

Green Climate Fund

---

Decisions of the Board –  
Seventh Meeting of the Board,  
18-21 May 2014

---

**GCF/B.07/11**

19 June 2014

**Meeting of the Board**

18-21 May 2014

Songdo, Republic of Korea

Agenda item 17

## Table of Contents

Agenda item 1: Opening of the meeting	1
Agenda item 2: Adoption of the agenda and organization of work	1
Agenda item 3: Adoption of the report of the sixth meeting	2
Agenda item 4: Reports on activities	2
Agenda item 5: Reports from committees, groups and teams	2
Agenda item 6: Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund's fiduciary principles and standards and environmental and social safeguards	3
Agenda item 7: Initial proposal approval process, including the criteria for programme and project funding	5
Agenda item 8: Initial results management framework of the Fund	6
Agenda item 9: Fund's financial risk management and investment frameworks	8
Agenda item 10: Structure of the Fund, including the structure of its Private Sector Facility	9
Agenda item 11: Initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility	10
Agenda item 12: Confirmation of the completion of the essential requirements and the commencement of the initial resource mobilization process	11
Agenda item 13: Outstanding issues	11
Agenda item 14: Date and venue of eighth Board meeting	12
Agenda item 15: Status of resources	12
Agenda item 16: Other matters	12
Agenda item 17: Report of the meeting	12
Agenda item 18: Closure of the meeting	13
Annex I: Initial guiding framework for the Fund's accreditation process	14
Annex II: Initial fiduciary principles and standards of the Fund	25
Annex III: Interim environmental and social safeguards of the Fund	36
Annex IV: Terms of reference of the Accreditation Committee	39
Annex V: Terms of reference of the Fund's Accreditation Panel	41
Annex VI: Outline for the Fund's environmental and social management system	45
Annex VII: Project and programme activity cycle	47
Annex VIII: Indicative initial post-approval items	50

---

Annex IX:	Initial mitigation logic model and possible initial performance indicators which may be taken into account for further work by the Secretariat	51
Annex X:	Initial adaptation logic model and possible initial performance indicators which may be taken into account for further work by the Secretariat	53
Annex XI:	Initial financial risk management framework	55
Annex XII:	The Fund's financial risk categorization and management*	58
Annex XIII:	Financial arrangements for grants and concessional loans and the role of implementing entities and intermediaries in financial arrangements	60
Annex XIV:	Initial investment framework	61
Annex XV:	Governing Instrument, and decisions of the Board and the Conference of the Parties to the United Nations Framework Convention on Climate Change reflecting the structure of the Fund and the Secretariat	64
Annex XVI:	Governing Instrument, and decisions of the Board and the Conference of the Parties Parties to the United Nations Framework Convention on Climate Change reflecting the initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility	65
Annex XVII:	Arrangements for the collective engagement in the initial resource mobilization process	66

---

## Decisions of the Board – Seventh Meeting of the Board, 18-21 May 2014

---

### Agenda item 1: Opening of the meeting

1. The Co-Chairs opened the meeting on 18 May 2014.

### Agenda item 2: Adoption of the agenda and organization of work

2. The Board adopted the agenda as set forth in document GCF/B.07/01/Rev.01 *Agenda*:
  1. Opening of the meeting
  2. Adoption of the agenda and organization of work<sup>1</sup>
  3. Adoption of the report of the sixth meeting
  4. Reports on activities
    - (a) Report on activities of the Co-Chairs
    - (b) Report on activities of the Secretariat
  5. Reports from committees, groups and teams
  6. Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund's fiduciary principles and standards and environmental and social safeguards
  7. Initial proposal approval process, including the criteria for programme and project funding
  8. Initial results management framework of the Fund
  9. Fund's financial risk management and investment frameworks
  10. Structure of the Fund, including the structure of its Private Sector Facility

---

<sup>1</sup> In accordance with the 2014 work plan of the Board (document GCF/B.05/20) and previous decisions adopted by the Board, the following items are to be considered at the seventh meeting of the Board in addition to the items listed in this agenda:

- Policies and procedures for contributions;
- Additional result areas and indicators for adaptation activities;
- Financial terms and conditions of grants and concessional loans;
- Revised programme of work on readiness and preparatory support;
- Options for a Fund-wide gender-sensitive approach;
- Additional modalities that further enhance direct access, including through funding entities;
- Country ownership, including: the no-objection procedure; best practices for the establishment and composition of National Designated Authorities and focal points; and best-practice options for country coordination and multi-stakeholder engagement;
- Terms of reference for the Appointment Committee of the Board;
- Communication strategy;
- Provisions for legal and formal arrangements with intermediaries and implementing entities, including policies on fees and payments;
- Understanding and defining the alternative sources of financial inputs to the Fund.

To allow Board members to focus on the remaining essential requirements for the commencement of the resource mobilization (decision B.05/17 and Annex XXII to document GCF/B.05/23), the aforementioned additional items will be considered under agenda item 13.





- 
- (j) Agrees on a fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the initial fiduciary standards and interim ESS;
- (k) Requests the Secretariat to elaborate, under the guidance of the Accreditation Committee and Panel, the following elements for decision by the Board at its third meeting in 2014:
- (i) Guidelines for the operationalization of the fit-for-purpose accreditation approach referred to in paragraph (j) above; and
  - (ii) A work programme on complementarity and coherence with the accreditation systems and processes of other relevant funds, as well as relevant private sector associations, in consultation with the Private Sector Advisory Group (PSAG) and relevant stakeholders;
- (l) Requests the Accreditation Panel, with the support of the Secretariat, under the guidance of the Accreditation Committee, to elaborate the following elements for decision by the Board at its third meeting in 2014:
- (i) An assessment, including a gap analysis, of institutions accredited by other relevant funds and in line with the Fund's objectives against the interim ESS and initial fiduciary standards with recommendations on their potential accreditation or fast-tracking; and
  - (ii) The identification of potential relevant private sector international best practice fiduciary principles or standards and ESS, and an assessment of gaps against the Fund's initial fiduciary standards and interim ESS, in collaboration with the PSAG and in consultation with relevant stakeholders;
- (m) Also requests the Secretariat to issue a progress report by September on the items contained in paragraph (k) above;
- (n) Further requests the Secretariat, in consultation with the Accreditation Committee and the Accreditation Panel as needed, to develop an environmental and social management system for the Fund, based on the outline contained in Annex VI, which will include guidelines on the categorization of projects by IEs and intermediaries according to the level of environmental and social risk and in accordance with the Fund's interim ESS;
- (o) Requests the Accreditation Panel, in collaboration with the Accreditation Committee and the Secretariat, to report annually to the Board on the status of applications for accreditation, identifying and analyzing barriers faced by applicants in meeting the requirements;
- (p) Recalling decision B.05/14, paragraph (b), on providing readiness and preparatory support to enable IEs and intermediaries to meet the Fund's fiduciary principles and standards, and ESS, in order to directly access the Fund, requests the Secretariat to consider the findings of the report referenced in paragraph (m) above in updating its readiness support programme accordingly, and to prepare tools and guidance materials to enable applicants to comply with the fit-for-purpose accreditation requirements and process;
- (q) Requests the Secretariat to develop, under the guidance of the Accreditation Panel, additional specialized fiduciary standards that may be deemed necessary to effectively accommodate all institutional capacities required in IEs and intermediaries in the initial phase of operations of the Fund; and
- (r) Decides to open a call for submissions of accreditation applications from IEs and intermediaries after the Board's third meeting of 2014, and requests the Secretariat to prepare the relevant application documents for consideration by the Board at its third meeting in 2014.

---

## Agenda item 7: Initial proposal approval process, including the criteria for programme and project funding

9. The Board adopted the following decision:

### *DECISION B.07/03*

*The Board, having reviewed document GCF/B.07/03, Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding:*

- (a) Adopts the initial proposal approval process, as contained in Annex VII;*
- (b) Recognizes that the initial proposal approval process will identify programmes and projects for Board consideration that best achieve the Fund's objectives, and requests the Secretariat to develop methodologies for the selection process;*
- (c) Takes note of the initial post-approval items contained in Annex VIII and requests the Secretariat to further develop them for further consideration by the Board at its ninth meeting;*
- (d) Confirms that the criteria for programme and project funding are outlined in decision B.07/06 on the investment framework;*
- (e) Notes convergence on the need to consider: proposal development funds; early endorsement prior to full proposal development; the initial proposal approval process for regional programmes and projects; and a policy for cancellation and termination;*
- (f) Decides to establish an independent technical advisory panel composed of experts to provide an independent technical assessment of and advice on funding proposals for the Board;*
- (g) Requests the Secretariat to present draft terms of reference for the independent technical advisory panel for consideration by the Board at its eighth meeting;*
- (h) Further requests the Secretariat to develop an operations manual and an appraisal toolkit for the initial proposal approval process for programme and project funding;*
- (i) Also requests the Secretariat in the development of the Fund's information disclosure policy to address issues related to the initial proposal approval process*
- (j) Decides to review the initial proposal approval process and to take action when it deems necessary.<sup>3</sup>*

---

<sup>3</sup> For example, the additional modalities that further enhance direct access and the recommendations of the Private Sector Advisory Group will be discussed at future Board meetings.



---

**Agenda item 8: Initial results management framework of the Fund**

10. The Board adopted the following decision:

*DECISION B.07/04*

*The Board, having reviewed document GCF/B.07/04 Initial Results Management Framework of the Fund:*

- (a) Affirms that the elements of the initial results management framework of the Fund contained in this decision complement decision B.05/03, including the initial result areas of the Fund referred to in that decision, as contained in Annex I to document GCF/B.05/23, as well as the performance indicators of the initial result areas of the Fund also referred to in that decision, as contained in Annex II of document GCF/B.05/23;
- (b) Adopts the elements of the initial results management framework of the Fund as outlined hereunder:
- (i) *Levels of the logic model:*
- *Paradigm shift objective*
  - *Impacts (Fund level)*
  - *Project/Programme outcomes*
  - *Project/Programme outputs*
  - *Activities*
  - *Inputs*
- (ii) *Initial mitigation logic model:*
- 1) *Paradigm shift objective for mitigation:*
    - *Shift to low-emission sustainable development pathways;*
  - 2) *Fund level impacts for mitigation:*
    - 1.0 *Reduced emissions through increased low-emission energy access and power generation;*
    - 2.0 *Reduced emissions through increased access to low-emission transport;*
    - 3.0 *Reduced emissions from buildings, cities, industries and appliances;*
    - 4.0 *Reduced emissions from land use, deforestation, forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks;*
  - 3) *Project/programme level outcomes for mitigation:*
    - 5.0 *Strengthened institutional and regulatory systems for low-emission planning and development;*
    - 6.0 *Increased number of small, medium and large low-emission power suppliers;*
    - 7.0 *Lower energy intensity of buildings, cities, industries, and appliances;*
    - 8.0 *Increased use of low-carbon transport;*

- 9.0 *Improved management of land or forest areas contributing to emissions reductions;*
- (iii) *Initial adaptation logic model:*
- 1) *Paradigm shift objective for adaptation:*
    - *Increased climate-resilient sustainable development*
  - 2) *Fund level impacts for adaptation:*
    - 1.0 *Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions;*
    - 2.0 *Increased resilience of health and well-being, and food and water security;*
    - 3.0 *Increased resilience of infrastructure and the built environment to climate change threats;*
    - 4.0 *Improved resilience of ecosystems and ecosystem services;*
  - 3) *Project/programme level outcomes for adaptation:*
    - 5.0 *Strengthened institutional and regulatory systems for climate-responsive planning and development;*
    - 6.0 *Increased generation and use of climate information in decision-making;*
    - 7.0 *Strengthened adaptive capacity and reduced exposure to climate risks;*
    - 8.0 *Strengthened awareness of climate threats and risk-reduction processes;*
- (c) Adopts the following core indicators for mitigation:
- 1) *Tonnes of carbon dioxide equivalent (tCO<sub>2</sub>eq) reduced as a result of Fund-funded projects/programmes;*
  - 2) *Cost per tCO<sub>2</sub>eq decreased for all Fund-funded mitigation projects/programmes;*
  - 3) *Volume of finance leveraged by Fund funding, disaggregated by public and private sources;*
- (d) Adopts the following core indicator for adaptation:
- Total number of direct and indirect beneficiaries; number of beneficiaries relative to total population;*
- (e) Confirms that performance measured at the paradigm shift and impact levels refers to the aggregate project/programme-based results of the Fund;
- (f) Acknowledges that the inputs, activities, and outputs will be defined for each project/programme on a case-by-case basis;
- (g) Takes note of the initial performance indicators in Annex IX and Annex X to this document;
- (h) Affirms that national and sector-wide indicators will be used only at the discretion of the recipient country;
- (i) Decides that the results management framework should take a gender-sensitive approach and that the results should be disaggregated by gender where relevant;
- (j) Requests the Secretariat to further develop the mitigation and adaptation performance measurement frameworks of the Fund, engaging international experts as required, for the

Board to consider at its third meeting of 2014, including an approach to gender, indicators on mitigation and adaptation, and methodologies, data sources, frequency, and responsibilities for reporting;

- (k) *Further requests* the Secretariat to develop a logic model and performance framework for ex-post REDD+ results-based payments, in accordance with the methodological guidance in the Warsaw framework for REDD+, for consideration at the third Board meeting of 2014.

## **Agenda item 9: Fund's financial risk management and investment frameworks**

### **A. Financial risk management framework**

11. The Board adopted the following decision:

#### *DECISION B.07/05*

*The Board, having reviewed document GCF/B.07/05 Financial Risk Management Framework:*

- (a) *Recognizes* that the initial financial risk management framework focuses on the financial risk environment that the Fund will encounter in its operations;
- (b) *Adopts* the Fund's initial financial risk management framework as contained in Annex XI and Annex XIII to this document;
- (c) *Takes note* of the Fund's financial risk categorization and management as contained in Annex XII to this document;
- (d) *Decides* that the risk monitoring and reporting management system listed in table 1 of Annex XI to this document will be made operational before the Fund approves funding proposals;
- (e) *Requests* the Secretariat, in consultation with the Risk Management Committee, to prepare an analysis of the Fund's potential risk appetite under different key assumptions as part of its financial risk management framework. To this end:
- (i) *The Secretariat will provide, as a first step, a survey of methodologies used by relevant institutions to define and determine their risk appetite, for consideration by the Board at the third Board meeting of 2014;*
- (ii) *The Secretariat, in consultation with the Risk Management Committee, will present at the first meeting after the Fund's initial resource mobilization a methodology for determining the initial risk appetite of the Fund, for approval of the Board; and*
- (iii) *The Secretariat to outline various scenarios, using the approved methodology, will support the Board in the setting of the Fund's initial risk appetite.*
- (f) *Decides* to annually consider undertaking a review of the initial financial risk management framework, and to have an in-depth review no later than three years after the initial capitalization of the Fund;
- (g) *Requests* that the Risk Management Committee, as part of its work programme, expand its analysis beyond financial risks to address other risks that the Fund may encounter.

