the input of many stakeholders; but it must preserve the integrity of its deliberative processes by facilitating and safeguarding the free and candid exchange of ideas." This justification for closed sessions appears to be insufficiently weighed against the greater public interest where the public has the right to know about decision-making by public officials regarding the use, effectiveness and efforts to safeguard public money, the environment and people's lives.

The Fund's Secretariat has stressed that Board decisions to close sessions are carefully made by weighing the Fund's legal obligation to protect confidential information shared by the countries and other third parties in confidence, in compliance with its Open Information Policy, against the public's interests and right to know. Accordingly, TI continues to recommend that the Board make this clarification explicit in its Open Information Policy and require that the Board explain its reasons for holding closed meetings.

## INFORMATION REQUESTS AND APPEALS

Question: Information requests and appeals

Progress

Has the Adaption Fund Board taken steps to strengthen or update its Open Information Policy by introducing timelines for disclosure and procedures for receiving information requests for non-disclosed information?

 **MEDIUM  
PROGRESS**

TI Review

The Adaptation Fund's Open Information Policy<sup>9</sup> has not been updated or amended since it was adopted in 2013. That Policy stipulates that the Fund's Secretariat is subject to the World Bank's Access to Information Policy<sup>10</sup> which provides rules and procedures for submitting information requests and appealing request denials. According to the Secretariat, this covers all documentation relating to the Board and Implementing Entities that is prepared and stored at the Secretariat. This needs to be communicated more clearly to the public on the Fund's website. The Fund's Open Information Policy could also state and explain this procedure. In addition, neither the World Bank's nor the Fund's policy provide timelines for the disclosure of information prior to and following Board meetings. Accordingly, the Board may consider revising its Open Information Policy to explain the applicability of the World Bank's Access to Information Policy and to provide clear timelines for information disclosure.

## ACCOUNTABILITY POLICY TRANSPARENCY

New question: Access to Information policies of Implementing Entities

Rating

Does the Fund require that Implementing Entities have information disclosure policies, that those policies be accessible on the Fund's website and that the effective implementation of those policies is monitored, reported and evaluated?

**WEAK**

TI Review

The Fund does not require that Implementing Entities have an access to information policy in order to be accredited or re-accredited.<sup>11</sup> TI recommends that the Board take action to require that Implementing Entities have such policies in place and that those policies are accessible on the Fund's website. A good practice example of this is the Climate Investment Fund's transparency and accountability page,<sup>12</sup> which provides direct links to the information disclosure policies of the multilateral development banks.

## ACCOUNTABILITY POLICY TRANSPARENCY

Question: Transparency of accountability and integrity policies of Implementing Entities

Progress

Has the Adaptation Fund Board taken steps to require that key accountability information on the policies of Implementing Entities (including the handling of grievances or complaints, whistleblower protection, independent investigations of allegations of fraudulent and corrupt practices, sanctions and/or disciplinary measures in response to cases of corruption, fraud or other unethical behaviour, financial audits and procurement) is easily accessible to the public on or through the Fund's website?

→ NO/LITTLE  
PROGRESS

TI Review

With some exceptions, the fiduciary policies of the Fund's Implementing Entities are not readily accessible on the Fund's website. Presumably, as they have been accredited, such policies should be accessible on the individual entities' websites. According to the Fund's Secretariat, Implementing Entities accredited prior to 2013 were not required to post their fiduciary policies on their websites. However, this was required of all entities accredited after 2013 and those accredited pre-2013 will have to do so as a part of the reaccreditation process. Yet a spot check of ten entities showed that such key accountability information was often imbedded in website archives and sub-links, or in some cases no information could be found at all.<sup>13</sup> To enable easier access, the Fund could provide the web links for such information for each entity on its own website.

The only accountability information on the Fund's website is the contact information of the complaints handling function<sup>14</sup> instituted in the implementing entities, made available as a result of a Fund Board decision at its 16<sup>th</sup> meeting.<sup>15</sup> However, this information is only provided for two-thirds (28) of all implementing entities. The fourteen organisations missing information include both multilateral and national entities. Regarding the latter, available information is, in many cases, restricted to general email address contacts, rather than to specific complaints handling mechanisms of the implementing entity and related rules, procedures, and protections.

In December 2016, the Fund's Secretariat informed that they were in the process of updating the content of the complaints handling mechanism section on the Fund's website and designing an "Accountability Register" relevant to the grievance mechanisms of Implementing Entities, in line with the Ad Hoc Complaint Handling Mechanism approved by the Board in October 2016.

