

**Special Climate Change
Fund (SCCF)**

**(Funds administered by CAF)
Independent Auditor's Report**

**Statement of cash collections
and disbursements**

For the years ended
December 31, 2022 and 2021

SPECIAL CLIMATE CHANGE FUND (SCCF)
(Funds administered by CAF)

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Independent Auditor's Report

To the Stockholders and Board of Directors of
Corporación Andina de Fomento (CAF)

Opinion

We have audited the statement of cash collections and disbursements administered by Corporación Andina de Fomento (CAF), of **Special Climate Change Fund (SCCF)**, for the year ended December 31, 2022, and the related notes (the "financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the cash collections and disbursements of funds for the year ended December 31, 2022, in accordance with the cash basis of accounting described in Note 2.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the **SCCF** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 2 to the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 2, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SCCF internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the SCCF ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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June 5, 2023

Caracas – Venezuela

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SPECIAL CLIMATE CHANGE FUND (SCCF)

(Funds administered by CAF)

Statements of cash collections and disbursements

For years ended December 31, 2022 and 2021

(Denominated in U.S. dollars)

	<u>NOTES</u>	<u>2022</u>	<u>2021</u>
Cash collection:			
Transfer of funds by the trustee		45,405	2,536,987
Interest income		8,066	208
Other incomes	4	<u>76,125</u>	<u>-</u>
Total cash collection	3	<u>129,596</u>	<u>2,537,195</u>
Disbursements:			
Project Andes Adaptation to the Impacts of Climate Change in Water Resources		1,360,059	3,580,084
Project UAVs/drones for Equitable Climate Change Adaptation		353,150	-
Project agency fees		101,702	15,354
Other disbursements		<u>767</u>	<u>751</u>
Total disbursements	3	<u>1,815,678</u>	<u>3,596,189</u>
Net decrease in cash		(1,686,082)	(1,058,994)
Fund balance at beginning of year		<u>2,245,021</u>	<u>3,304,015</u>
Fund balance at end of year		<u>558,939</u>	<u>2,245,021</u>
Fund balance consists of:			
Contributions in deposits with banks		<u>558,939</u>	<u>2,245,021</u>

See accompanying notes to statements of cash collection and disbursements

SPECIAL CLIMATE CHANGE FUND (SCCF)

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Notes to the statement of cash collections and disbursements
For the years ended December 31, 2022 and 2021
(Denominated in U.S. dollars)

1. DESCRIPTION OF THE FINANCIAL PROCEDURES AGREEMENT

On February 23, 2017, Corporación Andina de Fomento (CAF) and International Bank for Reconstruction and Development (the “World Bank”) as a Trustee of the Special Climate Change Fund (SCCF), agreed the standard provisions applicable to the Trust Funds that set forth certain terms and conditions generally applicable to the financial procedures agreement. The financial procedures agreement provides for the conditions for the transfer of funds by the Trustee to CAF and the use of these funds.

The Trustee applies the procedures described in Article IV of the financial procedure agreement for all the commitments of funds granted to CAF, as Project Agency; these procedures include the signing of a Letter of Commitment for each approved transaction. In addition, after the funds have been committed by the Trustee and the Fund project has been approved by CAF, the latter, as project agency, may request transfers of funds for a Fund project. The funds received by the Trustee are presented as cash receipts in the statement of cash collections and disbursements.

The funds transferred to CAF under the financial procedures agreement shall be used for the purpose for which they have been provided; in addition, the disbursements of funds from CAF to the recipients shall be made in accordance with CAF’s policies and procedures, including its applicable disbursement procedures. The funds shall not be used for the purpose of any payment to persons or entities or for the import of goods, if such payment or import, to the CAF’s knowledge or belief, is prohibited by a resolution, action or decision of the United Nations Security Council taken under Chapter VII of the United Nations. The funds used and disbursed by CAF to mainly executing agencies are presented as cash disbursement in the statement of cash collections and disbursements.

Unused funds from the fund projects, for which no further disbursements are due to be made, shall be held by CAF, and reflected in the net cash position reported by CAF to the Trustee. If so requested by the Trustee, CAF shall return to the SCCF, any unused fund from the Fund projects. If the funds were not used for the purpose provided under the instrument and/or the decisions made by the fund council, as applicable, due to the CAF’s actions or due to the action of a third party as a result of the Project Agency’s gross negligence or willful misconduct, CAF shall promptly return to the SCCF the amount of Fund resources, and, as applicable, shall take the necessary actions within its control to address the matter, including in accordance with its policies and procedures, using reasonable efforts to recover from such third party the amount of the Fund resources that have not been used for the purposes provided, and return such resources to the SCCF.

According to the fee policy for Global Environment Facility (GEF) Partner Agencies and the financial procedures agreement, CAF receives agency fees, to cover the project agency’s cost in respect of the services performed by the project agency in connection with the GEF. The fee policy for GEF partner agency establishes fees for 9.5 % of the grant, for GEF project grant up to, and including, US\$10 million. For GEF project grant above US\$10 million, GEF agencies will receive fees at 9.0 % of the grant. Agency fees are presented as disbursement in the statement of cash collections and disbursements.