## B. Investment framework

12. The Board adopted the following decision:

### *DECISION B.07/06*

*The Board, having reviewed document GCF/B.07/06 Investment Framework:*

- (a) Adopts the initial investment framework of the Fund, as contained in Annex XIV;*
- (b) Decides that the Fund's initial investment framework will reflect the Fund's theme/activity-based resource allocation system as laid out in decision B.05/05;*
- (c) Requests the Investment Committee to submit the following for consideration to the eighth Board meeting, with technical support from the Secretariat and other stakeholders and taking into consideration recommendations from the Private Sector Advisory Group, before the Fund approves funding proposals:*
  - (i) Definitions for activity-specific sub-criteria and a set of activity-specific indicators, taking into account the Fund's initial investment framework, the Fund's initial result areas and initial results management framework, and decisions B.05/05, B.06/07 and B.05/03 as well as subsequent decisions on additional result areas for adaptation;*
  - (ii) Minimum benchmarks for each criterion, taking into account the best practices of other institutions;*
  - (iii) Identification and comparison of methodologies, that enable the Secretariat to assess the relative quality and innovativeness of comparable proposals in comparable circumstances, including through a survey, for the application of the sub-criteria mentioned in paragraph (c) (i) above in the selection of proposals;*
- (d) Requests the Secretariat to prepare a document for the eighth Board meeting that considers the additional support, expert advice and/or additional structures that are required to facilitate the work of the Secretariat in the assessment of proposals against the activity-specific criteria and the work of the Investment Committee;*
- (e) Decides to keep under review the initial investment framework and to take action as necessary in particular with respect to the criterion on needs of the recipient countries in the investment guidelines.*

## **Agenda item 10: Structure of the Fund, including the structure of its Private Sector Facility**

13. The Board adopted the following decision:

### *DECISION B.07/07*

*The Board, having reviewed document GCF/B.07/07/Rev.01 Structure of the Fund and the Secretariat:*

- (a) Takes note of the document GCF/B.07/07/Rev.01 Structure of the Fund and the Secretariat;*
- (b) Affirms the structure of the Fund and the Secretariat as reflected in the Governing Instrument, and the decisions of the Board and the Conference of the Parties listed in Annex XV;*

- (c) *Decides to undertake a review of the structure of the Fund and the Secretariat, no later than three years after the initial resource mobilization of the Fund;*
- (d) *Recognizes that the structure of the Fund, including that of the Private Sector Facility (PSF), is evolving. In this regard, the Board will fully implement decision B.04/08 on the PSF and decision B.04/09 on the structure and organization, taking into consideration the recommendations of the Private Sector Advisory Group on enhancing the structure of the PSF.*

### **Agenda item 11: Initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility**

14. The Board adopted the following decision:

#### *DECISION B.07/08*

*The Board, having reviewed document GCF/B.07/08 Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility:*

- (a) *Takes note of document GCF/B.07/08;*
- (b) *Affirms the initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility (PSF) as reflected in the Governing Instrument, and the decisions of the Board and of the Conference of the Parties to the United Nations Framework Convention on Climate Change listed in Annex XVI;*
- (c) *Recognizes that the mitigation and adaptation windows and the PSF are integral components of the Fund that will evolve over time;*
- (d) *Decides to undertake a review of the initial modalities for the operation of the Fund's mitigation and adaptation windows and the PSF, no later than three years after the initial resource mobilization of the Fund;*
- (e) *Decides that the Board, in line with decision B.04/08, will consider at its eighth meeting further work on the modalities of the PSF, including:*
  - (i) *Modalities for mobilizing private sector resources at scale by the PSF and the use of other financial instruments, including guarantees and equity investment;*
  - (ii) *The first report and recommendations of the Private Sector Advisory Group (PSAG);*
- (f) *Requests the PSAG to provide advice on the implementation of decision B.04/08 for consideration at the eighth meeting of the Board, with a focus on:*
  - (i) *Modalities to promote participation of private sector actors in developing countries, in particular local actors, including small and medium-sized enterprises and local financial intermediaries in small island developing States, least developed countries and Africa, and with a special emphasis on adaptation;*
  - (ii) *Modalities and instruments to mobilize private resources at scale including through special financing vehicles or instruments, including risk mitigation instruments.*

---

## Agenda item 12: Confirmation of the completion of the essential requirements and the commencement of the initial resource mobilization process

15. The Board adopted the following decision:

### *DECISION B.07/09*

*The Board, having reviewed document GCF/B.07/09 Confirmation of the Completion of the Essential Requirements and the Commencement of the Initial Resource Mobilization Process:*

- (a) Decides that the eight essential requirements for the Fund to receive, manage, programme and disburse financial resources, as listed in Annex XXII of the decision B.05/17, have been met;*
- (b) Takes note that the policies, frameworks and procedures of the Fund are evolving and may need to be further enhanced;*
- (c) Decides to commence the process to mobilize resources commensurate with the Fund's ambition to promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change;*
- (d) Requests the Secretariat to make arrangements with all interested contributors, facilitating a collective engagement in the initial resource mobilization process as agreed in decision B.05/17;*
- (e) Stresses the urgency to reach pledges by November 2014, while noting that the initial resource mobilization process may need to continue beyond this date;*
- (f) Endorses the arrangements for a collective engagement in the initial resource mobilization process, as contained in Annex XVII;*
- (g) Decides that the Board will consider the policies for contributions based on recommendations from the first meeting of interested contributors;*
- (h) Requests the Interim Trustee to provide support, as part of its function to administer the Green Climate Fund Trust Fund, to the Secretariat on:*
  - (i) The preparation of a template for legal arrangements for contributions to the Fund for consideration by the Board;*
  - (ii) Other relevant financial management issues as agreed between the Secretariat and Interim Trustee;*
- (i) Authorizes the Executive Director to confirm with the Interim Trustee the scope of Interim Trustee support, as referred to in paragraph (h).*

## Agenda item 13: Outstanding issues

16. The Board adopted the following decision:

### *DECISION B.07/10*

*The Board, having considered the workload of the Secretariat between the seventh and eighth meeting of the Board:*

*Requests the Co-Chairs to determine the priorities for the agenda of the eighth Board meeting in consultations with their constituencies, taking into account the outstanding issues listed in the footnote of document GCF/B.07/01/Rev.01, the work plan of the Board adopted in decision B.05/19, and the mandates emerging from the decisions adopted at its seventh meeting.*

### **Agenda item 14: Date and venue of eighth Board meeting**

17. The Board adopted the following decision:

*DECISION B.07/11*

*The Board:*

*Decides that its third meeting in 2014 will take place in Barbados from 15 to 17 October 2014.*

### **Agenda item 15: Status of resources**

18. The Board took note of documents GCF/B.07/Inf.03 and GCF/B.07/Inf.04.

### **Agenda item 16: Other matters**

#### **A. Election of Co-Chairs**

19. The Board took note of the clarification provided by a Board member on this matter.

#### **B. Representation of Board membership**

20. The Board adopted the following decision:

*DECISION B.07/12*

*The Board:*

*Decides to consider the representation of Board membership at its eighth meeting.*

#### **C. Implementation of elements of the administrative policies**

21. The Board took note of the clarification provided by a Board member on this matter.

### **Agenda item 17: Report of the meeting**

22. Following a comment by a Board member that recalled the approach taken at the fifth meeting of the Board, the Co-Chairs informed the Board that the document containing the decisions adopted by the Board during the meeting (document GCF/B.07/Drf.01 *Decisions of the Board – Seventh Meeting of the Board, 18 - 21 May 2014*) and the draft report of the meeting (document GCF/B.07/Drf.02 *Draft Report of the Seventh Meeting of the Board, 18-21 May 2014*) would be circulated to the Board electronically. Board members will be asked to provide comments on the draft report that will be submitted for adoption at the beginning of the next Board meeting.

**Agenda item 18: Closure of the meeting**

23. The meeting was closed on 21 May 2014.



---

## Annex I: Initial guiding framework for the Fund's accreditation process

### I. General objective

1. The general objective of this guiding framework is to enable a coherent integration of the Fund's fiduciary principles and standards and environmental and social safeguards with the Fund's accreditation process and its related operational systems and procedures, including the organizational structure and governance system dedicated to supporting it.

### II. Guiding principles for the accreditation process of the Fund

2. The guiding principles for the Fund's accreditation process will consist of:

- (a) **Best practices and continuous update:** The Fund's fiduciary principles and standards and environmental and social safeguards will be consistently in line with international best practices and standards, and systematically endeavor to reflect the best of the experience and lessons learned by relevant institutions, as well as lessons learned from its own experiences with fiduciary principles and standards and environmental and social safeguards;
- (b) **Accountability, transparency, fairness and professionalism:** Its governance system, procedures and organizational approach will ensure accountability, transparency, fairness and adequate professionalism in the accreditation process and across all operational procedures, allowing for reasonable levels of assurance and comparability with regard to the presence and performance of the required institutional capacities;
- (c) **A dynamic process that is reliable, credible and flexible:** Its modalities will pursue rigorous, independent, objective and systematic assessment and review processes, while giving due attention to special circumstances of applicant entities. A dynamic accreditation process will aim at enabling potential entities to increase their scope of activities as their capacity increases over time;
- (d) **Coherence and integration with other relevant provisions of the Fund:** The Fund's fiduciary principles and standards, environmental and social safeguards, and general accreditation procedures will be consistent and properly linked with other relevant elements of the Fund's governance, particularly the Fund's independent redress mechanism, interim disclosure policy, gender policy and others as appropriate; and
- (e) **Readiness and effectiveness:** The accreditation process will allow for readiness and preparatory support in the context of direct access and the different capacities and capabilities of countries and institutions to enhance country ownership, with a view to facilitating capacity-building.

### III. Fund's initial fiduciary principles and standards

3. The Fund's fiduciary principles and standards will distinguish between basic fiduciary criteria and specialized fiduciary criteria, which will reflect the institutional capacities necessary to deliver against the Fund's objectives and in accordance with the scope of responsibilities entrusted to the implementing entity (IE) or intermediary.

4. In this initial phase of the Fund's operations, the Fund's initial fiduciary principles and standards will distinguish between basic and specialized fiduciary standards as illustrated in the table below:

**Table: Purpose and scope of the basic and specialized fiduciary standards**

	Purpose	Scope
Basic fiduciary criteria	Key administrative and financial capacities	<ul style="list-style-type: none"> <li>• General management and administrative capacities</li> <li>• Financial management and accounting</li> <li>• Internal and external audit</li> <li>• Control frameworks</li> <li>• Procurement</li> </ul>
	Transparency and accountability	<ul style="list-style-type: none"> <li>• Disclosure of conflicts of interest</li> <li>• Code of ethics</li> <li>• Capacity to prevent or deal with financial mismanagement and other forms of malpractice</li> <li>• Investigations</li> <li>• Anti-money laundering and anti-terrorist financing</li> </ul>
Specialized fiduciary criteria	Project management	<ul style="list-style-type: none"> <li>• Project preparation and appraisal (from concept to full funding proposal)</li> <li>• Project oversight and control</li> <li>• Monitoring and evaluation</li> <li>• Project-at-risk systems and related project risk management capabilities</li> </ul>
	Grant award and/or funding allocation mechanisms	<ul style="list-style-type: none"> <li>• Grant award procedures</li> <li>• Transparent allocation of financial resources</li> <li>• Public access to information on beneficiaries and results</li> <li>• Good standing with regard to multilateral funding (e.g. through recognized public expenditure reviews)</li> </ul>
	On-lending and/or blending	<ul style="list-style-type: none"> <li>• Appropriate registration and/or licensing by a financial oversight body or regulator in the country and/or internationally, as applicable;</li> <li>• Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;</li> <li>• Creditworthiness;</li> <li>• Due diligence policies, processes and procedures;</li> <li>• Financial resource management, including analysis of the lending portfolio of the intermediary;</li> <li>• Public access to information on beneficiaries and results;</li> <li>• Investment management, policies and systems, including in relation to portfolio management;</li> <li>• Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;</li> <li>• Financial risk management, including asset liability management;</li> <li>• Governance and organizational arrangements, including relationships between the treasury function and the operational side (front desk).</li> </ul>

5. The Fund's fiduciary principles and standards will form the fiduciary criteria of the Fund to assess IEs and intermediaries for accreditation to the Fund, and will be applied according to the fit-for-purpose accreditation approach. Once accredited, IEs and intermediaries will be required to fully meet these criteria for as long as the entity intends to retain its accreditation status with and commitments to the Fund.

6. Annex II contains the Fund's initial fiduciary principles and standards.

## IV. Environmental and social safeguards

7. The Fund will adopt, on an interim basis, the environmental and social Performance Standards (PS) of the International Finance Corporation (IFC). These will be used by the Fund in combination with the IFC's Guidance Notes, which provide more detail on each PS, until the Fund's own environmental and social safeguards (ESS) are fully developed.
8. Once the Fund has built up a track record of experience and lessons learned, an in-depth review will be conducted, including benchmarking against recently updated regional bank standards, the updated World Bank Safeguards (anticipated), and experience in implementing the Adaptation Fund principles. This review will aim at completing the process of developing the Fund's own ESS, which will build on evolving best practices, within a period of three years after the Fund becomes operational.
9. In addition, observations from the Independent Evaluation Unit and with the independent redress mechanism will be taken into account in the development of the Fund's own ESS.
10. The interim ESS contain the requirements that, in cases where there may be environmental and/or social impacts, accredited entities must ensure are implemented by executing entities in relation to activities supported financially by the Fund.
11. The Fund ESS will be applied to all projects, as well as individual projects or activities within a programme, to be funded by the Fund.
12. The package consists of eight standards with the first one, Performance Standard 1: Assessment and Management of Environmental and Social Risks, applying to all funding proposals.
13. Performance Standard 1 establishes the importance of:
  - (a) Integrated assessment to identify the environmental and social impacts, risks and opportunities of funding proposals;
  - (b) Effective community engagement through the disclosure of project-related information and consultation with local communities on matters that directly affect them; and
  - (c) The accredited entities' management of environmental and social performance throughout the life of the funding project or programme.
14. Performance Standards 2 through 8 establish objectives and requirements to avoid and minimize and, where residual impacts remain, compensate/offset the risks and impacts to workers, affected communities and the environment. While all relevant environmental and social risks and potential impacts should be considered as part of the assessment, Performance Standards 2 through 8 describe potential environmental and social risks and impacts that require particular attention.
15. PS 2–8 will be utilized in a modular way as needed. Where environmental or social risks and impacts are identified, the accredited entity is required to manage them in accordance with the Fund's ESS through the relevant executing entity(ies).
16. The IFC's PS and Guidance Notes will also serve as the basis for the development of the Fund's own ESS.