TI continues to recommend that the Fund respect the importance of ensuring easy access to the fiduciary policies of Implementing Entities, with the overall goal of preserving the integrity and accountability of the Fund. To that end, the Board should ensure that the Secretariat is appropriately instructed and resourced to facilitate this effort.

## TRANSPARENCY OF ANTI-CORRUPTION CONTRACTUAL TERMS

Question: Disclosure of contracts

Progress

Has the Adaptation Fund taken steps to require the disclosure of its contracts with Implementing Entities?

→ NO/LITTLE  
PROGRESS

TI Review

In review of the 24<sup>th</sup> – 28<sup>th</sup> Board meeting decisions, no actions appears to have been taken to improve contract disclosures. Accessible on the Fund's website is a Standard Legal Agreement<sup>16</sup> which is the contract concluded between the Board and an Implementing Entity. However, the Fund does not disclose its actual individual agreements with Entities. According to the Fund's Secretariat, the reason why individual contracts are not disclosed is because they contain confidential bank information of Implementing Entities. In addition, the Secretariat confirms that the terms of the Standard Legal Agreement apply to all Accredited Entities and no modifications can be made in the contracts. As there remains confusion regarding these matters, TI encourages the Board and or the Secretariat to make this fact explicit as a matter of policy and public communications.

## TRANSPARENCY OF DESIGNATED AUTHORITY ACCOUNTABILITY

Question: Designated authority accountability information

Progress

Has the Adaptation Fund Board or its Designated Authorities taken steps to enable the public to access key information regarding the accountability of Designated Authorities? Such information should include to whom they are accountable in cases of corruption or fraud, and according to what authority, rules or standards they may be held accountable and should be made available on or through the Fund's website.

→ NO/LITTLE  
PROGRESS

In TI's 2014 assessment, the importance of the transparency, accountability and integrity of Designated Authorities (DA) ("government officials who act as points of contact for the Adaptation Fund") in their capacities to endorse "a) the accreditation applications of National or Regional Implementing Entities before they are sent to the fund's secretariat for assessment and/or b) proposals by National, Regional, or Multilateral Implementing Entities for adaptation projects and programmes in the DA's country." According to ODI, "(t)he national Designated Authority plays a significant role not only in securing access to funding but also in assuring country ownership of funded activities. The institutional location of this authority is therefore an important early design consideration that warrants careful selection."<sup>17</sup>

The importance of these roles of Designated Authorities cannot be underestimated in impacting on their countries, citizens and also the integrity of Adaptation Fund operations. While it is expected that these Authorities perform their roles with the highest levels of transparency, accountability and integrity, the 2015 independent evaluation of the Fund suggested in some cases Designated Authorities were seen to have conflicts of interest affecting project and accreditation decisions.<sup>18</sup>

While Designated Authorities are accountable to their own governments and citizens, not the Fund, information regarding how they can be held accountable at the national level would be helpful for stakeholders. TI has recommended that the Fund assist in providing such information in addition to the list of the names and contact details on its website. In addition, as the Fund arguably has an interest in supporting efforts to assure national level accountability, the Fund may wish to explore innovative ways such as through constructive dialogues with the Authorities and creating a forum or supporting voluntary peer actions for the Authorities to share best practices and report on their performance on a regular basis.

## ACCOUNTABILITY AND INTEGRITY

### ANTI-CORRUPTION RULES

Question: Executive integrity and conflicts of interest policy

Progress

Has the Adaptation Fund Board taken steps to adopt a code of conduct or ethics and conflict of interest policy applicable to Board Members and their Committees? If so, has the Board taken steps to adopt an appropriate accountability process for the Board where individual Members behave unethically or have a conflict of interest? If so, has the Board established an independent, impartial body to ensure oversight of Board ethics?

↑ SUFFICIENT PROGRESS

In October 2014, the Board adopted its Zero Tolerance Policy for the Board.<sup>19</sup> The policy provides clear obligations that "Board members and alternates refrain from condoning, supporting or otherwise failing to address fraudulent or corrupt behaviour...." A procedure is in place to terminate Board membership for Members failing this standard. This Policy is reinforced and elaborated in the Fund's Risk Management Framework<sup>20</sup> and Operational Policies and Guidelines (amended in March 2016).<sup>21</sup>

Question: Sanctions

Progress

Has the Adaptation Fund Board taken steps to revise its contractual agreements with Implementing Entities to ensure anti-corruption obligations? This includes clarifying that the existing contractual provisions regarding the repayment of Fund grants apply also to situations when the money which is misused or abused on account of corruption or fraud. It also includes

↑ SUFFICIENT PROGRESS

contractual provisions which oblige Entities to apply anti-corruption safeguards and impose relevant standards in its agreement with Executing Entities.

