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Investing in rural people

## Proposed amendments to the instrument establishing the trust fund for the IFAD Adaptation for Smallholder Agriculture Programme

### Note to Executive Board representatives

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For: Approval

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## Recommendation for approval

The Executive Board is invited to approve the proposed amendments to the instrument establishing the trust fund for the IFAD Adaptation for Smallholder Agriculture Programme, as contained in the annex hereto, for application to the receipt, administration and use of all resources to be committed by donors to the trust fund as of the adoption of such amendments.

## Proposed amendments to the instrument establishing the trust fund for the IFAD Adaptation for Smallholder Agriculture Programme

### I. Summary

1. The Adaptation for Smallholder Agriculture Programme (ASAP) is IFAD's flagship programme for channelling earmarked climate and environmental finance to smallholder farmers by mainstreaming climate resilience actions into IFAD investment projects. In its external review in 2015, the Overseas Development Institute (ODI)<sup>1</sup> confirmed that ASAP is the largest dedicated fund for addressing the climate change adaptation needs of smallholder farmers.
2. Considering that phase 1 of ASAP will be concluded in September 2017, IFAD is proposing to initiate a second phase of the ASAP (ASAP2) to mobilize new supplementary funding from interested donors to assist with deepening the environment and climate-mainstreaming agenda for building climate-resilient rural livelihoods. ASAP2 will play a catalytic role in response to the emerging needs of IFAD Member States' in an evolving climate context.
3. Contributions already received and pledged for the first phase will continue to be governed by the provisions of the original instrument establishing the ASAP Trust Fund as approved by the Executive Board at its 105<sup>th</sup> session.<sup>2</sup>
4. ASAP2 will cover the period from September 2017 to 31 December 2025. The proposed amendments<sup>3</sup> to the ASAP Trust Fund are in line with the proposed second phase orientation. The revised document Climate mainstreaming in IFAD-funded programmes<sup>4</sup> explains how ASAP2 activities and outputs contribute to achieving climate-mainstreaming outcomes at the portfolio level.
5. Upon approval by the Executive Board of the proposed ASAP2 orientation and trust fund amendments, a consultation process will be undertaken with current and prospective donors to determine funding commitments and agree on operational details consistent with the overall funding envelope. An ASAP2 draft concept note will be shared in advance to inform the consultation process.

### II. Background

#### A. Challenges and opportunities

6. Smallholder farmers are on the front lines of climate change. They inhabit some of the most vulnerable and marginal landscapes, such as hillsides, rangelands, semi-arid and arid lands, deltas and floodplains, and rely on climate-sensitive natural resources to make a living. As a result, they are highly vulnerable to rising temperatures, erratic rainfall, pest infestations, rising sea levels and extreme

<sup>1</sup> [www.ifad.org/documents/10180/a13a8847-b871-4e9e-b18e-aab84de48606](http://www.ifad.org/documents/10180/a13a8847-b871-4e9e-b18e-aab84de48606).

<sup>2</sup> Document EB 2012/105/R.45.

<sup>3</sup> Document EB 2016/118/INF.8.

<sup>4</sup> Climate mainstreaming in IFAD-funded programmes (EB 2016/118/R.16.) was reviewed at the 118<sup>th</sup> session of the Executive Board. An updated version will be submitted for information subsequent to the conclusion of the twenty-second Conference of the Parties (COP22) to the United Nations Framework Convention on Climate Change (UNFCCC) in Marrakesh.

events such as floods, droughts, landslides, typhoons and heat waves. Smallholders often lack secure land tenure and resource rights, and access to markets and finance, and are often overlooked in global and national policy debates on climate change issues - despite the fact that poor rural communities bear the brunt of climate change impact and, equally, are a key part of the solution.