### 4.1 Scaled risk-based approach

17. The application of the Fund's interim ESS will be implemented in a risk-based manner and not in a blunt, one-size-fits-all approach. This approach will ensure that environmental and social requirements and processes are commensurate to their level of risk and, coupled with the

modular application of the Fund's interim ESS, will not slow down or overburden low- to no-risk projects.

18. This approach also provides the Fund with a tool for quickly judging exposure to environmental and social risks, both at the individual project level as well as the portfolio level.

19. IEs and intermediaries accredited to the Fund will have the capacity and a system for screening funding proposals in order to identify the potential environmental and social risks and/or impacts and to determine if any potential inconsistencies with the Fund's interim ESS are insurmountable and/or not manageable over a reasonable period of time.

20. Funding proposals will thus fit into the following categories:

- (a) Category A: Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (b) Category B: Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;
- (c) Category C: Activities with minimal or no adverse environmental and/or social risks and/or impacts;

21. Category for intermediation: activities involving investments through financial intermediation functions or through delivery mechanisms involving financial intermediation, and are divided into the following three levels of risk:

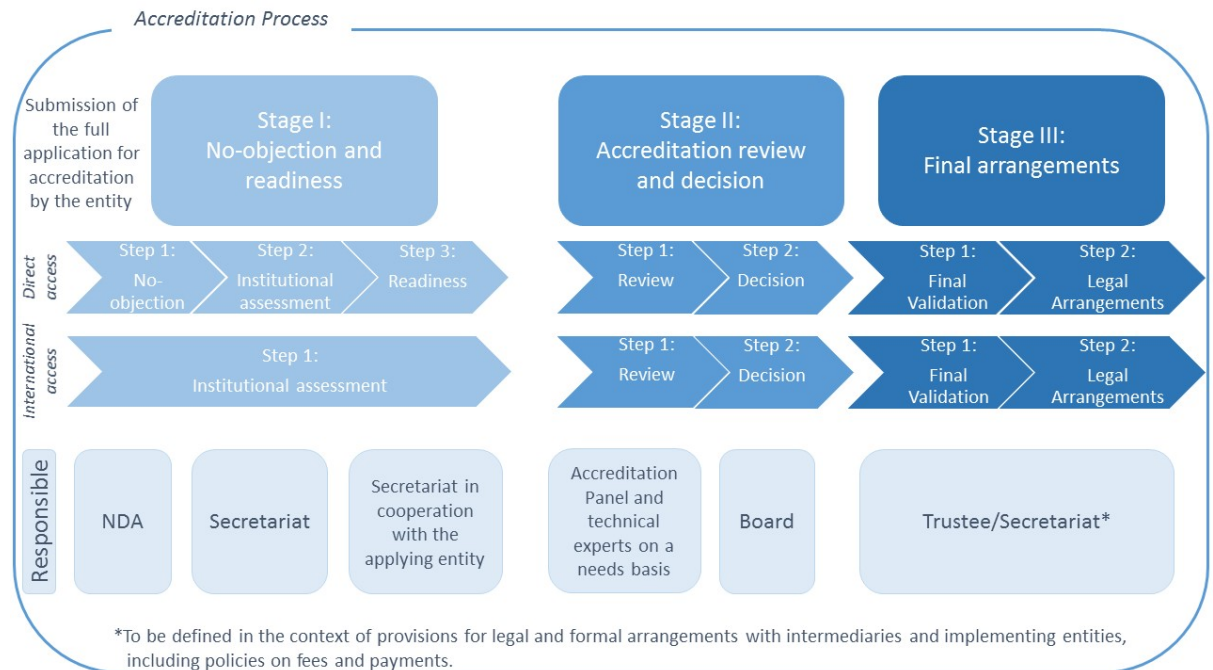
- (a) High level of intermediation – I1: When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (b) Medium level of intermediation – I2: When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (c) Low level of intermediation – I3: When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts.

22. Additional guidance will be developed for accredited entities on how to categorize projects.

## **V. Accreditation process**

23. The Fund's accreditation process will be based on three main stages:

- (a) Stage I: No-objection and readiness;
- (b) Stage II: Accreditation review and decision;
- (c) Stage III: Final arrangements.



**Figure 1: Overview of the accreditation process**

24. The Fund will accept and review applications on a rolling basis. Applicant entities will submit their application in accordance with operational procedures to be developed by the Secretariat in consultation with the Accreditation Committee and Panel. Applicant entities will also have to include a communication indicating no-objection from the relevant national designated authority/focal point, if applicable.

## 5.1 Stage I: No-objection and readiness

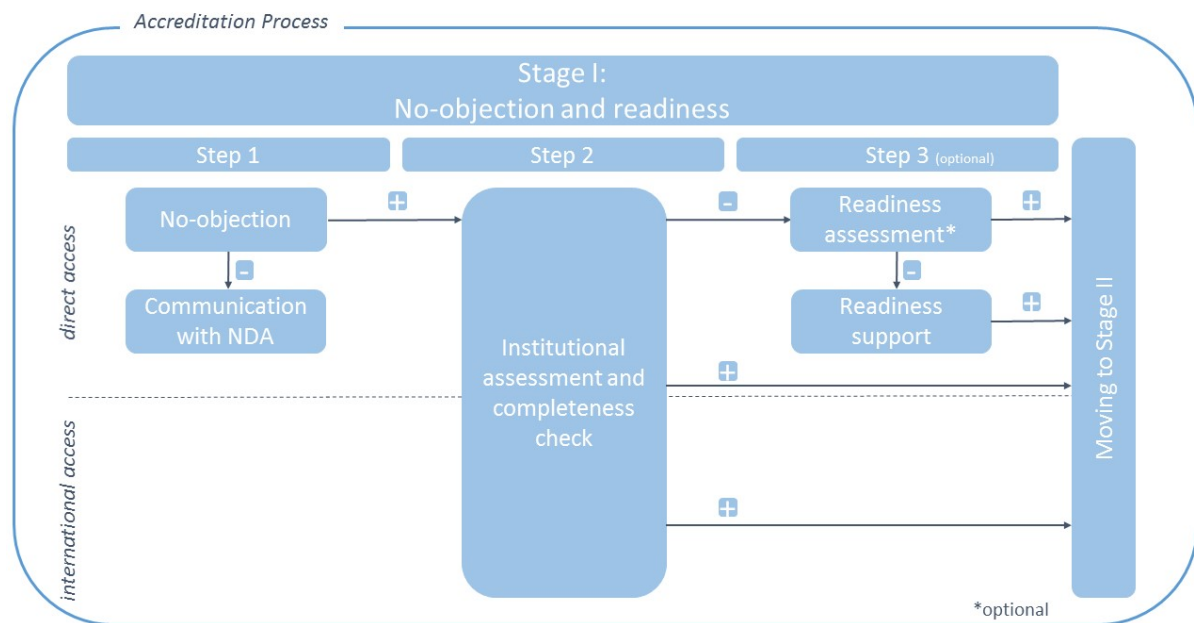
25. The overall purpose of this stage is to determine whether applicant entities show sufficient preparedness and institutional capabilities to progress to stage II in the accreditation process of the Fund.

26. Two tracks are envisioned: one applicable to direct access (for subnational, national and regional entities) and the other applicable to the international access (for international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions).

27. Stage I will be triggered by the submission of a full application by the applicant entity. This stage may follow one of two tracks:

- (a) Direct access track (for subnational, national and regional applicant entities);
- (b) International access track (for international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions);
- (c) In the case of the direct access track, two mandatory steps will apply ('no-objection' and 'institutional assessment and completeness check') and one optional third step ('readiness').

28. In the case of the international access track, entities will only be required to go through the 'institutional assessment and completeness check'.



**Figure 2: Overview of Stage I of the Accreditation Process**

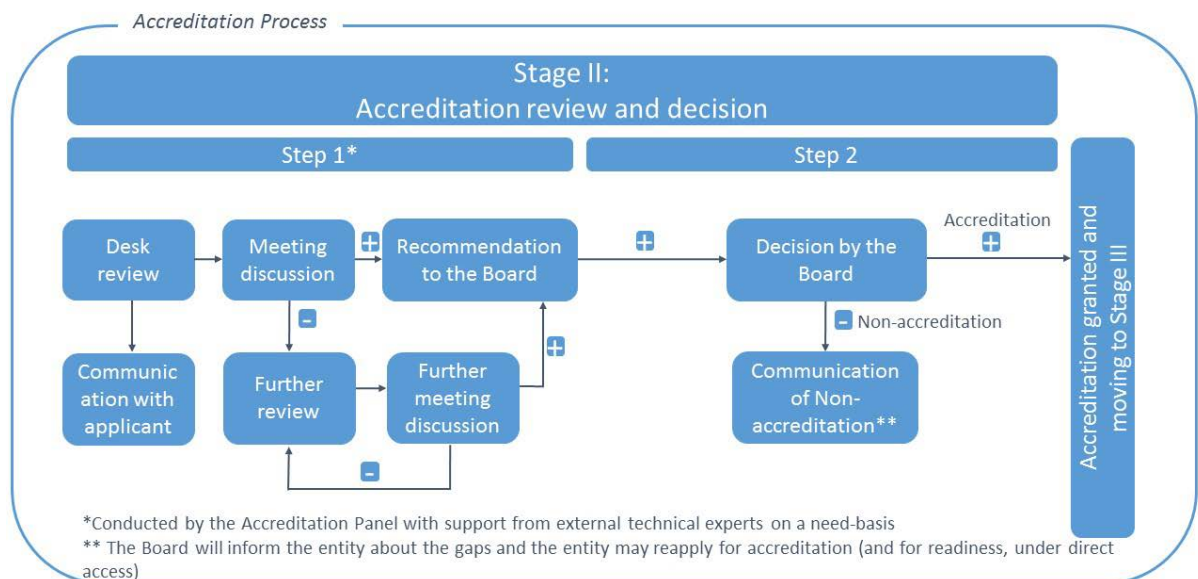
29. The main purpose of the ‘institutional assessment and completeness check’ step is to ensure that applications are properly submitted with all the necessary information and that they comply with criteria such as legal status and mandate, institutional track record, alignment with the Fund’s objectives and guiding principles.
30. The ‘institutional assessment and completeness check’ step will look at:
- (a) Legal status: The applicant entity has full legal capacity within the relevant jurisdiction that enables it to undertake the intended activities to be funded by the Fund and to become an accredited entity of the Fund;
  - (b) Registration, permits and licenses: The applicant entity possesses all necessary, relevant and applicable registrations, permits or licenses in good standing from national and/or international regulators or oversight bodies;
  - (c) Track record: The applicant entity exhibits a consistent and positive track record in the context of its own institutional mandate, as well as in areas relevant to the Fund’s objectives and initial results areas;
  - (d) Institutional presence and relevant networks: The applicant is able to demonstrate potential for meaningful impact in one or more of the Fund’s initial result areas, and has at its disposal networks of relevant institutions and experts at the regional and national level, as appropriate;
  - (e) Readiness: The applicant entity is able to describe succinctly how it meets the Fund’s initial basic fiduciary standards and applicable initial specialized fiduciary standards, as well as demonstrate that it has the capacity and commitment to implement the Fund’s ESS.
31. In the context of direct access, and in cases where weaknesses or a lack of capacity to meet the criteria above is determined, the applicant entity will be eligible to opt for a personalized readiness and preparatory support activity plan.
32. The operational details of these readiness and preparatory support activities for accreditation will be further elaborated and will also be included in the Fund’s Detailed Work Programme on Readiness and Preparatory Support.



33. The Secretariat will be responsible for the overall coordination and management of this stage as well as for conducting the screening and institutional assessment based on the criteria above.

## 5.2 Stage II: Accreditation review process and decision

34. The objective of this stage is to conduct the actual review of the applications for accreditation submitted by the interested entities, with a view to determining their suitability for accreditation to the Fund. This process will consist of two main steps: the review of the application for accreditation to be conducted by the Fund's Accreditation Panel, and the decision on the application, to be made by the Board on the basis of the outcome of the review and recommendation of the Accreditation Panel.



**Figure 3: Overview of Stage II of the Accreditation Process**

### 5.2.1 Stage II – Step 1: Review of the application for accreditation

35. This step in stage II will ascertain whether applicant entities:

- (a) Meet the Fund's applicable initial basic fiduciary standards and applicable initial specialized fiduciary standards; and
- (b) Have the capacity to manage relevant environmental and social risks in line with the Fund's interim ESS and scaled risk-based approach.

36. The accreditation process will examine, where applicable and in line with the Fund's interim ESS, the robustness of the applicant's ESMS.

37. A fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the Fund's initial fiduciary standards and interim ESS will be elaborated. This approach will define the appropriate application of the criteria in paragraph 35 and 36 above.

38. The Fund's Accreditation Panel will conduct the accreditation review process<sup>1</sup> and recommend to the Board whether the applicant entity should be accredited or not; or

<sup>1</sup> Decision B.05/08 (d) (iii).

alternatively whether the applicant entity may reapply once it has addressed the specific areas of concern.

### 5.2.2 Stage II – Step 2: Decision on the application for accreditation

39. At the end of this stage the Board will consider the recommendations of the Accreditation Panel and make a decision on whether the applicant entity can be granted accreditation and move on to stage III for final validation and legal arrangements.

40. Based on the recommendations of the Accreditation Panel, the Board may alternatively decide to assign the entity to stage I for additional focused readiness support and reconsider the application at a later date after the application undergoes a further focused accreditation review by the Accreditation Panel.

## 5.3 Stage III: Final validation and arrangements

41. Stage III will conclude the process through the validation and finalization of formal arrangements between the applicant entity and the Fund upon the successful completion of stage II.

42. This will include validation and registration of the accredited entity's payment instructions and the conclusion of legal arrangements between the accredited entity and the Fund.