TI Review

In 2015, the Standard Legal Agreement between the Fund and Implementing Entities was revised to specify that acts of corruption can give rise to an Entity's obligation to refund money lost in that connection.<sup>22</sup> (This is a significant advance which has also been adopted by the Green Climate Fund in its Accreditation Master Agreement (clauses 19 (g) (h) and 20 (b) (iii)).<sup>23</sup>

The Agreement also stipulates that Implementing Entities must include provisions in their contracts with Executing Entities that the latter "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 ... are used for their intended purposes and are not diverted to terrorists." According to the Fund's Secretariat, this clause means that Executing Entities are bound by the same anti-corruption and integrity safeguards which the Implementing Entities are obliged to uphold. However, as the provision is broad, TI recommends that the Board consider clarifying the scope of obligations intended. Clause 10 of the Green Climate Fund's Accreditation Master Agreement provide a useful frame of reference.<sup>24</sup>

## ANTI-CORRUPTION RULES

Question: Anti-corruption hotlines of Implementing Entities

Progress

Has the Adaptation Fund Board taken steps to ensure that Implementing Entities have adopted and enforce adequate policies and procedures and to demonstrate their effectiveness in implementing anti-corruption and integrity standards including complaints mechanisms, investigations, whistleblower protection, and sanctions to prevent, mitigate and correct corruption, fraud and other unethical behaviour?

→ NO/LITTLE  
PROGRESS

TI Review

The focus of this question is on fiduciary standard compliance. While such compliance is bound to be a key concern of the Board, it has remained silent on demanding to see performance in this area. The Board has begun planning for a second phase evaluation of the Fund (AFB/EFC.19/4)<sup>25</sup> which should commence in 2017. In that context, TI urges that the terms of reference for the evaluation cover this performance area as previous evaluation reports have not done so.<sup>26</sup>

The other information sources available to assess such effectiveness are the project and programme performance review templates and the reports of the Accreditation Panel at the time of re-accrediting Implementing Entities.<sup>27</sup> While the former templates do attempt to track safeguards such as financial data, procurement and stakeholder engagement, specific indicators on accountability mechanisms are not provided,<sup>28</sup> making such information difficult to disaggregate if included at all. TI therefore recommends that indicators on anti-corruption and accountability mechanisms be included in the project reporting templates.

Regarding re-accreditation documentation, very little can be taken from Accreditation Panel reports which often simply state: "The applicant has indicated that there has been no changes, since accreditation, in its institutional capabilities and as such, continues to meet the requirements of the Fund's Fiduciary Standards."<sup>29</sup> In some cases, the report states what policies the Implementing Entity has in place but does not elaborate on the effectiveness of such policies.

According to the Fund's Secretariat, both accreditation and reaccreditation procedures are rigorous and evidence-based, and monitoring effectiveness is a priority of the Fund. In addition, Implementing Entities often employ independent third-parties to review their performance, often at final project evaluations. Those evaluations should be made public available on the auditor's website. Still, this information is not available on or through the Fund's website. The Fund would benefit in communicating and demonstrating the integrity performance of implementing entities to the public.

Question: Whistleblower protection

Progress

The Adaptation Fund requires that potential Implementing Entities must have in place a whistleblower protection policy and programme in order to be accredited. Has the Board further elaborated that such protection should extend to *any person* who reports cases of corruption, fraud or other unethical practices in relation to fund disbursements or funded activities, projects or programmes?

→ NO/LITTLE  
PROGRESS

TI Review

No progress appears to have been made regarding the scope of whistleblower protection policies. As stated in TI's 2014 Assessment, given the clandestine nature of corruption and fraud, it is essential for complaints-handling functions to provide that victims and witnesses are protected against retaliation. Absence of this safeguard dissuades would-be reporters from coming forward, allowing corrupt behaviour to go unchecked. If this happens, the Fund will suffer reputational damage and the intended aim of public resources to achieve climate change adaptation will be hampered.

## ANTI-CORRUPTION RULES

New question: Anti-money laundering policy	Rating
Do the Funds' fiduciary policies require that Implementing Entities apply and enforce or are governed by anti-money laundering policies and programmes?	<b>AVERAGE</b>

### TI Review

The Fund's Secretariat and Trustee are operated by the World Bank. Accordingly, the fund is obligated to adhere to the Bank's anti-money laundering policies.