7. Through the first phase of the ASAP, IFAD has demonstrated that investing in poor smallholder farmers makes strong business sense, especially if these farmers are informed and empowered to adopt climate-resilient farming systems and become active participants in markets. Such investments build the resilience of individual households, livelihoods (value chains) and ecosystems. With IFAD support, many farmers are making the transition from subsistence farming to viable small enterprises, establishing low-carbon livelihoods in rehabilitated landscapes. IFAD's work on climate change adaptation under ASAP's first phase has shown that climate finance channelled to smallholder farmers, including women, can assist them with accessing knowledge, finance, social networks and technologies, and that improving pro-poor climate-resilient policies can boost agricultural productivity while restoring and maintaining a resilient natural resource base and reducing agriculture's carbon footprint.
8. While the first phase of ASAP has facilitated significant change in IFAD's operations, this constitutes only the beginning of a longer process of action required to invest in building the resilience of rural communities to climate change. The magnitude of the challenge is great and the resource requirements are significant. At the twenty-first session of the Conference of the Parties (COP21) to the UNFCCC in December 2015, 195 countries adopted a legally binding global climate agreement, the Paris Agreement, currently ratified by 85 countries. The entry into force of the Paris Agreement on 4 November 2016 will strengthen the COP21 decision (Decision 1/CP.21), which includes the intention of developed countries to continue their existing collective goal to mobilize US\$100 billion per year in climate finance until 2025 to help developing countries cope with climate change. Furthermore, there is a demand to balance adaptation and mitigation finance, as reflected in the recent COP22 flagship initiative Adaptation for Agriculture in Africa (AAA) slated to be adopted at COP22.
9. An analysis of Intended Nationally Determined Contributions (INDCs) submitted to COP21 by 149 IFAD Member States showed that 93 per cent include climate change adaptation as a priority in the agriculture sector, and 78 countries refer to mitigation targets. Building on the support IFAD has provided to many of these countries in implementing country-driven adaptation priorities, IFAD remains well placed to continue facilitating the channelling of climate finance to its Member States, with smallholder farmers as key agents and entry points. Through the second phase of ASAP, IFAD will further support Member States in implementing their NDC priorities in the agriculture and rural development sector.

## B. Adaptation for Smallholder Agriculture Programme

10. ASAP was launched in September 2012 with the goal of improving the climate resilience of 8 million farmers by 2020, by mainstreaming climate change in IFAD's existing work on rural development with poor smallholders. It was established as a multi-donor trust fund that mobilized US\$366 million in pledges and commitments from 11 donors: Belgium, Canada, Finland, Flanders (Belgium), France, Norway, Netherlands, Republic of Korea, Sweden, Switzerland and United Kingdom. The ASAP Trust Fund was approved by the Executive Board at its 105<sup>th</sup> session in April 2012.
11. The first phase of the ASAP spans a period of five years, from September 2012 to September 2017. Donor contributions were deposited in a dedicated ASAP Trust Fund and programmed as grant cofinancing to support smallholder adaptation to climate change in vulnerable Member States. ASAP finance was integrated into

IFAD's regular investment programme, and follows internal quality enhancement and assurance processes leading up to consideration by the Executive Board. To facilitate this process, a number of internal processes and operational protocols were developed.

12. Since the programme's inception in September 2012, 36 ASAP-supported projects have been approved by the Executive Board, committing US\$285 million from the ASAP Trust Fund to concrete actions that help smallholder farmers adapt to the impacts of climate change. Of these, 21 ASAP-supported projects have begun disbursing ASAP grant financing. One ASAP-supported project, in Yemen, had to be suspended due to security concerns. ASAP grants have led to better climate risk analysis, innovative risk management approaches, the scaling up of sustainable natural resource management approaches and targeted climate change adaptation measures in IFAD investment programmes.
13. The ASAP has achieved international visibility and has developed into a successful climate change adaptation programme with global value. At its inception, it received financial support from four bilateral donors. Three years later, the group of climate donors in IFAD had almost tripled, illustrating the appreciation of the programme. In 2013, the ASAP received the UNFCCC Momentum for Change Lighthouse Activity award for innovative financing, awarded by the United Nations Secretary-General at the Warsaw Climate Change Conference. External reviews by the ODI in 2015 and the United Kingdom's Department for International Development (DFID) in 2013, 2014 and 2015 have confirmed that the ASAP model is "fit for purpose" and ready to evolve in terms of scope, range of countries and financial instruments.
14. The first phase of ASAP has shaped and institutionalized climate change adaptation practices and processes, and also strengthened capacities within IFAD. Additional efforts are needed, however, to continue and improve climate mainstreaming in IFAD programming over the long term, as pointed out by the ODI external review. As part of the Management response to the external review, an internal working group was set up to provide options for ASAP's future. This working group concluded that due to its successful operational model for climate mainstreaming in agricultural investment programmes, the ASAP Trust Fund should remain operational throughout the duration of the IFAD Strategic Framework 2016-2025, with the ability to accept new contributions over the course of IFAD10 in the form of grants.