## 5.4 Additional operational considerations

43. Accreditation will be reviewed after five years. Modalities for renewal will be developed based on a range of criteria, including performance by the entity during the five-year cycle.

44. The accreditation of additional institutional capacities (e.g. on-lending and blending) can be done at any time and as soon as the entity considers itself ready to pursue such accreditation. The accreditation process will then focus only on the new capacities to be reviewed and not on all the other capacities already accredited.

45. The guiding framework will also include a policy on fees on a cost-recovery basis that should take into account relevant criteria, such as whether readiness support was provided or not during stage I, specialized fiduciary standards being accredited, scale and size of intended operations, etc.

46. It is difficult to provide a timeline for the duration of the full accreditation process for a given application. However, assuming all documentation is provided in a timely and complete manner and that the applicant does not opt for readiness support, a full accreditation cycle should be completed within six months.

47. A monitoring and accountability framework will be developed, which will include policies on the suspension and cancellation of accreditation to complement these operational guidelines and the Fund's other relevant accountability mechanisms.

## VI. Governance and organizational approach

48. The accreditation process will include and be conducted, implemented and supported by the following actors:



- (a) The Board;
- (b) The Secretariat;
- (c) The Accreditation Committee;
- (d) The Accreditation Panel; and
- (e) External technical experts.

## 6.1 Role and mandate of the Board

49. As defined by the Governing Instrument, the Board will develop, manage and oversee an accreditation process for all IEs and intermediaries based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards.

50. The Board will therefore be the ultimate decision-making body on accreditation and overall policy guidance on accreditation matters, and will broadly oversee the accreditation process.

## 6.2 Role and mandate of the Accreditation Committee

51. The Accreditation Committee will be accountable to the Board and under its authority. Its composition and the scope of its responsibilities will be defined in the terms of reference of the Fund's Accreditation Committee contained in Annex IV, and will include:

- (a) Providing guidance on the development of policies and procedures for the Fund's guiding framework for the accreditation process;
- (b) Facilitating the Board's interaction with recipient countries with regard to disseminating information to them and familiarizing them with the accreditation process; and
- (c) Providing policy guidance to the Accreditation Panel to facilitate the accreditation process without interfering with the technical assessments of the Panel.

## 6.3 Role and mandate of the Accreditation Panel

52. The Accreditation Panel will function as an independent review body accountable to the Board and under its authority. Its composition and the scope of its responsibilities will be defined in the terms of reference of the Fund's Accreditation Panel contained in Annex V, and will include:

- (a) The accreditation review process;
- (b) Independent advice to the Board on applications for accreditation;
- (c) Expert inputs for the further development of the Fund's fiduciary standards, environmental and social safeguards, the Fund's environmental and social management system, as well as to the review of the guiding framework of the Fund's accreditation process; and
- (d) Expert advice and inputs for the development of the complementarity and coherence element of the guiding framework, its work programme as well as the criteria and assessment of entities already accredited to other relevant funds.

## 6.4 Role and mandate of the Secretariat

53. The Secretariat will support the systems, processes and procedures of the accreditation process and will be responsible for the following core functions:

- (a) Ongoing development, in consultation with the Accreditation Committee and Panel, of the Fund's fiduciary standards, environmental and social safeguards and criteria for the accreditation of subnational, national, regional and international intermediaries and IEs to the Fund, for adoption by the Board;
- (b) Operationalization of the procedures supporting the accreditation process of the Fund, and the execution of all necessary and related activities, including the implementation, management and maintenance of its supporting systems;
- (c) Overall responsibility for conducting the no-objection and readiness assessment and the general management of stage I of the Fund's accreditation process;
- (d) Presentation of the outcomes of the no-objection and readiness assessment to the Accreditation Panel for its consideration during the accreditation review;
- (e) Implementation, operation and execution of any other functions and/or activities necessary to effectively carry out its responsibilities in the accreditation process.

## 6.5 External technical experts

54. External technical experts may be engaged by the Accreditation Panel in the in-depth review of individual applications for accreditation. Independent and recognized professionals or specialized consultancy firms will need to demonstrate experience and expertise in relevant areas in order to qualify as external technical experts.

55. The Secretariat, in coordination with and on behalf of the Accreditation Panel, will be responsible for setting up and managing a roster of external technical experts through an open, competitive and transparent selection process, which should strive to ensure the availability of relevant competencies and achieve gender and regional balance where possible. The Secretariat will also assist the Accreditation Panel in developing and updating, as necessary, the terms of reference to guide the work of the external technical experts.

56. External technical experts will be compensated in accordance with relevant administrative provisions for contracting external technical support. Consequently, external technical experts will be bound by standard contractual regulations relating to the provision of consultancy services to the Fund.

## **VII. Complementarity and coherence with the accreditation processes of other relevant funds**

57. Following on the principle of complementarity and coherence underpinning the Fund's operational modalities, as outlined in the Governing Instrument, the guiding framework of the accreditation process will also pursue complementarity and coherence with the accreditation frameworks and processes of other relevant funds.

58. This element of the guiding framework includes, among other operational aspects:

- (a) Regular coordination, collaboration and exchange of information with the secretariats and accreditation panels, or their equivalent institutional arrangements, for other relevant funds;

- (b) Formal and continuous mutual update on new operational guidelines and procedures, best-practice fiduciary principles and standards, environmental and social safeguards, IT support systems and other relevant policies and procedures; and
- (c) Appropriate modalities for a fast-tracked accreditation process based on the appropriate degree of compatibility between the Fund and other accreditation systems of relevant funds, ensuring that the fast-track process will not diminish the rigour of the application of the initial fiduciary standards and interim ESS.

## **VIII. Review of the guiding framework**

59. The accreditation framework will be an evolving process intended to ensure continuous improvement and alignment with international good practices and to reflect the experience gained by the Fund.

60. The Secretariat will be responsible for proposing to the Board, in collaboration with the Accreditation Committee and Panel, the terms of reference for a comprehensive review of the guiding framework of the Fund's accreditation process once the Fund has built up a track record of experience and lessons learned.

61. The Secretariat, the Accreditation Committee, and the Accreditation Panel may also propose to the Board a focused review of specific elements of the guiding framework of the accreditation process, including the Fund's initial fiduciary standards and initial environmental and social safeguards, as deemed necessary and in the context of the development of the Fund's additional specialized fiduciary standards, its ESS, and its environmental and social management system.

---

## **Annex II: Initial fiduciary principles and standards of the Fund**

### **I. Initial basic fiduciary standards**

#### **1.1 Key administrative and financial capacities**

1. Underlying principles of the Fund's initial basic fiduciary standards for administrative and financial capacities are:

- (a) Financial inputs and outputs are properly accounted for, reported, and administered transparently in accordance with pertinent regulations and laws, and with due accountability;
- (b) Information relating to the overall administration and management of the entity is available, consistent, reliable, complete and relevant to the required fiduciary standards; and
- (c) Operations of the entity show a track record in effectiveness and efficiency.

##### **1.1.1 General management and administrative capacities**

2. Clear and formal definition of the main "corporate governance" actors of the entity and of their respective roles and responsibilities (for example, oversight authorities, audit committee, regulators, governing board, executive body, internal audit body, external audit body, etc.);

- (a) Existence of adequate internal oversight bodies and transparent rules regarding the appointment, termination and remuneration of members of such committees;
- (b) A consistent, clear and adequately communicated organization chart available, which describes, as a minimum, the entity's key areas of authority and responsibility, as well as well-defined reporting/delegation lines;
- (c) A consistent and formal process to set objectives and to ensure that the chosen objectives support and align with the mission of the entity.
- (d) Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve; and
- (e) A general management plan that also includes processes to monitor and report on the achievement of set objectives.

##### **1.1.2 Financial management and accounting**

- (a) Financial statements follow the Generally Accepted Accounting Principles (GAAP) and are prepared in accordance with recognized accounting standards, such as the International Financial Reporting Standards (IFRS), or the International Public Sector Accounting Standards (IPSAS) in the case of public entities, or other equivalent standards;
- (b) The entity has in place a clear and complete set of financial statements that provide information on:
  - (i) A statement of assets, liabilities and fund balances (statement of financial position);

- 
- (ii) A statement of financial performance (income and expenses/revenue and expenditure);
  - (iii) A statement of changes in financial position or a statement of changes in reserves and fund balances;
  - (iv) A statement of cash flows;
  - (v) A description of the accounting policies used explaining the accounting framework used; and
  - (vi) Appropriate notes and disclosures in annexes to the financial statements, in particular explaining the accounting framework used, the basis of preparation of the financial statements, and the specific accounting policies that are necessary for a proper understanding of the financial statements.
- (c) Financial statements are reported periodically, consistent with previous reporting periods, and allow for comparison among reporting periods;
  - (d) The entity uses accounting and financial information systems based on the accounting principles and procedures indicated in paragraph (a) above and how the accounting policies of the entity are adapted to the nature and complexity of its activities;
  - (e) Transparent and consistent payment and disbursement systems are in place with documented procedures and clear allocation of responsibilities. The entity has also legal and operational capacity to receive international payments from the Fund's Trustee and to make payments to the Fund's Trustee;
  - (f) A track record in the preparation and transparent use of business plans, financial projections and budgets, and the ability to continuously monitor performance and expenditure against these; and
  - (g) Resources, systems and procedures (including fiduciary accounts, as appropriate) are in place that ensure proper financial reporting over the use of funding received from the Fund.

### 1.1.3 Internal and external audit

#### A. Independent audit committee

- 3. An independent audit committee or comparable body is appointed and fully functional and oversees the work of the internal audit function as well as the external audit firm as it relates to the audit of financial statements, control systems and reporting.
- 4. The audit committee or comparable body is guided and mandated by written terms of reference that address its membership requirements, duties, authority, accountability and regularity of meetings.

#### B. Internal audit

- 5. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (as defined by the Institute of Internal Auditors).
- (a) The internal audit function has a documented terms of reference or charter, reviewed and approved formally by senior management and the audit committee, that outlines its purpose, authorized functions and accountability;

- 
- (b) The internal audit function is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors or other equivalent standards;
  - (c) Auditors and/or entities that provide internal auditing services adhere to ethical principles of integrity, objectivity, confidentiality and competency, which is supported by specific legal arrangements to this effect;
  - (d) The internal audit function is independent and able to perform its respective duties objectively. It is headed by an officer specially assigned to this role with due functional independence, who reports to a level of the organization that allows the internal audit activity to properly fulfil its responsibilities;
  - (e) The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan. The audit plan outlines the priorities of the function and is consistent with the organization's goals;
  - (f) The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) ensuring proper coverage and a minimization of duplication of efforts;
  - (g) The internal audit function disseminates its findings to the corresponding senior management units and business management units, which are responsible for acting on and/or responding to recommendations;
  - (h) The internal audit function has a process in place to monitor the response to its recommendations; and
  - (i) A process is in place to monitor and assess the overall effectiveness of the internal audit functions, including periodic internal and external quality assessments.

## C. External audit

6. The external financial audit function ensures an independent review of financial statements and internal controls (as defined by the International Federation of Accountants (IFAC)).

- (a) The entity has appointed an independent external audit firm or organization;
- (b) The work of the external audit firm or organization is consistent with the recognized international auditing standards such as International Standards on Auditing (ISA), or other equivalent standards;
- (c) In cases where the entity is subject to external audits carried out by a national audit institution or other form of public independent inspection body, provisions should be made so that the external audits are guaranteed independence and impartiality, including through formal terms of reference, and are conducted periodically;
- (d) The entity exhibits all necessary provisions and arrangements to ensure that an annual audit opinion on the financial statements and/or, as appropriate, on all financial resources received from the Fund and administered by the entity, is issued by the external auditor and made public; and
- (e) The external auditor makes regular reports of observations with respect to accounting systems, internal financial controls, and administration and management of the organization. Audits and management progress reports are reviewed by the audit committee or comparable body annually.

---

**1.1.4 Control framework**

7. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of financial reporting;
- (c) Compliance with applicable laws and regulations;
- (d) A control framework that has been adopted and that is documented and includes clearly defined roles for management, internal auditors, the board of directors or comparable body, and other personnel;
- (e) A control framework that covers the control environment ("tone at the top"), risk assessment, internal control activities, monitoring, and procedures for information sharing;
- (f) A control framework that defines roles and responsibilities pertaining to the accountability of fiscal agents and fiduciary trustees;
- (g) At the institutional level, risk-assessment processes are in place to identify, assess, analyse and provide a basis for proactive risk responses in each of the financial management areas. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent;
- (h) The control framework guides the financial management framework;
  - (i) Procedures are in place for identifying internal controls and assessing the details of the controls annually in core financial management areas, including:
    - (i) Budgeting;
    - (ii) Accounting;
    - (iii) Internal control;
    - (iv) Funds flow (including disbursements, cash management, unused fund close-out);
    - (v) Financial reporting; and
    - (vi) Auditing arrangements;
- (j) Provisions for regular oversight of the procurement function with consistent monitoring and follow-up on review reports evidence that a risk management process exists and allows management to identify, assess and address existing or potential issues that may hamper the achievement of the entity's objectives; and
- (k) Duties are segregated where incompatible. Related duties are subject to a regular review by management; response is required when discrepancies and exceptions are noted; and segregation of duties is maintained between settlement processing, procurement processing, risk management/reconciliations, and accounting.

**1.1.5 Procurement**

8. Procurement processes in the applicant entity cover regular procurement relating to the general operations of the entity as well as procurement in the context of the implementation and execution of funding proposals approved by the Fund. These should include formal



standards, guidelines and systems based on widely recognized processes and an internal control framework to ensure fair and transparent procurement processes.

- (a) Formal internal guidelines and a procurement policy that promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability, and authority to take procurement actions;
- (b) Specific procurement guidelines are in place with respect to different types of procurement managed by the entity, such as consultants, contractors and service providers;
- (c) Specific procedures, guidelines and methodologies as well as adequate organizational resources for overseeing, assessing and reviewing the procurement procedures of beneficiary institutions, executing entities or project sponsors are in place;
- (d) Procurement performance in the implementation of Fund's approved funding proposals is monitored at periodic intervals, and there are processes in place requiring a response when issues are identified;
- (e) Procurement records are easily accessible to procurement staff, and procurement policies and awards are publicly disclosed;
- (f) Evidence of transparent and fair procurement policies and procedures that are consistent with recognized international practice, including such provisions and practices as:
  - (i) Non-discrimination and equal treatment of candidates;
  - (ii) Dispute resolution procedures;
  - (iii) Obligation to use and adherence to tendering procedures;
  - (iv) Best value for money; and
  - (v) Adequate ex-post communication and publication of beneficiaries.