Although the Fund's policy on anti-money laundering is not clearly stated in its Operational Policies and Guidelines, the Secretariat confirms that money laundering qualifies as a practice is inconsistent with the Fund's Operational Policies and Guidelines and thereby prohibited in Standard Legal Agreements. On this basis, applicant Implementing Entities are vetted on the basis of their AML policies and track records. However, the scope of what is vetted is not stated in the accreditation criteria. Moreover, at its 28<sup>th</sup> Board meeting in October 2016, the Board adopted the recommendation of its Accreditation Panel to not include anti-money laundering (AML) and countering financing of terrorism (CFT) as additional criteria for accreditation on the grounds that these are covered in the model legal agreements under corruption and illegal activities. Rather, the Panel suggested that "the issue could be considered as part of capacity building through raising awareness on the AML/CFT among the implementing entities."

Given the nature of money laundering, experts widely agree that robust prevention programmes are crucial to stemming the problem and that a remedial approach alone is much less effective and more costly. TI recommends that the Board consider revisiting its decision to remove AML/CFT from its accreditation standards and elaborate on specific preventative policies and measures including "know your customer" due diligence procedures, monitoring cash transfers, reporting suspicious transfers, compliance, and staff training.

New question: Procurement safeguards	Rating
Does the Fund have in place a policy to safeguard against corruption in procurement at fund-level operations? Does the Fund require that Implementing Entities have sufficient policies and practices to safeguard against corruption in procurement? Does the Fund provide supportive guidelines and demonstrate effectiveness?	<b>STRONG</b>

### TI Review

The Adaptation Fund's Secretariat is governed by the procurement policies and rules<sup>30</sup> of the World Bank. This is a comprehensive policy accompanied by internal audit and review functions.

The Fund's fiduciary standards also require that Implementing Entities must have a procurement policies and practices. The Fund's Operational Guidelines<sup>31</sup> state that: "Procurements by the implementing entities or any of their attached organizations shall be performed in accordance with internationally accepted procurement principles, good procurement practices and the procurement regulations as applicable to a given Party. Implementing entities shall observe the highest ethical standards during the procurement and execution of the concrete adaptation projects/programmes."<sup>32</sup> Implementing Entities must also assure "adequate and effective means to punish and prevent malpractices."

To be accredited, Entities must demonstrate "Evidence of transparent and fair procurement policies and procedures at the national level/organizational level; that are consistent with recognized international practice (including dispute resolution procedures)."<sup>33</sup> Such evidence includes "(i.) Procurement Policy; (ii) Procedures or guidelines including composition and role of key evaluation and decision-making committees; (iii) Provisions for oversight/audit /review of the procurement function with an actual sample

of oversight/audit/review reports; (iv) Procedures for handling/controlling procurement in Executing Agencies; (v) Reports of recent audits done by either Internal Audit or the External Audit on this topic.”

In addition, the Fund’s Accreditation Panel and Secretariat provide guidance to Implementing Entities on procurement safeguards and implementation. On this level, the Fund demonstrates best practice. However, the Fund could provide more guidance in its supporting materials such as its Guidance on Accreditation Standards<sup>34</sup> and Accreditation Tool Kit.<sup>35</sup> Further, the Fund does not publicly report on the overall record of the effectiveness of procurement safeguards nor does it facilitate access to the procurement policies of its Implementing Entities through its website. As with other fiduciary standards, TI recommends that the Fund take efforts to ease public access to key fiduciary policies of its Entities and to demonstrate their effectiveness.

## APPEALS

Question: Appeals of board decisions

Progress

Has the Adaptation Fund Board taken steps to develop and adopt a formal appeals procedure to respond to requests that Fund decisions be explained, reviewed or revoked?

→ NO/LITTLE PROGRESS

TI Review

In review of the 24<sup>th</sup> – 28<sup>th</sup> Board meeting decisions, no progress appears to have been made by the Board to develop and adopt a formal appeals procedure which enables relevant stakeholders, including Implementing Entities and governments, to appeal decisions by the Board or to request that decision be reviewed or explained. Recognising the importance of this issue, the Adaptation Fund CSO Network suggests that creating an “Independent Accountability and Transparency Panel or Group” within the Fund comprising representatives from Independent Entities, governments and civil society might be a constructive way to address this current gap. Such a body could be established to oversee and ensure the integrity of the Board and its decisions thereby generating greater public trust owing to its multi-stakeholder approach and composition.