### III. ASAP2

#### A. ASAP2 orientation

15. Management has committed to explicitly factor climate change concerns into all country strategic opportunities programmes (COSOPs), country strategy notes and project designs under the period of the Tenth Replenishment of IFAD's Resources (IFAD10). This agenda is anchored in a 10-point plan approved by the Governing Council in February 2015.
16. Building on this commitment, ASAP2 will focus on improving environment and climate-compatible programming of replenishment core contributions and unrestricted complementary contributions (UCCs). This will be achieved by a range of enabling activities to assess climate-related risks and opportunities for smallholder farmers and identify priorities for adaptation investments. In doing so, ASAP2 will provide catalytic support to the delivery of IFAD's climate change mainstreaming agenda<sup>5</sup> under IFAD10 and beyond – extending up to 2025.
17. ASAP2 will continue to finance diagnostic work for addressing core environmental and climate concerns grounded in an analysis of local, subnational and national

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<sup>5</sup> See footnote 4.

challenges and opportunities. This will facilitate improved design of pro-poor climate-resilient projects. In addition, ASAP2 will finance the appraisal and prioritization of innovative climate change adaptation and mitigation options, build institutional capacities to better plan and allocate resources in support of climate-resilient livelihoods, and engender national, regional and global public goods. All activities undertaken under ASAP2 will explicitly address gender concerns and the priorities of food and nutrition security.

18. A broad range of governmental, non-governmental, international and private-sector bodies will be engaged to develop and deliver ASAP2 products and services.

19. ASAP2 will support:

- Technical expertise on climate science, climate change adaptation, disaster management, natural resource management, environmental and social safeguards, and environmental economics for improved country strategy (COSOPs) and project design development. This includes detailed climate risk analysis at the COSOP and project design stages;
- Geospatial analyses for assessing biophysical risks and for monitoring changes on the ground engendered by IFAD projects;
- Consultative processes for leveraging a broader constituency, including women, youth and private-sector entities to engage in climate-resilient priority setting, project design and implementation;
- Key, but marginalized, stakeholder groups for engaging in pro-poor climate-resilient policy dialogue processes coupled with development of knowledge products, capacity-building and awareness-raising for better informed policy engagement;
- Preparatory (post-COSOP development and pre-project design) participatory testing of site-specific climate change adaptation options. These activities provide critical information for scaling-out strategies and facilitate uptake by smallholders;
- Dissemination of innovative climate-resilient technologies and approaches across the IFAD portfolio, e.g. bio-pesticides, soil micro-organism enhancement, labour-saving machinery, post-harvest storage and processing, greenhouse gas-neutral transportation and renewable energy; and
- Knowledge management systems that include user-friendly knowledge products (e.g. instructional videos) and dissemination pathways, as well as South-South exchange for leveraging climate-resilient and environmentally sustainable agriculture options.

20. Based on the implementation experience gained under the first phase of ASAP, Management aims to mobilize at least US\$100 million for ASAP2 to support implementation of the climate change mainstreaming agenda during the IFAD10 period. The estimated amount of US\$100 million is derived from: cost-norms established during the first phase of ASAP; the projected pipeline of projects and IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) appraisals under IFAD10; and the volume of grant financing needed to scale out innovations for national, regional and global public goods. ASAP financial needs will be reviewed after each IFAD replenishment cycle and updates will be presented to the Executive Board.