## 1.2 Transparency and accountability

9. Underlying principles are:

- (a) Protection and commitment against mismanagement and fraudulent, corrupt and wasteful practices;
- (b) Disclosure of any form of conflict of interest (actual, potential or perceived); and
- (c) Code of ethics, policies and culture that drive and promote full transparency and accountability.

10. Transparency and accountability are to be demonstrated through an effective combination of fully functional policies, procedures, systems and approaches. The following standards outline the key standards to demonstrate fiduciary alignment with the above principles.

### 1.2.1 Code of ethics

- (a) The organization has in place either a documented code of ethics that defines ethical standards to be upheld, listing the parties required to adhere to the standards, including employees, consultants, and independent experts; or alternatively, a set of clear and formal management policies and provisions are in place to define expected ethical behaviour by all individuals contracted or functionally related to the organization;



- (b) All individuals with a functional and/or contractual relationship to the organization are made aware of such codes of ethics or policies/provisions as appropriate; and
- (c) The organization has in place an ethics committee or has allocated such functions to other relevant instances within the organization.

#### **1.2.2 Disclosure of conflict of interest**

- (a) The organization has a disclosure policy, or equivalent administrative provisions to this effect, that establishes the necessary mandatory financial disclosures of possible, actual, perceived or apparent conflicts of interest by identified parties as appropriate; and
- (b) The policy, or equivalent administrative provisions, specifies prohibited personal financial interests and describes the principles under which conflicts of interests are reviewed and resolved. It should also describe sanction measures for parties that do not disclose such conflicts on a proactive basis where a conflict of interest is identified.

#### **1.2.3 Capacity to prevent or deal with financial mismanagement and other forms of malpractice**

- (a) Demonstrated experience and track record in accessing financial resources from national and international sources, as appropriate;
- (b) Evidence of tone or statement from the governing bodies or senior management of the organization emphasizing a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by staff members, consultants, contractors, or from any other relevant party associated directly or indirectly with the general operations of the entity, and particularly in relation to the implementation of approved funding proposals;
- (c) Avenues and tools for reporting suspected ethics violations, misconduct, and any kind of malpractice, which should be complemented by provisions and mechanisms protecting whistleblowers and individuals reporting such violations;
- (d) Evidence of an objective investigation function for allegations of fraud and corruption, which includes procedures in the organization to process cases of fraud and mismanagement, undertake necessary investigative activities and generate periodic reports for information and follow-up by the ethics function; and
- (e) General management policies promote an organizational culture that is conducive to fairness, accountability and full transparency across the organization's activities and operations.

#### **1.2.4 Investigation function**

11. The investigation function provides for the independent and objective investigation of allegations of fraudulent and corrupt practices (using widely recognized definitions such as those agreed by the International Financial Institutions Anti-Corruption Task Force) in all operations of the entity as well as allegations of possible entity staff misconduct.

- (a) The investigation function has publicly available terms of reference that outline the purpose, authority and accountability of the function. This function may be assigned to a dedicated organizational component within the entity's structure or to another appropriate element of the organization;
- (b) To ensure functional independence, the investigations function is headed by an officer who reports to a level of the organization that allows the investigation function to fulfil its responsibilities objectively;

- (c) The investigation function has published guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process; and
- (d) The investigation function has a defined process for periodically reporting case trends. To enhance accountability and transparency, case trend reports and other information are made available to senior management and relevant business functions to the extent possible.

#### 1.2.5 **Anti-money laundering and anti-terrorist financing**

## **II. Initial specialized fiduciary standards**

12. The Fund's specialized fiduciary criteria refer to institutional capacities that will qualify the applicant entities to undertake specialized activities depending on the nature and scope of their mandate within the Fund's operations.

### 2.1 Initial specialized fiduciary standards relating to project management

13. The underlying principles are:

- (a) Ability to identify, formulate and appraise projects or programmes
- (b) Competency to manage or oversee the execution of approved funding proposals, including the ability to manage executing entities or project sponsors and to support project delivery and implementation;
- (c) Capacity to consistently and transparently report on the progress, delivery and implementation of the approved funding proposal;

#### 2.1.1 **Project preparation and appraisal**

- (a) Track record of capability and experience (including appropriate tendering procedures for project proposals) in the identification and design of projects or programmes within the respective jurisdiction (subnational, national, regional or international, as applicable);
- (b) Capacity to clearly state project objectives and outcomes in preparing funding proposals and to incorporate key performance indicators with baselines and targets into the project design;
- (c) Ability to examine and incorporate technical, financial, economic and legal aspects as well as possible environmental, social and climate change aspects, and relevant assessments thereof, into the funding proposal at the appraisal stage; and
- (d) Appropriate fiduciary oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.

**2.1.2 Project oversight and control**

- (a) Operational systems, procedures and overall capacity to consistently prepare project implementation plans, including project budgets, reporting guidelines and templates to be used by executing entities or project sponsors;
- (b) Operational capacity and organizational arrangements to continuously oversee the implementation of the approved funding proposal in order to regularly assess project expenditure against project budget as well as to monitor and identify opportunities for improving project performance against its budget and timelines;
- (c) Appropriate reporting capabilities and capacities to appropriately publish implementation reports; and
- (d) Operational systems and overall capacity to conduct necessary activities relating to project closure, including due reporting on results achieved, lessons learned and recommendations for improvement, as well as capacity to disseminate results and make key findings publicly available.

**2.1.3 Monitoring and evaluation**

14. The monitoring function detects, assesses, and provides management information about risks relating to projects, particularly those deemed to be at risk.

15. The evaluation function assesses the extent to which projects, programmes, strategies, policies, sectors or other activities achieve their objectives and contribute to the initial results areas of the Fund. The goal of evaluation is to provide an objective basis for assessing results, to provide accountability in the achievement of objectives, and to learn from experience (and to detect any deviation from project planning in the early stages).

**A. Monitoring**

- (a) Operational and organizational resources are available to implement monitoring functions, policies and procedures consistent with the requirements of the Fund's monitoring and evaluation guidelines;
- (b) The roles and responsibilities of the monitoring function are clearly articulated at both the project and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project origination and supervision functions;  
Tools for reporting on project monitoring are available and monitoring results are periodically published.

**B. Evaluation**

- (a) Independent evaluations are undertaken by an established body or function as part of a systematic programme of assessing results, consistent with relevant requirements and related Fund policies;
- (b) The evaluation function follows impartial, widely recognized, documented and professional standards and methods;
- (c) The evaluation body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the entity, ideally reporting directly to the board of directors or comparable body. If its structural independence is limited, the evaluation body or function has provisions that ensure transparent reporting to senior management;
- (d) An evaluation disclosure policy is in place. Evaluation reports are disseminated as widely as possible, at a minimum to all parties directly or indirectly involved in the

project or programme. To enhance transparency, reports are available publicly to the extent possible.

#### **2.1.4 Project-at-risk systems and related project risk management capabilities**

- (a) A process or system, such as a project-at-risk system, is in place to flag early on when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems;
- (b) Availability of an independent risk management function differentiated from project implementation and project supervision responsibilities;
- (c) Risk assessment:
  - (i) Demonstrated capabilities to undertake the assessment of financial, economic, political and regulatory risks during the implementation stages; and
  - (ii) Demonstrated ability to integrate risk mitigation and management strategies into the funding proposal at all levels listed above, and to exercise such strategies during the implementation stage.

## **2.2 Grant award mechanisms**

### **2.2.1 Transparent eligibility criteria and evaluation**

- (a) The grant award mechanism is organized in a fully transparent manner that guarantees impartiality and equal treatment to all applicants;
- (b) The evaluation process is based solely on the criteria for exclusion, eligibility, selection and award pre-announced in the call for proposals;
- (c) Eligibility evaluation performed on the basis of the criteria stated in the call for proposals;
- (d) All stages are formally documented through standardized checklists and forms;
- (e) There is an evaluation committee that:
  - (i) Evaluates the applications to make a recommendation for award and rejections in accordance with the pre-announced criteria; and
  - (ii) Works in accordance with the formal rules of procedure.

### **2.2.2 Grant award decision and procedures**

- (a) The grant award decision is taken by the person or body who is legally authorized to sign grant agreements on behalf of the awarding body;
- (b) The grant award decision is based on the grant award proposal prepared by the evaluation committee;
- (c) If the grant award does not follow evaluation committee's recommendation, the departing decision is adequately justified and documented;
- (d) The grant decision states the following:

- 
- (i) Subject and overall amount of decision;
  - (ii) Name of beneficiaries, title of granted activity, grant amount awarded, and the reason(s) for this choice; and
  - (iii) Name(s) of application(s) rejected and reason for their rejection(s).
- (e) Checks have been undertaken to guarantee that one and the same activity only results in the award of one grant to any one beneficiary;
  - (f) No grant is awarded retrospectively for activities already started or completed at the time of the application;
  - (g) All applicants are notified in writing of grant award outcome; and
  - (h) Rejected applications result in rejected applicants receiving reason(s) for rejection with reference to the pre-announced criteria;

### **2.2.3 Public access to information on beneficiaries and results**

- (a) Grant-awarding entity makes the grant award results public;
- (b) Results made public within a reasonable timeframe following the grant award decision;
- (c) The following information should be included (at a minimum):
  - (i) Name, address and nationality of the beneficiary;
  - (ii) Purpose of the grant; and
  - (iii) Grant amount awarded and, where applicable, the maximum co-financing rate of the cost.

### **2.2.4 Transparent allocation and implementation of financial resources**

- (a) There is a system in place to provide assurance on the reality and eligibility of activities to be carried out with the grant award as well as the legality of the underlying operations;
- (b) There is a system in place to recover funds unduly paid;
- (c) There is a system in place to prevent irregularities and fraud;
- (d) The grant-awarding entity monitors the implementation of funded programme activities and supports beneficiaries through counselling and advice;
- (e) There are sufficient possibilities for the beneficiary to contact the grant-awarding entity;
- (f) The grant-awarding entity carries out on-site visits to monitor the implementation of individual projects;
- (g) Those on-site visits are used to support the beneficiary, gather and disseminate best practices and establish/maintain good relations between the awarding entity and the beneficiary entity;
- (h) There are clear procedures about procurement rules the grant beneficiary is required to apply, if any;
- (i) The amount of the grant is finalized only after the grant-accepting entity has accepted the final report and accounts;
- (j) There are procedures in place for the suspension, reduction, or termination of the grant if the beneficiary fails to comply with its obligations.

---

### 2.2.5 Good standing with regard to multilateral funding

## 2.3 On-lending and/or blending

16. Additional specialized criteria for on-lending and blending will apply for intermediaries and IEs that wish to use those financial instruments with the Fund's resources. The following list suggests possible on-lending and blending capacities for consideration during the accreditation process:

- (a) Appropriate registration and/or license from a financial oversight body or regulator in the country and/or internationally, as applicable;
- (b) Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;
- (c) The creditworthiness of the institution making on-lending or blending arrangements;
- (d) Due diligence policies, processes and procedures in place;
- (e) Financial resources management, including analysis of lending portfolio of the intermediary;
- (f) Public access to information on beneficiaries and results;
- (g) Investment management, policies and systems, including in relation to portfolio management;
- (h) Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;
- (i) Financial risk management, including asset liability management;
- (j) Governance and organizational arrangements, including relationships between the entity's treasury function and the operational side;
- (k) For intermediaries or IEs that blend grant awards:
  - (l) There are clear procedures about the grant award rules that the implementing partner is required to apply; or
  - (m) If the intermediary or IE uses its own rules, the minimum requirements are satisfactory.

---

## **Annex III: Interim environmental and social safeguards of the Fund**

### **I. Overview of the International Finance Corporation Performance Standards**

1. The eight Performance Standards (PS) and the objectives of each are as follows:

#### **1.1 PS1: Assessment and management of environmental and social risks and impacts**

- (a) Identify funding proposal's environmental and social risks and impacts;
- (b) Adopt mitigation hierarchy: anticipate, avoid; minimize; compensate or offset;
- (c) Improve performance through an environmental and social management system;
- (d) Engagement with affected communities or other stakeholders throughout funding proposal cycle. This includes communications and grievance mechanisms.

#### **1.2 PS2: Labour and working conditions**

- (a) Fair treatment, non-discrimination, equal opportunity;
- (b) Good worker-management relationship;
- (c) Comply with national employment and labour laws;
- (d) Protect workers, in particular those in vulnerable categories;
- (e) Promote safety and health;
- (f) Avoid use of forced labour or child labour.

#### **1.3 PS3: Resource efficiency and pollution prevention**

- (a) Avoid, minimize or reduce project-related pollution;
- (b) More sustainable use of resources, including energy and water;
- (c) Reduced project-related greenhouse gas emissions.

#### **1.4 PS4: Community health, safety and security**

- (a) To anticipate and avoid adverse impacts on the health and safety of the affected community;
- (b) To safeguard personnel and property in accordance with relevant human rights principles.

#### **1.5 PS5: Land acquisition and involuntary resettlement**

- (a) Avoid/minimize adverse social and economic impacts from land acquisition or restrictions on land use:

- 
- (i) Avoid/minimize displacement;
  - (ii) Provide alternative project designs;
  - (iii) Avoid forced eviction.
- (b) Improve or restore livelihoods and standards of living;
  - (c) Improve living conditions among displaced persons by providing:
    - (i) Adequate housing;
    - (ii) Security of tenure.

## 1.6 PS6: Biodiversity conservation and sustainable management of living natural resources

- (a) Protection and conservation of biodiversity;
- (b) Maintenance of benefits from ecosystem services;
- (c) Promotion of sustainable management of living natural resources;
- (d) Integration of conservation needs and development priorities.

## 1.7 PS7: Indigenous peoples

- (a) Ensure full respect for indigenous peoples
  - (i) Human rights, dignity, aspirations;
  - (ii) Livelihoods;
  - (iii) Culture, knowledge, practices;
- (b) Avoid/minimize adverse impacts;
- (c) Sustainable and culturally appropriate development benefits and opportunities;
- (d) Free, prior and informed consent in certain circumstances.

## 1.8 PS8: Cultural heritage

- (a) Protection and preservation of cultural heritage;
  - (b) Promotion of equitable sharing of cultural heritage benefits.
2. The International Finance Corporation (IFC) PS can be viewed at:

[http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC\\_Performance\\_Standards.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC_Performance_Standards.pdf?MOD=AJPERES).