## COMPLAINTS MECHANISMS

Question: Fund level anti-corruption hotline (complaints handling mechanism)

Progress

Has the Adaptation Fund Board taken steps to improve its complaint handling mechanism operated by the Manager of the Secretariat, including enabling a better visibility of the mechanism, an independent investigation function, developing terms of reference regarding anonymity and confidentiality of complainants, types of admissible complaints, required evidence for submitting a complaint, time periods for responses, effective remedies or sanctions, whistleblower protection, and rules on abuse of the mechanism?

↑ SUFFICIENT PROGRESS

TI Review

At its 16<sup>th</sup> meeting in 2011 The Board demonstrated its commitment to establish a complaints handling mechanism.<sup>36</sup> It delegated the responsibility to receive and address complaints to the Fund Secretariat’s Manager.<sup>37</sup> Since that time, the Fund has received two complaints. The initial complaint which involves an integrity violation was first discussed officially at the Board’s meeting in October 2013. It took three years for that complaint to be resolved (see the October 2016 Ethics and Finance Committee Report).<sup>38</sup> Such a period of over two years taken to resolve a complaint is longer than the average period of time of 12-18 months that other international organisations with investigative functions strive to meet to resolve a complaint.<sup>39</sup>

The Fund appears to have recognised this concern. The second complaint it received, which was officially raised between October 2015 and March 2016, was resolved by the Board’s October 2016 meeting.

Importantly, the Board also decided to establish a new Ad hoc Complaints Handling Mechanism (ACHM)<sup>40</sup> at its October 2016 meeting. Being integrated in the Fund's Risk Management Framework, the new Mechanism is welcomed and demonstrates significant progress in terms of providing for time-bound responses and action, guidance for complainants, and disclosure of implementing entities' corollary complaints-handling functions. In addition, the Board has articulated a long-term commitment to sustain the Mechanism. Also, the Fund's Secretariat reports that an accompanying monitoring and evaluation plan exists which includes regular reporting on the types and numbers of complaints received and resolution status.

Currently, the manager of the AFB secretariat is empowered to receive and address complaints but not to investigate them. According to the Fund's Risk Management Framework, the Fund can hire investigators on a need basis.

However, the mechanism – as currently designed – can be further strengthened by:

- Defining the scope of complaints covered by the ACHM distinct from and complimentary to the grievance handling functions of Implementing Entities
- Providing objective criteria for pursuing and rejecting complaints – e.g. clearer guidance on how to assess frivolous complaints
- Ensuring confidentiality in communications and identity protection
- Providing whistleblower protection and support in events of retaliation
- Permitting anonymous complaints when whistleblower protection cannot be assured
- Developing a strategy to promote the Mechanism through awareness-raising and outreach aided by user-friendly, easily understandable materials for public information. Ensure confidentiality in communications and permit anonymity when necessary

The Board may wish to apply TI's Complaints Mechanism Reference Guide for Good Practice.<sup>41</sup>

## INTEGRITY TRAININGS

Question: Integrity trainings

Progress

Has the Adaptation Fund Board taken steps to consider integrity trainings for Fund actors, including on key policies related to transparency and stakeholder engagement?

 **MEDIUM  
PROGRESS**

TI Review

Since 2014, the Adaptation Fund Secretariat has been active in organising a number of training sessions largely catered to Implementing Entities. These seminars<sup>42</sup> cover a range of topics including environmental and social safeguards, gender policy, and accreditation support. While this is welcomed, training on integrity, transparency and accountability concerns to prevent corruption and fraud has not been a main feature – only two presentations could be identified covering such issues. TI recommends that integrity trainings be mainstreamed in these seminars and that, as far as possible, such sessions might also include National Designated Authorities as well as civil society stakeholders.

## CIVIL SOCIETY CONSULTATION AND PARTICIPATION

Question: Observer participation

Progress

Has the Adaptation Fund Board taken steps to ensure that the Fund's website provides a space to inform and facilitate Observer participation and that Observer participation is active and relevant?

→ NO/LITTLE  
PROGRESS

TI Review

Overall, little progress could be discerned regarding Observer communications in relation to the Fund and participation at Board meetings. While Observer participation at Board meetings is open to UNFCCC accredited organisations and is not limited through a formal or informal selection process, the ability of Observers to engage at the meetings is limited. Observers do not have a seat at the table and they are not able to intervene on any agenda item – even prior to the close of an agenda topic. Instead, Observers are allocated a 1-2 hour slot during the meeting to present their recommendations to the Board. In some instances, this event was timed following a series of Board decisions – which rendered civil society inputs on the concluded agenda items ineffective. As such, TI strongly urges that the Board adopt an Observer participation policy similar to the Climate Investment Funds<sup>43</sup> whereby Observers can engage and provide input openly as relevant on agenda items. This will set the “tone at the top” that the Fund take stakeholder engagement seriously at all levels of its business.