## B. Achieving and monitoring ASAP2 results

21. ASAP2 will contribute to achieving IFAD's climate mainstreaming objectives and outcomes over the Strategic Framework 2016–2025 implementation period. ASAP2 will provide a flexible climate financing window to respond to emerging needs and

an evolving on-the-ground climate change context through engagement of a broad range of supporting actors. ASAP2 overall results – activities and outputs – will contribute to achieving the outcomes of the results framework detailed in Climate Mainstreaming in IFAD-Funded Programmes. Specifically, ASAP2 financing will contribute to achieving the following:

- (i) More systematic use of social, environment and climate risk analysis for climate-resilient investment planning;
  - (ii) Improved participation of smallholder farmers in decision-making processes related to the governance of climate-sensitive natural resources;
  - (iii) Increased participation of women and other vulnerable groups in climate change adaptation activities;
  - (iv) Stronger engagement of private-sector entities in climate change adaptation activities;
  - (v) Increased options of climate-resilient farming systems that provide food and nutrition security and income generation;
  - (vi) Increased access to climate-resilient technologies and approaches for, and exchange between, smallholders and national teams; and
  - (vii) Generation, codification and dissemination of knowledge to inform evidence-based policy processes related to green, low carbon and climate-resilient rural development.
22. ASAP2-supported investment projects will be monitored using the revised Results and Impact Measurement System (RIMS). Furthermore, as part of IFAD's Development Effectiveness Framework, ASAP2 will be monitored by the Operational Results Management (ORM) System<sup>6</sup> currently being developed by the Operational Programming and Effectiveness Unit (OPE) Unit. The ORM System will include a tracking tool that includes an online logical framework and a supervision template to enhance focus on self-evaluation and accountability for results. The Report on IFAD's Development Effectiveness will continue to report on climate issues, capturing IFAD's climate mainstreaming work under ASAP2. These knowledge and reporting activities will extend to IFAD10 and beyond.
23. In line with IFAD procedures and guidelines, all ASAP2-supported investment projects will aim to establish baseline data prior to consideration by the Executive Board. Both baselines and targets will be monitored by the ORM System. To determine the wider impact of ASAP2 investments, a small sample of activities will be subject to impact assessments, led by the Strategy and Knowledge Department. Furthermore, the ASAP knowledge management strategy will be enhanced by generating thematic reports<sup>7</sup> on results from IFAD's climate-mainstreaming experience, to improve overall IFAD programming and advance discussion on climate change adaptation in the agriculture sector.

### C. Programming and allocation of ASAP2 financing

24. It is envisaged that ASAP2 funds will advance environment and climate mainstreaming in IFAD baseline investments through a range of catalytic activities leveraging other sources of financing. ASAP2 programming and implementation will be based on IFAD's existing management, quality control and programming modalities. As in the first phase of ASAP, IFAD's Programme Management Department (PMD) will lead design and implementation support of ASAP2 grants. The PMD focal point for overall ASAP programme management is IFAD's

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<sup>6</sup> At output level.

<sup>7</sup> Thematic reports on adaptation and gender, nutritional impacts of adaptation investments, and value for money of adaptation are some of the reports under consideration.

Environment and Climate Division, which will support internal coordination and reporting, and external knowledge sharing.

25. Contributions to ASAP2 will be received in the form of supplementary funds. They will be deployed on a case-by-case basis, based on specific assessments undertaken and evidence presented over the course of a country programming cycle. In general, the allocation of ASAP2 funds will be determined as follows: (i) project contributions towards the achievement of countries' commitments under the International Climate Change Agenda; and (ii) needs assessed and documented under SECAP.
26. The use of SECAP assessments as a criterion to help prioritize investments is based on an environmental and social risk rating, in conjunction with a rating to measure a project's exposure and sensitivity to climate-related risks and impacts.<sup>8</sup> The results allow IFAD Management to prioritize investment needs in climate hot spots or environmentally sensitive areas, and channel ASAP2 funds to those projects where complementary technical assistance activities add the most value. The specific approach, criteria and modalities for allocation of ASAP2 funds will be detailed in the ASAP2 draft concept note to be shared prior to the donor consultation process.

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<sup>8</sup> [www.ifad.org/documents/10180/a36f992c-5e31-4fac-8771-404bea02796b](http://www.ifad.org/documents/10180/a36f992c-5e31-4fac-8771-404bea02796b).