## II. Performance Standard Guidance Notes

3. A set of eight Guidance Notes, corresponding to each PS, offers guidance on the requirements contained in the PS. In addition, the World Bank Group Environmental, Health and Safety (EHS) Guidelines are technical reference documents with general and industry-specific examples of good international practice and are linked to the PS through PS2 and PS3.



4. The Guidance Notes and EHS Guidelines can be found at:

[http://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/.](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/)

---

## **Annex IV: Terms of reference of the Accreditation Committee**

### **I. Role and functions**

1. The role of the Accreditation Committee is to provide policy guidance to the Board on the Fund's evolving guiding framework for the accreditation process, enabling the Fund to enhance the efficiency and efficacy of the accreditation process.
2. In fulfilling this role, the Accreditation Committee will:
  - (a) Provide guidance on the development of policies and procedures for the Fund's guiding framework for the accreditation process; and
  - (b) Provide policy guidance to the Accreditation Panel to facilitate the accreditation process without interfering with the technical assessments of the Panel.
3. The Accreditation Committee will consider the recommendations and advice provided to it by the Accreditation Panel.

### **II. Membership**

4. The Accreditation Committee will comprise:
  - (a) Two developing country Board members or alternate members; and
  - (b) Two developed country Board members or alternate members.
5. The Secretariat will attend the meetings of the Accreditation Committee in an ex-officio capacity.
6. Members of the Accreditation Committee will serve for an initial term of 18 months.

### **III. Duration**

7. The Accreditation Committee will be a standing committee of the Board.
8. Three years following its establishment, the Board will evaluate the usefulness and continued necessity of the Committee.

### **IV. Guidelines for operation**

9. All members of the Committee should disclose any actual, potential or perceived conflict of interest in relation to any of the activities, discussions and recommendations of the Committee, which will be duly recorded.
10. Furthermore, at the time of appointment, all members of the Committee will sign the oath contained in the Appendix.

---

**Appendix: Oath to be taken by members of the Accreditation Committee**

“I solemnly declare that I shall perform my duties as a member of the Accreditation Committee (the Committee) of the Green Climate Fund (the Fund), honourably, faithfully, impartially and conscientiously.

I further solemnly declare and promise that I shall disclose any financial interest or any other real or perceived conflict of interest in: the accreditation of subnational, national, regional and/or international intermediaries and IEs of the Fund; the consideration and provision of advice on best-practice fiduciary principles and standards and environmental and social safeguards; and, in general, in any other matter in connection with the fulfilment of the mandate of the Committee.

I shall refrain from participating in the consideration of accreditation applications or policy discussions where any financial interest or any other real or perceived conflict of interest may arise, or where any personal circumstance might be incompatible with the requirements of integrity and impartiality expected of a member of the Committee.

Subject to my responsibilities to the Committee, I shall not disclose, even after the termination of my functions, any confidential or proprietary information which is transferred to the Board, the Committee, the Accreditation Panel, or the Secretariat, or any other confidential information coming to my knowledge by reason of my duties for the Committee.”

Full name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

---

## **Annex V: Terms of reference of the Fund's Accreditation Panel**

### **I. Role and mandate**

1. The Accreditation Panel (the Panel) will be an independent technical panel of the Fund to advise the Board on matters relating to:
  - (a) Independent technical advice to the Board on the results of the in-depth assessment and review of individual applications for accreditation;
  - (b) Expertise in good-practice fiduciary principles and standards, financial intermediation functions, intermediation regulations and oversight;
  - (c) Expertise in environmental and social safeguards, as well as in evaluating environmental and social management systems in order to ensure that applicant entities have the capacity to implement and oversee the Fund's interim and subsequent ESS;
  - (d) Expertise in international and recognized good practices in accreditation procedures and systems;
  - (e) Expert policy advice on developing countries' special circumstances, including sustainability and climate-related issues;
  - (f) Members of the Panel will have a three-year term, with the possibility of renewal for a maximum of another consecutive term.

### **II. Composition and quorum**

2. The Panel will be composed of six senior expert members, ensuring balanced representation between developing and developed countries and appropriate range of expertise.
3. The Panel may also invite senior expert observer members, on an ad-hoc or regular basis, to participate at sessions where no confidential information will be discussed.
4. The Secretariat will participate ex-officio.
5. Quorum will consist of participation by at least four senior expert members.

#### **2.1 Chair and Vice-Chair**

6. The Panel will appoint its Chair and Vice-Chair. In the event of absence or inability to participate in meetings of the Panel by the Chair, the Vice-Chair will automatically chair the meetings.
7. The mandate of the Chair and Vice-Chair will extend for one year.

#### **2.2 Senior expert members**

8. The senior expert members of the Panel will be selected and appointed through a nomination by the Board members and alternates of the Panel and endorsement by the Board. The composition of the senior expert members should ensure availability in the Panel of the following core areas of competency:
  - (a) Governance systems, financial management, audit and control framework;

- 
- (b) Project management cycle and activity oversight;
  - (c) Transparency, investigation and anti-fraud provisions;
  - (d) Environmental and social safeguards and environmental and social management systems;
  - (e) Financial intermediation and/or financial sector supervision and oversight;
  - (f) Experience in working in/with developing countries.
9. Senior expert members will therefore demonstrate recognized capacity and expertise in their fields of competency, supported by a successful career track at senior and executive level. In addition to this, each senior expert member will be able to demonstrate unquestionable personal reputation, integrity and ethical behaviour throughout her or his professional trajectory.
10. Senior expert members may be appointed for a consecutive term.

### 2.3 Expert observer members

11. Expert observer members from specialized entities may be invited to participate in the non-confidential meetings or sessions of the Panel as deemed necessary in order to enhance the capacity of its work.
12. The Panel will issue an invitation to the expert observer member, or the institution s/he represents.
13. The Panel will agree, in consultation with the Secretariat, on the modalities for participation by expert observers. These modalities may be revised at any time to reflect the evolving needs of the Panel.

## III. Modalities of work

14. The Panel will operate as a senior and independent technical advisory body of the Fund, and will report and be accountable to the Board. The Panel will be bound by these terms of reference as well as by relevant policies and procedures, including a code of conduct, to be developed by the Panel and endorsed by the Board. The rules and procedures of the Board, as well as any other relevant guidelines to be adopted by the Board, will apply *mutatis mutandis* to the Panel.
15. Meetings of the Panel may be held with members being either physically or electronically present. The dates and modalities of meetings will be determined by the Panel taking into account criteria of efficiency and effectiveness.
16. The Chair of the Panel will define the agenda and calendar of meetings of the Panel.
17. The Panel may also develop rules and procedures, in addition to the above, that are necessary to enhance transparency and effectively guide the conduct of its meetings. The Panel will submit to the Board the additional agreed rules and procedures for endorsement.
18. In conducting the review of applications for accreditation, the Panel may decide to make use of additional external technical experts. The Panel will clearly allocate responsibilities for the external technical expert, which will be included in their mission plan.
19. The Panel, with support from the Secretariat, will maintain a roster of external technical experts and develop standard terms of reference for their work.

---

#### **IV. Compensation**

20. Travel and accommodation costs, per diem payment and a daily fee will be paid to senior expert members attending a meeting of the Panel in accordance with the Fund's rules and regulations.

21. If a senior expert member of the Panel is requested to carry out a specific task between meetings, they will be compensated for the task undertaken by means of payment of daily fees, subject to the input being of good quality and delivered in good time. The daily fee will be determined in accordance with the Fund's rules and regulations. The number of days necessary to complete a task will be determined by the Chair of the Panel in consultation with the Secretariat.

22. Travel and accommodation costs, per diem payment and a daily fee will be paid to external technical experts in accordance with the Fund's rules and regulations and the external technical experts' terms of reference.

23. Expert observers will not receive any payment and will be supported in their participation in meetings entirely by the entities they represent or in their own capacity.

#### **V. Disclosure of conflict of interest**

24. All members of the Panel should disclose any actual, potential or perceived conflict of interest in relation to any of the activities, discussions and recommendations of the Panel, which will be duly recorded.

25. Furthermore, at the time of appointment, all members of the Panel will sign the oath contained in the Appendix to these terms of reference.

#### **VI. Revision and termination of the terms of reference of the Panel**

26. The Board may revise these terms of reference as necessary in order to incorporate lessons learned and to reflect the evolving needs of the accreditation process of the Fund.

27. The mandate and terms of reference of the Panel may be revised or terminated by the Board, if deemed necessary.

---

**Appendix: Oath to be taken by members of the Accreditation Panel**

“I solemnly declare that I shall perform my duties as a member of the Accreditation Panel (the Panel) of the Green Climate Fund (the Fund), honourably, faithfully, impartially and conscientiously.

I further solemnly declare and promise that I shall disclose any financial interest or any other real or perceived conflict of interest in: the accreditation of subnational, national, regional and/or international intermediaries and IEs of the Fund; the consideration and provision of advice on best-practice fiduciary principles and standards and environmental and social safeguards; and, in general, in any other matter in connection with the fulfilment of the mandate of the Panel.

I shall refrain from participating in the consideration of accreditation applications or policy discussions where any financial interest or any other real or perceived conflict of interest may arise, or where any personal circumstance might be incompatible with the requirements of integrity and impartiality expected of a member of the Panel.

Subject to my responsibilities to the Panel, I shall not disclose, even after the termination of my functions, any confidential or proprietary information which is transferred to the Board, the Panel or the Secretariat, or any other confidential information coming to my knowledge by reason of my duties for the Panel.”

Full name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

## **Annex VI: Outline for the Fund's environmental and social management system**

### **I. Introduction**

1. As noted in GCF/B.06/09, the Fund's environmental and social safeguards (ESS) are a piece of a larger operational framework, which will form a Fund environmental and social management system (ESMS). An ESMS is a set of management processes and procedures that allow an organization to identify, analyse, control and reduce the adverse environmental and social impacts of its activities and maximize any potential environmental and social benefits in a consistent way and to improve the environmental and social standing of the organization and its activities over time. The Fund will continue examining policies, processes and procedures, etc., from many sources in order to derive the best ESMS for the interim and which will be further tailored to Fund activities. The Fund ESMS should be developed to be consistent with accepted evolving international systems for quality and environmental management systems. The initial elements of the Fund's ESMS will include:

#### **1.1 Environmental and social policy**

2. The Fund's environmental and social policy will describe the Fund's commitments, roles, and responsibilities related to environmental and social sustainability. This policy will also link with other Fund policies and internal structures such as:

- (a) Fund's information disclosure practice;
- (b) Fund's gender policy;
- (c) Fund's Independent Evaluation Unit;
- (d) Fund's independent redress mechanism.

##### **1.1.1 Standards**

3. The Fund's interim ESS (to be customized in the future) and supporting International Finance Corporation (IFC) Guidance Notes (to be customized in the future) set out the standards required for funding proposals. Annex I further elaborates upon the ESS and Annex III contains the Fund's interim ESS and a link to the supporting IFC Guidance Notes.

##### **1.1.2 Process and procedures**

4. A scaled risk-based approach will be applied by the accredited entities, which is elaborated upon further in Annex I.

##### **1.1.3 Environmental and social review of the institutional capacities of entities during the accreditation process**

5. The accreditation process will review entities to determine if they have the capacity to implement the Fund's interim ESS. The applicant entity also needs to be able to evaluate the executing entities' capacity and commitment to implement the Fund ESS. This process is described further in Annex I.

##### **1.1.4 Monitoring and reporting**

6. The Fund will require accredited entities to submit periodic reports of how they are classifying/categorizing and monitoring executing entity funding activities through mechanisms such as reports developed by executing entities, reports developed by independent third parties, and accredited entity site monitoring visits. This submission will include a summary evaluation from the accredited entity



of how the executing entity is performing and, if they are not performing, how improved performance is being sought.

7. In all cases, the Fund will have the right to conduct site visits or audits of executing entity projects either with the accredited entity or independently.

#### 1.1.5 **Organizational capacity and functions**

8. Environmental and social roles and responsibilities within the Fund and between various entities will be elaborated upon and included in the standard legal arrangements between the Fund and its IEs and intermediaries

**Annex VII: Project and programme activity cycle**

KEY STAGES AND INDIVIDUAL STEPS		ACTOR(S)	RESPONSIBILITY AND TASK
<b>0. Country and/or regional work programme (voluntary)<sup>1</sup></b>			
0.1	Submission of country work programme	National designated authority (NDA) or focal point	Submit country work programme to Secretariat. Readiness support from Fund for countries upon request. NDA may inform Secretariat of preferred accredited implementing entities (IEs)/intermediaries that will implement programmes and projects under the work programme.
0.2	Compilation of country work programmes	Secretariat	Compilation of country work programmes submitted to the Board for information.
<b>I. Generation of programme or project funding proposals</b>			
1	Call for funding proposals	Secretariat	The Secretariat publishes regular calls for funding proposals on the Fund's website, as directed by the Board. NDAs, IEs and intermediaries may also submit spontaneous funding proposals to the Secretariat, which would be subject to this approval process.
<b>II. Concept development (voluntary)</b> If detailed funding proposal exists, go to Stage III			
2.1	Concept note submission	IE, intermediary or EE (e.g. project/programme sponsor)	The IE or intermediary submits the concept note to the Secretariat (Board needs to decide on provision of proposal development funds and on process for provision).
2.2	Feedback and recommendations on the concept	Secretariat, NDA/focal point	In consultation with the NDA or focal point, the Secretariat provides feedback and recommendations to the IE or intermediary, and clarifies if concept is endorsed, not endorsed with possibility of resubmission, or rejected.