Regarding online engagement and information sharing, the Fund's website was revamped in 2015, making it easier to locate documents and other information on the website. However, there is no page or section which explains Fund level engagement with civil society, and information is absent on how to participate in Board meetings and how to make contributions to them and at the national level as well.

The Fund does recognise the Adaption Fund CSO network,<sup>44</sup> which coordinates and presents inputs from civil society Observers, under ‘useful links’. This also includes the Germanwatch Adaptation Fund Project Tracker,<sup>45</sup> weADAPT<sup>46</sup> sponsored by the Stockholm Environment Institute, Climate Finance Ready<sup>47</sup> supported the Adaptation Fund and the Climate and Development Knowledge Network, and the Adaptation Learning Mechanism<sup>48</sup> support by a partnership of GEF Agencies including UNDP, and USAID. However, it is unclear what the institutional relationship of these initiatives are with the Fund and why these and not others are recognised. TI suggests that the Fund adopt a more inclusive approach to stakeholder engagement by developing a web page or section which explains how Observers can interact with the Fund at its executive and programmatic levels. The Fund should also consider organising online consultations and meetings with representatives from civil society organisations already involved in its processes to explore together ways to enhance Observers participation and implement concrete ideas on that matter with the objective to mobilise more than just a limited number of NGOs to participate in the AF activities.

## CIVIL SOCIETY CONSULTATION AND PARTICIPATION

Question: Country level stakeholder engagement

Progress

Has the Adaptation Fund Board taken steps to adopt policies and guidelines for stakeholder engagement at regional and national levels? This would include arrangements and best practices for key stakeholder consultations throughout project cycles, including the monitoring and evaluation stage. It would also include opportunities to provide input during accreditation and re-accreditation processes.

 MEDIUM  
PROGRESS

### TI Review

The Fund continues to enable and encourage stakeholders to comment and provide input on project proposals which are published on its website and open for public comment during a specified period. This is a best practice deserving of replication elsewhere (such as the Green Climate Fund). However, guidelines on stakeholder engagement in actual and potential fund recipient countries are wanting. The Fund's website also does not provide a picture of what public involvement looks like in Adaptation Fund projects. In addition, the Fund's policy is silent regarding if and how inputs from civil society can be taken into account during the accreditation and accreditation review processes. Such inputs can be highly valuable as they reflect stakeholders' views on the fitness and performance of implementing entities.

The Adaptation Fund CSO network further encourages that the Fund should pursue efforts in ensuring that civil society stakeholders' participation in the Fund's processes and projects at the national level is effective and result-oriented. In addition to reviewing funding proposals and participating with limitations at Board meetings, civil society plays key roles in developing, implementing, monitoring, and evaluating projects and accompanying the Fund and implementing actors in their efforts to ensure country ownership, accountability and transparency around projects.<sup>49</sup>

The Network also urges that the Fund should also explore specific ways to assess country level stakeholder engagement and be able to address any arising gaps or challenges civil society faces. In addition, best practices can be developed and lessons learned from that engagement across countries and regions, and shared within recipient countries as well as on the Fund website and at the Board level.

In this context, TI recommends that the Fund take efforts to strengthen its country-level stakeholder engagement in the areas mentioned above.

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<sup>1</sup> Transparency International (TI) in collaboration with the Stockholm Environment Institute conducted desk research and interviews for five anti-corruption assessments of multilateral climate funds including the Climate Investment Funds, the Adaptation Fund, the Forest Carbon Partnership Facility and the UN REDD Programme. All reports were published by TI in 2014.

<sup>2</sup> Transparency International Protecting Climate Finance: An Anti-Corruption Assessment of the Adaptation Fund, at [http://www.transparency.org/whatwedo/publication/protecting\\_climate\\_finance\\_adaptation\\_fund](http://www.transparency.org/whatwedo/publication/protecting_climate_finance_adaptation_fund)

<sup>3</sup> See <http://www.cif.climateinvestmentfunds.org/about/stakeholders>

<sup>4</sup> See note 2.