## Proposed amendments<sup>9</sup> to the instrument establishing the ASAP Trust Fund

### Establishment of a trust fund for the IFAD Adaptation for Smallholder Agriculture Programme

The Executive Board,

At its 105<sup>th</sup> session on 3-4 April 2012,

Considering section III(c)(iii) of Governing Council resolution 166/XXXV on the Ninth Replenishment of IFAD's Resources concerning the use of complementary contributions to support the Fund's Adaptation for Smallholder Agriculture Programme (ASAP), and

Further considering section X of the same resolution, which provides that "During the replenishment period, the Executive Board and the President are encouraged to take necessary measures to strengthen the Fund's catalytic role in raising the proportion of national and international funding directed at improving the well-being and self-reliance of rural poor people, and to supplement the resources of the Fund by using the Fund's power to perform financial and technical services, including the administration of resources and acting as trustee, that are consistent with the objective and functions of the Fund. Operations involved in the performance of such financial services shall not be on the account of the Fund,"

Decides that:

1. An IFAD ASAP trust fund (Trust Fund) shall be established, constituted of the funds that shall from time to time be contributed in accordance with the provisions of this resolution, and any other assets and receipts of the Trust Fund.
2. The Fund shall be the Administrator of the Trust Fund and in this capacity shall hold and administer in trust such funds, assets and receipts. Decisions and other actions taken by the Fund as Administrator shall be identified as taken in that capacity.
3. ~~The operations and transactions of the Trust Fund shall be conducted through an operations sub-account and an administration sub-account. The resources of the Trust Fund shall be held separately in each sub-account.~~ The resources of the Trust Fund shall be held separately from IFAD's resources.
4. ~~The unit of account of the Trust Fund shall be the special drawing right of the International Monetary Fund.~~ The Trust Fund's reporting currency shall be the United States dollar. Grants should be denominated in a currency in accordance with IFAD's policies and procedures. The Trust Fund may use as currency of payment any freely convertible currency.
5. The Trust Fund shall be authorized to receive, upon the approval of the President in his/her capacity as President of the Administrator, the following resources in the form of grants for the general purposes of the Trust Fund or for specific projects or programmes supported by the Trust Fund:
  - (a) Funds hereby transferred pursuant to section III(c)(iii) of Governing Council resolution 166/XXXV on the Ninth Replenishment of IFAD's Resources;
  - (b) Contributions made in a freely convertible currency directly by Member States of the Fund;
  - (c) Contributions made in a freely convertible currency by non-Member States of the Fund, other entities and private individuals; and

<sup>9</sup> For ease of reference, insertions are shown in bold and deletions in strikethrough. All other provisions will remain unchanged.

(d) Other resources.

Except as otherwise decided in this resolution, all such resources shall be held in the Trust Fund.