<sup>1</sup> This is not part of the initial proposal approval process

<b>III. Submission of funding proposal</b>			
3.1	No-objection	NDA/focal point	No-objection by the NDA or focal point, in line with the Fund's transparent no-objection procedure to be agreed by the Board.
3.2	Funding proposal <sup>2</sup> submission to the Secretariat	IE/intermediary	Full proposal submitted to the Secretariat in accordance with the transparent no-objection procedure. The Secretariat acknowledges the submission of the documentation, reviews it for completeness, and acknowledges receipt.
<b>IV. Analysis and recommendations to the Board</b>			
4.	Analysis and recommendation to the Board	Secretariat, technical advisory panel	<p>The Secretariat carries out necessary and appropriate second-level due diligence. The Secretariat also assesses compliance with Fund interim environmental and social safeguards, gender policy, financial policies and any other policies promulgated by the Board, in addition to performance of the project or programme against activity-specific criteria (as contained in the investment framework).</p> <p>The technical advisory panel independently assesses performance of the project or programme against activity-specific criteria.</p> <p>The Secretariat submits the following documentation to the Board:</p> <ul style="list-style-type: none"> <li>• The final funding proposal as submitted by the IE or intermediary;</li> <li>• The Secretariat's assessment of compliance with safeguards and policies and performance of the project or programme against activity-specific criteria. Proposals that best achieve the Fund's objectives will be selected based on selection process methodologies to be approved by the Board;</li> <li>• The technical advisory panel's independent assessment of and advice regarding the performance of the project or programme against activity-specific criteria;</li> <li>• A summary of the second-level due diligence carried out by the Secretariat;</li> <li>• A cover note containing: the funding recommendation by the Secretariat; and a summary of the proposal and the underlying assessments with respect to the activity-specific criteria.</li> </ul>

<sup>2</sup> The appraisal toolkit will include, inter alia, guidelines for multi-stakeholder consultations and engagement in line with Performance Standard 1 of the interim environmental and social safeguards and in accordance with future guidance provided through the Fund's Environmental and Social Management System

<b>V. Board decision</b>			
5.	Board decision	Board, Secretariat	<p>The Board takes a decision<sup>3</sup> to:</p> <ul style="list-style-type: none"> <li>(i) Approve the funding proposal; or</li> <li>(ii) Provide an approval that is conditional on modifications to project or programme design or subject to availability of funding; or</li> <li>(iii) Reject the funding proposal.</li> </ul> <p>The decision is recorded by the Secretariat and communicated to the Interim Trustee. The Secretariat informs the IE or intermediary and the NDA or focal point of the decision and next steps.</p> <p>In the case of rejection, the Secretariat will inform the developing country that, in accordance with decision B.06/09, they may request reconsideration of the funding decision via the independent redress mechanism.</p>
<b>VI. Legal arrangements for approved proposals</b>			
6.1	Legal arrangements	Secretariat with IE or intermediary	<p>Necessary legal arrangements between the Fund and the IEs and intermediaries. Legal agreements are signed by the Executive Director and by the IE or intermediary. The Interim Trustee is notified. The NDA or focal point are informed.</p>
6.2	Letter of commitment	Interim Trustee	<p>The Interim Trustee provides a letter of commitment, subject to availability of funding.</p>

<sup>3</sup>Guidelines for decision-making regarding funding proposals, including for decisions in-between meetings, will be defined by the Board.

**Annex VIII: Initial post-approval items**

KEY STAGES AND INDIVIDUAL STEPS		ACTOR(S)
<b>I. Implementation period</b>		
1.1	Transfer of funds to IE/intermediary against agreed criteria	Interim Trustee
1.2	Application of the relevant Fund's interim environmental and social safeguards	IE or intermediary
1.3	External audit report	IE or intermediary
<b>II. Commissioning/launch</b>		
2.1	Project or programme becomes effective	IE, intermediary, EE
2.2	Monitoring and evaluation of outcomes commences	IE or intermediary, Secretariat
<b>III. Impact period</b>		
3.1	Monitoring and evaluation of outcomes	IE or intermediary, Secretariat
3.2	Monitoring of financial and economic performance	IE or intermediary, Secretariat
3.3	Debt serviced according to loan agreement	Intermediary, Secretariat, Interim Trustee
3.4	Monitoring of financing covenants	IE or intermediary, Secretariat
<b>IV. Close</b>		
4.1	Financial closure	IE or intermediary, Secretariat and Interim Trustee
4.2	Activity exits the Fund's portfolio	n/a

## Annex IX: Initial mitigation logic model and possible initial performance indicators which may be taken into account for further work by the Secretariat

Levels	Results (reference to Paris result areas provided)	Possible initial performance indicators which may be taken into account for further work by the Secretariat (reference to Paris performance indicators provided)
<b>Paradigm shift objective</b>	Shift to low-emission development pathways	
↑		
<b>Impacts</b> (Fund level)	<p><b>1.0</b> Reduced emissions through increased low-emission energy access and power generation (<u>Paris result areas e &amp; f</u>)</p> <p><b>2.0</b> Reduced emissions through increased access to low-emission transport (<u>Paris result area d</u>)</p> <p><b>3.0</b> Reduced emissions from buildings, cities, industries and appliances (<u>Paris result areas b &amp; c</u>)</p> <p><b>4.0</b> Reduced emissions from land use, deforestation, forest degradation, and through sustainable forest management, and conservation and enhancement of forest carbon stocks (<u>Paris result areas g, h &amp; i</u>)</p>	<p>1.1 Level of capacity (MW) from low emission sources (<u>Paris performance indicators e, f &amp; h</u>)</p> <p>2.1 Emissions levels from Vehicles (Paris performance indicator c)</p> <p>3.1 Annual energy savings (GWh) (Paris performance indicators b &amp; d)</p> <p>4.1 tCO<sub>2</sub>eq reduced from forest/land use (Paris performance indicator g)</p>
↑	↑	
<b>Project/ programme outcomes</b> (Country-driven from NAMAs, climate change strategies, mitigation policies, etc.)	<p><b>5.0</b> Strengthened institutional and regulatory systems for low-emission planning and development</p> <p><b>6.0</b> Increased number small, medium and large low-emission power suppliers</p> <p><b>7.0</b> Lower energy intensity of buildings, cities, industries, and appliances</p> <p><b>8.0</b> Increased use of low carbon transport</p> <p><b>9.0</b> Improved management of land and forest or improved</p>	<p>5.1 Number of low-emission policies, laws, strategies and plans supported by the Fund</p> <p>6.1 MW of capacity from low emission sources (Paris performance indicator f)</p> <p>7.1 Energy savings (GWh) (Paris performance indicator b)</p> <p>8.1 Number of passengers (disaggregated by gender where possible) using low emission vehicles</p> <p>8.2 Modal share (by transportation type) (Paris performance indicator e)</p> <p>9.1 Forest area under improved management and reduced carbon emissions practices</p>

	management contributing to emissions reduction	(Paris performance indicator g) 9.2 Trend in women's/men's livelihood from sustainable forestry
↑	↑	
<b>Programme/ project outputs</b> <i>(to be defined by executing entities)</i>		
↑	↑	
<b>Activities</b> <i>(to be defined by executing entities)</i>		
<b>Inputs</b>		

## Annex X: Initial adaptation logic model and possible initial performance indicators which may be taken into account for further work by the Secretariat

Levels	Results	Possible initial performance indicators which may be taken into account for further work by the Secretariat
<b>Paradigm shift objective</b>	<b>Increased climate-resilient sustainable development</b>	
<b>↑</b> <b>Impacts (Fund level)</b>		
	<p><b>1.0</b> Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions</p> <p><b>2.0</b> Increased resilience of health and well-being, and food and water security</p> <p><b>3.0</b> Increased resilience of infrastructure and the built environment to climate change threats</p> <p><b>4.0</b> Increased resilience of ecosystems and ecosystem services</p>	<p>1.1 Percentage reduction in the number of people affected (c.f. CRED definition) by climate-related disasters, including the differences between vulnerable groups (women, elderly, etc.) and the population as a whole</p> <p>1.2 Number (percentage) of households adopting a wider variety of livelihood strategies/coping mechanisms</p> <p>2.1 Percentage of food-secure households (reduced food gaps)</p> <p>2.2 Percentage of households with year-round access to adequate water (quality and quantity for household use)</p> <p>2.3 Climate induced disease incidence in areas where adaptation health measures have been introduced (% of population)</p> <p>2.4 Area (ha) of agricultural land made more resilient to climate change through agricultural practices (e.g. planting times, new and resilient native varieties, efficient irrigation systems adopted)</p> <p>3.1 Value of infrastructure made more resilient to rapid-onset events (e.g. floods, storm surges, heat-waves) and slow onset-processes (e.g. sea-level rise)</p> <p>3.2 Number of new infrastructure projects or physical assets strengthened or constructed to withstand condition from climate variability and change (e.g. to heat, humidity, wind velocity and floods)</p> <p>4.1 Area (ha) of habitat or kilometres of coastline rehabilitated (e.g. reduced external pressures such as overgrazing and land degradation through logging/collecting); restored (e.g. through replanting); or protected (e.g. through improved fire management; flood plain/buffer maintenance)</p> <p>4.2 Number and area of agroforestry projects, forest-pastoral systems, or ecosystems –based adaptation systems established or enhanced</p>
<b>↑</b>	<b>↑</b>	



<p><b>Project/pr ogramme outcomes</b> (Country- driven drawn from continuous planning as reflected in NAPs.)</p>	<p><b>5.0</b> Strengthened institutional and regulatory systems for climate-responsive planning and development</p> <p><b>6.0</b> Increased generation and use of climate information in decision-making</p> <p><b>7.0</b> Strengthened adaptive capacity and reduced exposure to climate risks</p> <p><b>8.0</b> Strengthened awareness of climate threats and risk-reduction processes</p>	<p>5.1 Degree of integration/ mainstreaming of climate change in national and sector planning and coordination in information sharing and project implementation [Core indicator]</p> <p>6.1 Evidence that climate data is collected, analysed and applied to decision-making in climate-sensitive sectors at critical times by the government, private sector and men/women. [Core indicator]</p> <p>6.2 Perception of men, women, vulnerable populations, and emergency response agencies of the timeliness, content and reach of early warning systems [Core indicator]</p> <p>7.1 Extent to which vulnerable households, communities, businesses, and public sector services use improved tools, instruments, strategies and activities (including those supported by the Fund) to respond to climate variability and climate change [Core indicator]</p> <p>8.1 Percent of target population aware of the potential impacts of climate change and range of possible responses [Core indicator]</p>
↑	↑	
<p><b>Programme / project outputs</b> (to be defined by executing entities)</p>		
↑	↑	
<p><b>Activities</b> (to be defined by executing entities)</p>		
<p><b>Inputs</b></p>		

---

## Annex XI: Initial financial risk management framework

1. The Fund's initial financial risk management framework consists of the following components:

- (a) Financial risk policies;
- (b) Risk monitoring and reporting; and
- (c) Risk governance.

### I. Financial risk policies

2. The Fund's initial financial risk policies are:

- (a) The Fund will in aggregate seek to maximize grant contributions, taking into account its theme-based allocation. It is foreseen that grant contributions must significantly exceed loan amounts;
- (b) The Fund will initially provide grants and loans through implementing entities (IEs) and intermediaries as per the financial terms and conditions to be approved. Intermediaries will be permitted to blend grants and loans received from the Fund with their own sources of financing or with third-party financing;
- (c) There will be no cross-subsidization between providers of grants and providers of loans. To this end, the Fund, with support from the Trustee, will monitor incoming and outgoing flows and incorporate a conservative hypothesis with respect to possible financial losses in order to ensure that actual reflows from outgoing loans will always exceed repayments due to contributors. The modalities of loan contributions will be defined, both at the collective and at the individual contributor level, in terms of concessionality and other modalities (including the possibility of associated grant or capital provision and appropriate arrangements with contributors regarding the possible write-down of loan contributions), to ensure that loan contributions do not entail any risk in this respect. Overall, these provisions will ensure that the average concessionality level of outgoing loans will be less than the average concessionality level of incoming contributions with a sufficient margin to cover credit risk;
- (d) To further avoid cross-subsidization between providers of grants and providers of loans, future financial losses will be borne by all contributors, which will require that one of the following arrangements (preferably the same) be taken with each loan contributor:
  - (i) Appropriate arrangements with contributors regarding the possible write-down of loan contributions; or
  - (ii) The associated provision of a grant or capital contribution by the contributor to the Fund;
- (e) The grant or capital contribution to be made by loan contributors to cushion against credit risk should be calculated on the basis of a realistic assessment of the risks the Fund is expected to take. If, despite all reasonable efforts to maintain the risk profile of the portfolio of the Fund in line with this realistic assessment, the capital cushion proves inadequate, loan contributors will then be expected to contribute additional grant or capital contributions;
- (f) While maximizing effectiveness, the Fund will seek diversity in its asset portfolio on the basis of the Board-determined allocation criteria, geography, results areas, and accredited entities, keeping in mind prudent risk limits from a portfolio diversification perspective where relevant for loans and instruments that entail possible losses;

- (g) The Fund shall take a zero tolerance approach to fraud and shall seek to minimize the risk of moral hazard with respect to intermediaries, consistent with the initial fiduciary principles and standards set out in Annex II.

## II. Financial risk monitoring and reporting management system

3. Table 1 provides an overview of the Fund's risk monitoring and reporting management system.

**Table 1: Fund's risk monitoring and reporting management system**

<b>RISK MONITORING AND REPORTING TOOL</b>	<b>FREQUENCY OF USE</b>	<b>PURPOSE</b>
<b>Financial risk management summary</b>	Quarterly	Track key financial risk indicators in real time.
<b>Financial risk register</b>	Annually	Perform an annual in-depth review of key risk events, management response and residual risk.
<b>Financial statements</b>	Semi-annually	Gain an overview of the institution's financial situation and its trend over time.
<b>Portfolio review</b>	In real time, with an annual portfolio report	Identify leading indicators of financial risk within the portfolio based on the submission of information from intermediaries and implementing entities; perform stochastic portfolio analyses and sensitivity analyses.
<b>External audit report</b>	Annually	Confirm the accuracy of financial statements as well as obtain a third-party view of the financial health of an institution
<b>Self-evaluation by the Committee of Sponsoring Organizations of the Treadway Commission</b>	Every two years	Scan possible risk gaps not covered by the above-mentioned monitoring instruments.