<sup>5</sup> Adaptation Fund Board, 24th meeting, <http://www.adaptation-fund.org/wp-content/uploads/2015/01/Report%20of%20AFB24%20final.pdf>

<sup>6</sup> Rules of Procedure of the Adaptation Fund Board, <https://www.adaptation-fund.org/wp-content/uploads/2015/01/Rules%20of%20procedure%20of%20the%20Adaptation%20Fund%20Board.pdf>

<sup>7</sup> Adaptation Fund Open Information Policy, <https://www.adaptation-fund.org/wp-content/uploads/2015/01/Open%20Information%20Policy.pdf>

<sup>8</sup> See TANGO International/Overseas Development Institute, First Phase Independent Evaluation of the Adaptation Fund (2015), at [https://www.adaptation-fund.org/wp-content/uploads/2015/11/TANGO-ODI-Evaluation-of-the-AF\\_final-report.pdf](https://www.adaptation-fund.org/wp-content/uploads/2015/11/TANGO-ODI-Evaluation-of-the-AF_final-report.pdf)

<sup>9</sup> See note 7.

<sup>10</sup> World Bank's Access to Information Policy, at <https://policies.worldbank.org/sites/ppf3/PPFDocuments/090224b083057379.pdf>

<sup>11</sup> Adaptation Fund accreditation process, <https://www.adaptation-fund.org/apply-funding/accreditation/>

<sup>12</sup> Climate Investment Fund's transparency and accountability page, <https://www.cif.climateinvestmentfunds.org/about/transparency-accountability>

<sup>13</sup> As of November 2016, anti-corruption hotlines could not be found on the websites of the following Implementing Entities: [National Bank for Agriculture and Rural Development \(NABARD\)](#); [Agencia de Cooperación Internacional de Chile \(AGCI\)](#); [Dominican Institute of Integral Development \(IDDI\)](#); [Fundación Natura](#); [Micronesia Conservation Trust \(MCT\)](#); [Ministry of Finance and Economic Cooperation of the Federal Democratic Republic of Ethiopia \(MOFEC\)](#); [Ministry of Finance and Economic Management \(MFEM\)](#); [Caribbean Development Bank \(CDB\)](#); [Central American Bank for Economic Integration \(CABEI\)](#); [World Meteorological Organization \(WMO\)](#); [Department of Environment](#); [Partnership for Governance Reform in Indonesia \(Kemitraan\)](#); [UN-Habitat](#)

<sup>14</sup> Adaptation Fund complaints handling function, <https://www.adaptation-fund.org/projects-programmes/programme-complaints/>

<sup>15</sup> Adaptation Fund Board decision at its 16<sup>th</sup> meeting, <https://www.adaptation-fund.org/wp-content/uploads/2015/01/Report16thAFB-Rev1%20final.pdf>

<sup>16</sup> Adaptation Fund Board decision at its 16<sup>th</sup> meeting, <https://www.adaptation-fund.org/wp-content/uploads/2015/01/Report16thAFB-Rev1%20final.pdf>

<sup>17</sup> <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9142.pdf>

<sup>18</sup> See note 8.

<sup>19</sup> Adaptation Fund Zero Tolerance Policy, <https://www.adaptation-fund.org/wp-content/uploads/2014/09/Zero-tolerance-policy-for-the-Board-Oct2014.pdf>

<sup>20</sup> Adaptation Fund Risk Management Framework, [https://www.adaptation-fund.org/wp-content/uploads/2015/06/AF-risk-management-framework\\_Board-revised.pdf](https://www.adaptation-fund.org/wp-content/uploads/2015/06/AF-risk-management-framework_Board-revised.pdf)

<sup>21</sup> Adaptation Fund Operational Policies and Guidelines (amended in March 2016), <https://www.adaptation-fund.org/wp-content/uploads/2016/04/OPG-amended-in-March-2016.pdf>

<sup>22</sup> In 2015, the Standard Legal Agreement between the Fund and Implementing Entities was revised to specify that acts of corruption can give rise to an Entity's obligation to refund money lost in that connection. See <https://www.adaptation-fund.org/wp-content/uploads/2011/10/Revised-AGREEMENT-as-of-Oct-2015.pdf>