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Notes to the statement of cash collections and disbursements
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In 2001, the parties to the United Nations Framework Convention on Climate Change (UNFCCC) established the Special Climate Change Fund (SCCF) under the decision 7/CP.7 of the Parties' convention, to support climate change activities that are complementary to the GEF's climate change projects, with a special focus on the most vulnerable countries. The objective of the Special Climate Change Fund (SCCF) is to support adaptation and technology transfer projects and programs that: are country-driven, cost-effective and integrated into national sustainable development and poverty-reduction strategies.

The Project Agency shall exercise the same degree of care and diligence in the discharge of its functions under the Financial Procedures Agreement as it exercises with respect to the administration and management of its own resources. Subject to the terms of the Financial Procedures Agreement and the MOU, the Project Agency shall do any and all such acts as may be necessary or appropriate for the proper administration of the Project Agency TF and shall be accountable to the Fund Council for its Fund-financed activities.

On March 8, 2018, CAF and *Consortio para el Desarrollo Sostenible de la Ecorregión Andina* (CONDESAN) signed an agreement to execute project "Andes Adaptation to the Impacts of Climate Change in Water Resources" (AICCA) to generate and share data, information and experiences relevant for adaptation to climate variability and change, useful for formulation of policies in selected sectors, and to pilot investments in priority areas in the four Andean countries.

On December, 8, 2021, CAF and Massachusetts Institute of Technology (MIT) signed an agreement to execute the project UAVS/Drones for equitable climate change adaptation: participatory risk management through landslide and debris flow monitoring in Mocoa, Colombia to increase the equitable adaptation to climate change by decreasing vulnerability and increasing the resilience in Mocoa through the development of innovative technology of unmanned aerial vehicles (UAV or drones) to monitor landslides and flow of debris, and forecast risks based on community.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Under the cash basis of accounting, contributions and disbursements are recorded in the accounts when cash is collected, and cash is disbursed to mainly executing agencies such as *Consortio para el Desarrollo Sostenible de la Ecorregión Andina* (CONDESAN) and the Massachusetts Institute of Technology (MIT); and to contracted service agencies. The accompanying statement has been prepared in U.S. dollars.

3. CONTRIBUTIONS COLLECTIONS AND DISBURSEMENTS

During the years ended December 31, 2022 and 2021, the Trustee approve 1 and 0 additional commitments for the execution of agency fees, respectively, that meet the conditions of the financial procedures agreement in articles 4 "Commitment of funds by the Trustee" and 5 "Transfer of funds by the Trustee to the Project Agency".

During the year ended December 31, 2022, CAF receive additional contributions to execute agency fees for US\$ 45,405 and performed disbursements for US\$ 1,713,209 for fund projects and US\$ 101,702 for agency fees. During the year ended December 31, 2021, CAF receive additional contributions to execute the projects for US\$ 2,536,987 and performed disbursements for US\$ 3,580,084 for fund projects and US\$ 15,354 for agency fees.

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The information of the commitment approved to execute the projects is detailed below:

- During the years ended December 31, 2022 and 2021, the Trustee did not approve additional commitments for the project AICCA. During the year ended December 31, 2022, CAF did not receive additional contributions for project execution purposes and performed disbursements to *Consortio para el Desarrollo Sostenible de la Ecorregión Andina* (CONDESAN) for US\$ 1,360,059 and US\$ 100,795 for agency fees. Additionally, during the year ended December 31, 2021, CAF received additional contributions to execute the project for US\$ 2,536,987 and performed disbursements to *Consortio para el Desarrollo Sostenible de la Ecorregión Andina* (CONDESAN) for US\$ 3,580,084 and US\$ 15,354 for agency fees.
- On April 4, 2022 the Trustee approved the commitment to the project UAVS/Drones for equitable climate change adaptation: participatory risk management through landslide and debris flow monitoring in Mocoa, Colombia for US\$ 45,405. During the year ended December 31, 2022, CAF received additional contributions for US\$ 45,405, for agency fees, and made disbursements to Massachusetts Institute of Technology (MIT) for US\$ 353,150 and US\$ 907 for agency fees. Also, during the year ended December 31, 2021, CAF did not receive contributions and did not make any disbursements regarding this project.

As of December 31, 2022, the status of the projects is as follow:

Project	Transfer of funds by the trustee (1)	Disbursements (2)
Project Andes Adaptation to the Impacts of Climate Change in Water Resources	8,938,648	8,582,313
Project UAVs/drones for Equitable Climate Change Adaptation	549,905	354,057
	9,488,553	8,936,370

(1) The transfer of funds by the trustee are comprising to contributions to executing the project and contributions for agencies fees.

(2) The disbursements of funds by CAF comprise payments to execute the project and agencies fees payment. Note that while CAF made these disbursements, they may still be under execution by the executing agencies.

Additionally, during the years ended December 2022 and 2021, CAF received other transfers for US\$ 8,066 and US\$ 208, respectively, corresponding to bank interests monthly earned on the balance maintained in the fund's bank account, which will be reimbursed to the Trustee; and it made other disbursements for US\$ 767 and US\$ 751, respectively, for finance costs corresponding to the bank account.

4. OTHER INCOMES

During the year ended December 31, 2022, the *Consortio para el Desarrollo Sostenible de la Ecorregión Andina* (CONDESAN) made a refund of US\$ 76,125 to CAF, corresponding to VAT reimbursements from the tax authority related to payments done during the execution of the project AICCA.



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