6. The resources of the Trust Fund shall be used exclusively by the Administrator for the purpose of financing, in the form of grants, ~~components of the IFAD-financed core portfolio of projects and programmes~~ technical assistance, innovation support, capacity-building, policy dialogue and advocacy, and regional or national public goods to create enabling environments for climate-sensitive operations. ~~to increase the resilience of small farmers to climate change in the following five key ASAP outcome areas: (i) improved land management and climate-resilient agricultural practices and technologies; (ii) increased availability of water and efficiency of water use for smallholder agricultural production and processing; (iii) increased human capacity for adaptation and weather-related disaster risk reduction at local and national levels; (iv) rural infrastructure made climate-resilient; and (v) knowledge of climate-smart smallholder agriculture documented and disseminated.~~ These activities shall be focused on the following thematic areas: (i) policy engagement – to engage agriculture institutions in IFAD Member States in the realization of international climate change commitments and national adaptation priorities; (ii) climate risk assessment – to facilitate a more systematic use of climate risk information for resilient investment planning; (iii) women’s empowerment – to increase women’s participation in, and benefits from, climate-change adaptation activities; (iv) private-sector engagement – to strengthen participation of private-sector entities and farmers’ groups in concrete climate change adaptation and mitigation activities; (v) climate services – to enhance the use of climate information for resilient investment planning; (vi) natural resource management and governance – to improve smallholder farmers’ participation in and ownership of decision-making processes and technologies that relate to the governance and management of climate-sensitive natural resources; (vii) improved capacity to produce and use knowledge and evidence around climate and nutrition-sensitive agriculture and food systems; and (viii) knowledge management – to enhance the documentation and dissemination of knowledge on approaches to climate-resilient agriculture.
7. Subject to the provisions of this resolution, in administering the Trust Fund, the Fund shall apply the same rules applicable to the operation of the resources of the Fund, in accordance with the Agreement Establishing IFAD.
8. The Fund in its capacity as Administrator, acting through its President, is authorized:
  - (a) To make all arrangements, including establishment of accounts in the name of the Fund as Administrator, with such depositories of the Fund as the Administrator deems necessary; and
  - (b) To take all other administrative measures that the Administrator deems necessary to implement the provisions of this resolution.
9. In light of the Agreement Establishing IFAD and the ~~IFAD and the Lending Policies and Criteria of the Fund~~ Policies and Criteria for IFAD Financing, the allocation of resources for the second phase of ASAP (ASAP2) will take into account: (i) ~~ex ante estimates~~ project contributions towards the achievement of countries’ commitments under the International Climate Change Agenda; and (ii) needs as assessed and documented under the Social, Environmental and Climate Assessment Procedures. These ASAP2 resources will contribute ~~10 key~~ to achievement of the outcomes of the climate mainstreaming results

measurement framework, in line with IFAD's commitment to 100 per cent climate change mainstreaming, shall be taken into account when assessing potential ASAP contributions to Fund-financed projects and programmes: (i) number of poor smallholder household members whose climate resilience has been increased because of the ASAP; (ii) size of the overall resulting investment; (iii) project leverage ratio of ASAP versus non-ASAP financing; (iv) tons of emissions avoided and/or sequestered; (v) increase in number of on-farm plant species per smallholder farmer supported; (vi) increase in hectares of land managed under best practices; (vii) percentage change in water-use efficiency per ton/hectare in the project area; (viii) number of community groups involved in ENRM formed or strengthened; (ix) value of new or existing rural infrastructure made climate-resilient; and (x) number of international and country dialogues to which the project would make an active contribution (i) number of countries realizing national adaptation priorities with support by IFAD investment projects; (ii) number of investment projects informed by climate risk and vulnerability analysis; (iii) number of women enabled to access assets and resources for climate risk management; (iv) number of businesses (including farmer-based cooperatives) engaged in the promotion and adoption of adaptation technologies and approaches; (v) number of individuals receiving climate information services; (vi) number of individuals who participate in local land, water and fishing governance and decision-making; and (vii) number of IFAD investment projects and programmes developing and disseminating knowledge products and know-how on climate adaptation.

10. The privileges and immunities accorded to the Fund shall apply to the property, assets, archives, income, operations and transactions of the Trust Fund. In this context, the Fund, through the President, may enter into such agreements and arrangements as may be required to ensure the said privileges and immunities and achievement of the purposes of the Trust Fund.
11. The Fund shall maintain separate records and accounts to identify the resources of the Trust Fund, the commitments and the reimbursement of expenditures to be financed out of the Trust Fund, and the receipts and disbursements of funds in the Trust Fund.
12. The President shall, as soon as practicable after the end of each financial year of the Fund, furnish to the Executive Board: (i) a report on projects and programmes financed from the Trust Fund; and (ii) as part of its annual financial statement, a financial statement for the Trust Fund.
13. The incremental administrative expenditures directly incurred by the Fund in administering the Trust Fund and the expenditures directly incurred by the Fund in preparing and appraising projects and programmes for presentation to the Executive Board and, subsequently, in administering them shall be paid to the Fund from the resources of the Trust Fund. Resources for this purpose shall be held in the administration sub-account. They shall be used exclusively to cover the costs to IFAD of implementing the ASAP2.
14. Upon liquidation of the Trust Fund, all amounts remaining shall be transferred to the Fund.
15. The Fund shall not be liable for acts or obligations of the Trust Fund, solely by reason of its capacity as Administrator.