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- <sup>23</sup> See Green Climate Fund Accreditation Master Agreement, clauses 19 (g) (h) and 20 (b) (iii), [http://www.greenclimate.fund/documents/20182/319135/Accreditation\\_Master\\_Agreement\\_Template.pdf/8c4f6cbf-ae17-4856-81c1-64ac8fbfa506](http://www.greenclimate.fund/documents/20182/319135/Accreditation_Master_Agreement_Template.pdf/8c4f6cbf-ae17-4856-81c1-64ac8fbfa506).
- <sup>24</sup> Ibid.
- <sup>25</sup> Second phase evaluation of the Adaptation Fund (AFB/EFC.19/4), [https://www.adaptation-fund.org/wp-content/uploads/2016/09/AFB.EFC\\_19.4-Updated-options-for-the-second-phase-of-the-evaluation-of-the-Fund-1.pdf](https://www.adaptation-fund.org/wp-content/uploads/2016/09/AFB.EFC_19.4-Updated-options-for-the-second-phase-of-the-evaluation-of-the-Fund-1.pdf)
- <sup>26</sup> See for example [https://www.adaptation-fund.org/wp-content/uploads/2015/09/AFB.EFC\\_17.3-Evaluation-of-the-Fund-stage-I.pdf](https://www.adaptation-fund.org/wp-content/uploads/2015/09/AFB.EFC_17.3-Evaluation-of-the-Fund-stage-I.pdf)
- <sup>27</sup> While such information may be included, reviewing each project is beyond the scope of this report.
- <sup>28</sup> While such information may be included, reviewing each project is beyond the scope of this report.
- <sup>29</sup> Re-accreditation process, <https://www.adaptation-fund.org/document/re-accreditation-process/>
- <sup>30</sup> World Bank procurement policies and rules, <http://siteresources.worldbank.org/PROCUREMENT/Resources/pm7-3-01.pdf>
- <sup>31</sup> See note 21.
- <sup>32</sup> Ibid. "Procurements by the implementing entities or any of their attached organizations shall be performed in accordance with internationally accepted procurement principles, good procurement practices and the procurement regulations as applicable to a given Party. Implementing entities shall observe the highest ethical standards during the procurement and execution of the concrete adaptation projects/programmes."
- <sup>33</sup> Adaptation Fund accreditation application, <http://siteresources.worldbank.org/PROCUREMENT/Resources/pm7-3-01.pdf>
- <sup>34</sup> Adaptation Fund Guidance on Accreditation Standards, <https://www.adaptation-fund.org/wp-content/uploads/2016/10/Guidance-on-Accreditation-Standards.pdf>
- <sup>35</sup> Adaptation Fund Accreditation Tool Kit, <https://www.adaptation-fund.org/apply-funding/accreditation/accreditation-application/>
- <sup>36</sup> For Board commitment to establish a complaints handling mechanism, see <https://www.adaptation-fund.org/wp-content/uploads/2015/01/Report16thAFB-Rev1%20final.pdf>
- <sup>37</sup> Complaints programme, <https://www.adaptation-fund.org/projects-programmes/programme-complaints/>
- <sup>38</sup> See the October 2016 Ethics and Finance Committee Report, [https://www.adaptation-fund.org/wp-content/uploads/2016/11/AFB\\_EFC\\_19\\_13-Final-report-as-adopted.pdf](https://www.adaptation-fund.org/wp-content/uploads/2016/11/AFB_EFC_19_13-Final-report-as-adopted.pdf)
- <sup>39</sup> See for example <http://www.worldbank.org/en/about/unit/integrity-vice-presidency/investigations>
- <sup>40</sup> Ad hoc Complaints Handling Mechanism (ACHM), <https://www.adaptation-fund.org/document/proposed-ad-hoc-complaint-handling-mechanism-achm/>
- <sup>41</sup> TI's Complaints Mechanism Reference Guide for Good Practice, [https://consultations.worldbank.org/Data/hub/files/ti\\_document\\_-\\_guide\\_complaint\\_mechanisms\\_final.pdf](https://consultations.worldbank.org/Data/hub/files/ti_document_-_guide_complaint_mechanisms_final.pdf)
- <sup>42</sup> Adaptation Fund Secretariat training sessions, <https://www.adaptation-fund.org/readiness/news-seminars/>
- <sup>43</sup> [Climate Investment Funds](http://www.cif.climateinvestmentfunds.org/about/stakeholders) Observer participation policy, <http://www.cif.climateinvestmentfunds.org/about/stakeholders>
- <sup>44</sup> The network is run by Germanwatch and is funded by the German government.
- <sup>45</sup> Germanwatch Adaptation Fund Project Tracker, <http://af-network.org/4889>
- <sup>46</sup> weADAPT, <https://www.weadapt.org/>
- <sup>47</sup> Climate Finance Ready, <https://climatefinanceready.org/about/>
- <sup>48</sup> Adaptation Learning Mechanism, <http://www.adaptationlearning.net/about>
- <sup>49</sup> The Adaptation Fund NGO Network for example supports national civil society organizations in several countries to accompany AF projects in monitoring their implementation and tracking progress.







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