## III. Financial risk governance: roles and responsibilities

4. Table 2 provides an overview of the roles and responsibilities related to the Fund's financial risk governance.

**Table 2: Fund's financial risk governance: roles and responsibilities**

	<b>Chief Financial Officer (and Risk Manager*)</b>	<b>Secretariat's Risk Working Group**</b>	<b>Board's Risk Management Committee</b>
<b>Role and responsibility</b>	<ul style="list-style-type: none"> <li>• Preparation of financial statements</li> <li>• Preparation of annual portfolio reviews</li> <li>• Management of internal and external audit processes</li> <li>• Review of the financial reporting from the Trustee (and implementing entities and intermediaries)</li> <li>• Preparation of periodic financial risk management summaries</li> <li>• Development of an asset-liability management process</li> </ul>	<ul style="list-style-type: none"> <li>• Review of financial statements, portfolio review and risk summary</li> <li>• Integration of portfolio-level risk data into Secretariat's due diligence as part of the approval process for project and programme funding</li> <li>• Management of the annual Committee of Sponsoring Organizations of the Treadway Commission (COSO) risk self-assessment for the Secretariat</li> </ul>	<ul style="list-style-type: none"> <li>• Overall oversight of the Fund's risk management</li> <li>• Review of financial statements, portfolio review and risk summary</li> <li>• Recommendation of risk ceilings (the Fund's risk appetite or risk limit) for the Board's approval</li> <li>• Assessment of compliance of the Fund's financial risk levels with the ceilings</li> <li>• Provision of guidance to the Secretariat on portfolio risk</li> <li>• Reporting on financial risk to the Board</li> <li>• Management of the annual COSO risk self-assessment for the Board</li> </ul>

\* The Risk Manager and General Counsel report to the Executive Director and advise both Executive Director and the Board on risk and on legal matters respectively.

\*\* With support from the Trustee as appropriate.

**Annex XII: The Fund’s financial risk categorization and management\***

	ASSET-SIDE RISK	LIABILITY-SIDE RISK	ASSET-LIABILITY MISMATCH RISK
<b>Aspect of the Fund’s business</b>	Funding extended to developing country entities to fund climate mitigation and adaptation projects and programmes <ul style="list-style-type: none"> <li>• Grants</li> <li>• Concessional loans</li> <li>• Other financial instruments, as may be approved by the Board</li> </ul>	Financial contributions pledged or received from partners <ul style="list-style-type: none"> <li>• Grants</li> <li>• Capital contributions</li> <li>• Loans</li> <li>• Any other input received by the Fund</li> </ul>	Mismatch between the Fund’s assets and liabilities
<b>Key nature of risks (non-exhaustive list)</b>	<ul style="list-style-type: none"> <li>• Counter-party risk: counter-party evaluation, etc.</li> <li>• Implementation risk (non-performing borrower/intermediary or implementing entity (IE), as appropriate)</li> <li>• Technical risk (risky technology)</li> <li>• Market risk (price movements)</li> <li>• Foreign exchange risk, as may be approved by the Board (exchange rate risk, currency availability)</li> <li>• Country risk (war and civil disturbance, expropriation, breach of contract)</li> </ul>	<ul style="list-style-type: none"> <li>• Arrears in contributions</li> <li>• Foreign exchange movements in currencies held</li> <li>• Interest rate movements</li> <li>• Liquidity risk</li> <li>• Counter-party risk relating to the Trustee</li> </ul>	<ul style="list-style-type: none"> <li>• Maturity and tenor: mismatch in duration of funding received and funding granted</li> <li>• Interest rate: mismatch in pricing of funding received and granted</li> <li>• Currencies: mismatch in currencies of funding granted and received</li> <li>• Liquidity mismatch between assets and liabilities</li> <li>• Non-performing loan (NPL) rate: aggregate NPLs and grants provided exceed grants received</li> <li>• Cross-subsidy risk: grants from certain contributors serve to cross-subsidize loan repayments to other partners</li> </ul>

\*Excludes global financial and political risks.

	<b>ASSET-SIDE RISK</b>	<b>LIABILITY-SIDE RISK</b>	<b>ASSET-LIABILITY MISMATCH RISK</b>
	<p>Asset-side risks need to be monitored and managed in aggregate at the portfolio level</p> <p>At the project level, risks will be managed and mitigated by the IE or intermediary, as appropriate:</p> <ul style="list-style-type: none"> <li>• Risk assessment: technical and financial appraisal to evaluate the overall risk profile of the project/programme</li> <li>• Implementation risk: borrower/ implementer accreditation, third-party guarantees of performance</li> <li>• Technical risk: independent engineering review</li> <li>• Market risk: hedging, contractual terms (e.g. take-or-pay)</li> <li>• Foreign exchange risk: foreign exchange hedging, swaps</li> <li>• Country risk: political risk insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Arrears in contributions pledged: mitigated through contracts and/or backstop guarantees</li> <li>• Foreign exchange risk: mitigated through institutional exchange policies, hedging and/or swaps</li> <li>• Interest rate risk: mitigated through hedging such as swaps</li> <li>• Liquidity risk: mitigated by the Trustee through cash management</li> <li>• Counter-party risk: counter-party evaluation and/or performance guarantees/bonds</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of asset/liability match in real time to avoid exceeding Board-established ceilings on maturity and tenor; interest rate; currencies; and NPL rate</li> <li>• Ongoing asset-liability management process to track asset-liability mismatch</li> </ul>

---

## **Annex XIII: Financial arrangements for grants and concessional loans and the role of implementing entities and intermediaries in financial arrangements<sup>1</sup>**

### **I. Financial arrangements for grants and concessional loans**

- (a) The implementing entity (IE) or intermediary will submit a funding proposal that in its assessment will make the project or programme viable given the risk profile of the project/programme as well as its contribution to the Fund's objectives;
- (b) The subsidy element provided through grants and/or concessional lending will be the minimum amount necessary to make the project or programme viable and help achieve the Fund's paradigm shift objective; and
- (c) The Secretariat, as part of its second stage due diligence, will assess the validity of the proposed financing terms and conditions, and will inform the Board accordingly in order for the Board to decide on the funding proposal.

### **II. The role of implementing entities and intermediaries**

- (a) The Fund will include in its administrative agreements with the IEs or intermediaries a provision on expected repayment of the non-grant portion of the funds; and
- (b) The intermediary will use resources provided by the Fund to finance a project or programme, under terms and conditions that will make it viable at the minimum level of concessionality, as specified in the agreed funding proposal, including blending where relevant.

---

<sup>1</sup> This annex would not pre-determine the outcome of the document on financial terms and conditions.

---

## Annex XIV: Initial investment framework

1. The Fund's initial investment framework consists of the following components:
  - (a) Investment policies;
  - (b) Investment strategy and portfolio targets; and
  - (c) Investment guidelines.

### I. Investment policies

2. The Fund's initial set of investment policies covers all grants, concessional loans and other financial instruments extended by the Fund. They are as follows:
  - (a) The Fund will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development, in accordance with the Fund's initial results management framework, its initial result areas, as laid out in decision B.05/03, and subsequent decisions on additional result areas for adaptation, and consistent with a country-driven approach;
  - (b) Funding received and extended by the Fund will be accounted for in grant-equivalent terms based on a standard methodology, to be developed by the Fund based on best international practices to provide an accurate comparison of funding amounts between financial instruments;
  - (c) The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme;<sup>1</sup>
  - (d) Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes;
  - (e) The Fund will not "crowd out" potential financing from other public and private sources; and
  - (f) Only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the Fund.

### II. Investment strategy and portfolio targets

3. The Fund's investment strategy includes portfolio targets and investment guidelines. Table 1 and table 2 represent the initial decisions. The strategy will be further developed from the initial parameters and guidelines for allocation of resources as laid out in decision B.06/06 and the initial result areas as defined in decision B.05/03 and subsequent decisions on additional result areas for adaptation.

---

<sup>1</sup> Governing Instrument, paragraph 35.



**Table 1: Initial portfolio targets**

<b>Initial allocation parameters</b>	<b>Initial portfolio targets</b>
Balance between mitigation and adaptation	50/50 (over time)
Adaptation allocation for vulnerable countries (including the least developed countries (LDCs), small island developing States (SIDS) and African States)	Floor of fifty per cent of adaptation allocation
Geographic balance	Reasonable and fair allocation across a broad range of countries
Engagement with the private sector	Maximize fund-wide engagement with the private sector, including through significant allocation to the PSF
Readiness and preparatory support	Sufficient support for readiness and preparatory activities associated with the above

### III. Investment guidelines

4. The Fund's initial investment guidelines will be activity-based and will be composed of the 6 criteria and 24 coverage areas shown in table 2:

**Table 2: Initial criteria for assessing programme/project proposals**

<b>Criterion</b>	<b>Definition</b>	<b>Coverage area</b>
<b>Impact potential</b>	Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas	<ul style="list-style-type: none"> <li>• Mitigation impact</li> <li>• Adaptation impact</li> </ul>
<b>Paradigm shift potential</b>	Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment	<ul style="list-style-type: none"> <li>• Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees</li> <li>• Potential for knowledge and learning</li> <li>• Contribution to the creation of an enabling environment</li> <li>• Contribution to the regulatory framework and policies</li> <li>• Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans</li> </ul>
<b>Sustainable development potential</b>	Wider benefits and priorities	<ul style="list-style-type: none"> <li>• Environmental co-benefits</li> <li>• Social co-benefits</li> <li>• Economic co-benefits</li> <li>• Gender-sensitive development impact</li> </ul>
<b>Needs of the recipient</b>	Vulnerability and financing needs of the beneficiary country and population	<ul style="list-style-type: none"> <li>• Vulnerability of the country</li> <li>• Vulnerable groups and gender aspects</li> </ul>

Criterion	Definition	Coverage area
		<ul style="list-style-type: none"> <li>• Economic and social development level of the country and the affected population</li> <li>• Absence of alternative sources of financing</li> <li>• Need for strengthening institutions and implementation capacity</li> </ul>
<b>Country ownership</b>	Beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)	<ul style="list-style-type: none"> <li>• Existence of a national climate strategy</li> <li>• Coherence with existing policies</li> <li>• Capacity of implementing entities, intermediaries or executing entities to deliver</li> <li>• Engagement with civil society organizations and other relevant stakeholders</li> </ul>
<b>Efficiency and effectiveness</b>	Economic and, if appropriate, financial soundness of the programme/project	<ul style="list-style-type: none"> <li>• Cost-effectiveness and efficiency regarding financial and non-financial aspects</li> <li>• Amount of co-financing</li> <li>• Programme/project financial viability and other financial indicators</li> <li>• Industry best practices</li> </ul>

---

**Annex XV: Governing Instrument, and decisions of the Board and the Conference of the Parties to the United Nations Framework Convention on Climate Change reflecting the structure of the Fund and the Secretariat**

- Decision 1/CP.16: The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention
- Governing Instrument for the Green Climate Fund
- Rules of Procedure of the Board
- Decision 3/CP.17: Launching the Green Climate Fund
- Decision 6/CP.18: Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund
- Decision 4/CP.19: Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund
- Decision 5/CP.19: Arrangements between the Conference of the Parties and the Green Climate Fund
- Decision B.01-13/01: Additional rules of procedure of the Board
- Decision B.01-13/06: Business model framework
- Decision B.02-12/02: Additional rules of procedure of the Board
- Decisions B.04/02 and B.04/03: Establishment of the independent Secretariat
- Decision B.04/05: Business model framework – Country Ownership
- Decision B.04/08: Business model framework – Private Sector Facility
- Decision B.05/08: Business model framework - Access
- Decisions B.05/10 and B.05/11: Establishment of the independent Secretariat
- Decisions B.05/12 and B.05/13: Committees and panels
- Decision B.05/17: Resource mobilization
- Decision B.05/21: Arrangements with the Interim Trustee
- Decision B.06/03: Administrative policies of the Fund
- Decisions B.06/08 and B.06/09: Terms of reference of the Independent Evaluation Unit, the Independent Integrity Unit, and the independent redress mechanism
- Decision B.07/02: Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund's fiduciary principles and standards and environmental and social safeguards
- Decision B.07/03: Initial proposal approval process, including the criteria for programme and project funding
- Decision B.07/04: Initial results management framework of the Fund
- Decision B.07/05: Fund's financial risk management framework
- Decision B.07/06: Fund's investment framework
- Decision B.07/08: Initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility

---

**Annex XVI: Governing Instrument, and decisions of the Board and the Conference of the Parties to the United Nations Framework Convention on Climate Change reflecting the initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility**

Governing Instrument for the Green Climate Fund

Decision 3/CP.17: Launching the Green Climate Fund

Decision 4/CP.19: Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund

Decision 5/CP.19: Arrangements between the Conference of the Parties and the Green Climate Fund

Decision B.01-13/06: Business model framework

Decision B.04/05: Business model framework – Country Ownership

Decision B.04/06: Business model framework – Access

Decision B.04/08: Business model framework – Private Sector Facility

Decision B.05/03: Business model framework – Objectives, results and performance indicators and Results Management Framework

Decision B.05/04: Business model framework – Financial Inputs

Decision B.05/05: Business model framework – Allocation

Decision B.05/07: Business model framework – Financial Instruments

Decision B.05/08: Business model framework – Access

Decision B.05/14: Readiness and preparatory support

Decision B.06/06: Policies and procedures for the initial allocation of Fund resources

Decision B.06/07: Options for a Fund-wide gender-sensitive approach

Decision B.06/11: Detailed programme of work on readiness and preparatory support

Decision B.07/02: Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund's fiduciary principles and standards and environmental and social safeguards

Decision B.07/03: Initial proposal approval process, including the criteria for programme and project funding

Decision B.07/04: Initial results management framework of the Fund

Decision B.07/05: Fund's financial risk management framework

Decision B.07/06: Fund's investment framework

---

## **Annex XVII: Arrangements for the collective engagement in the initial resource mobilization process**

Arrangements for the collective engagement of all interested contributors in the initial resource mobilization process:

- (a) The collective engagement will take the form of one or more meetings, as well as virtual communication between meetings as necessary;
- (b) The Co-Chairs will issue an open invitation to all potential contributors to the Fund's initial resource mobilization process, including from the private sector and philanthropic organizations, within a week from adoption of this decision;
- (c) The first meeting of the initial resource mobilization process should take place before the end of June 2014. Further meetings may be arranged as necessary. A meeting aiming to finalize the collective engagement in the initial resource mobilization process, will take place no later than the end of November 2014;
- (d) The meetings will be open for participation by contributors, the Board's Co-Chairs, four representatives of the Board (two developed/two developing), two active observers of the Board (one civil society/one private sector), as well as the Executive Director;
- (e) The meetings will be organized in the form of technical sessions, open to contributors and observers, as well as executive sessions, which will be open only to contributors and the Co-Chairs of the Board. Representatives of the Interim Trustee will be invited to attend sessions of such meetings in order to provide relevant support to the Secretariat;
- (f) The rules of conduct of the initial resource mobilization process will be developed at the first meeting;

### *Documentation*

- (g) The Secretariat will prepare a programming document that will summarize the decisions taken by the Board that are necessary to guide decisions relevant to the initial resource mobilization process;
  - (h) The disclosure of information and documents regarding the initial resource mobilization process will be governed by the Fund's Interim Information Disclosure Practice (decision B.05/15, Annex XX).
-