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## 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
<b>Basic fiduciary criteria</b>	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>
<b>Specialized fiduciary criteria</b>	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

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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.

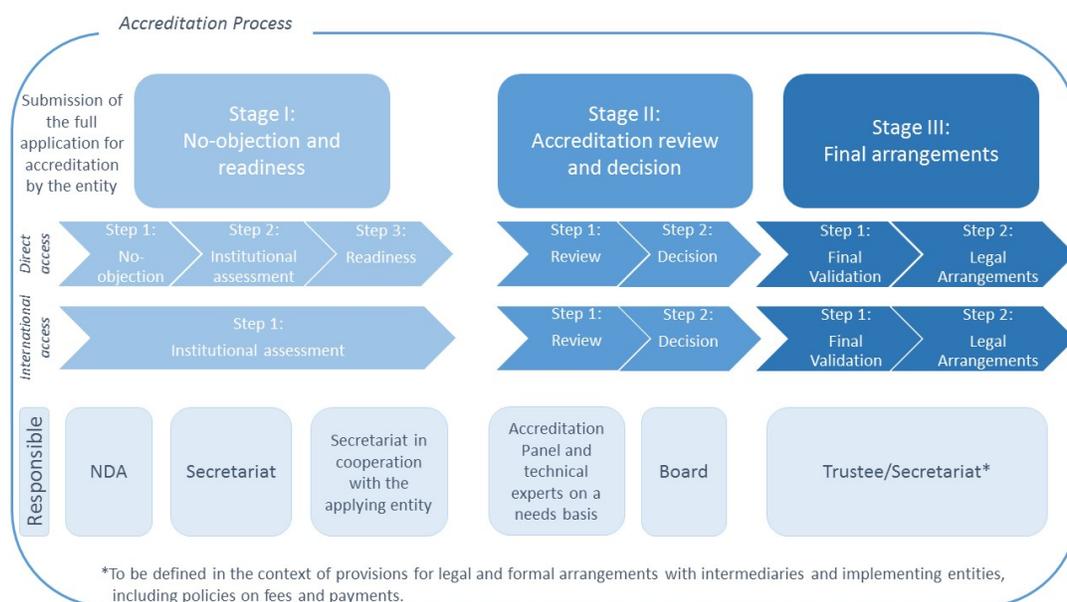
## **V. Accreditation process**

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

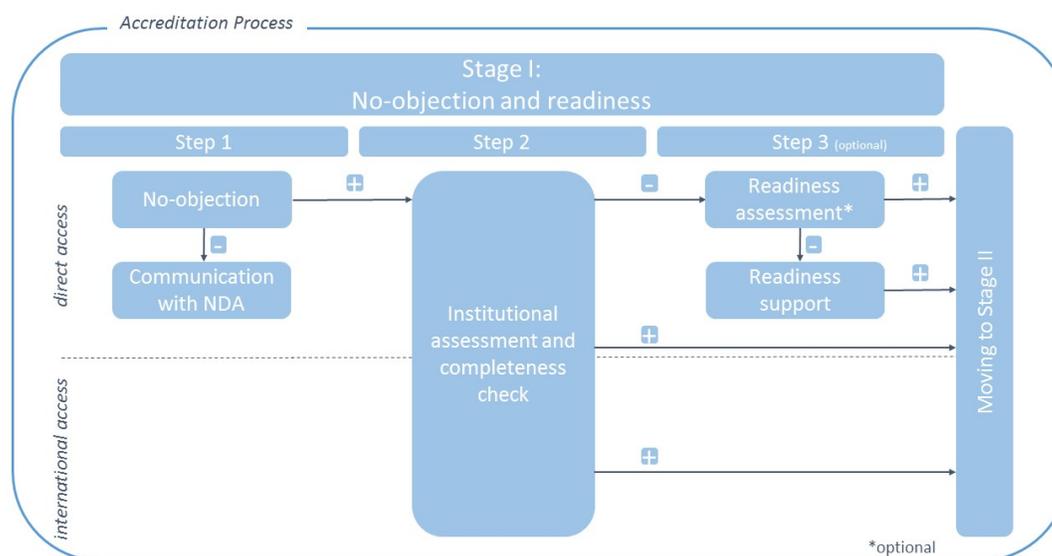
25. The overall purpose of this stage is to determine whether applicant entities show sufficient preparedness and institutional capabilities to progress to stage II in the accreditation process of the Fund.

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'.



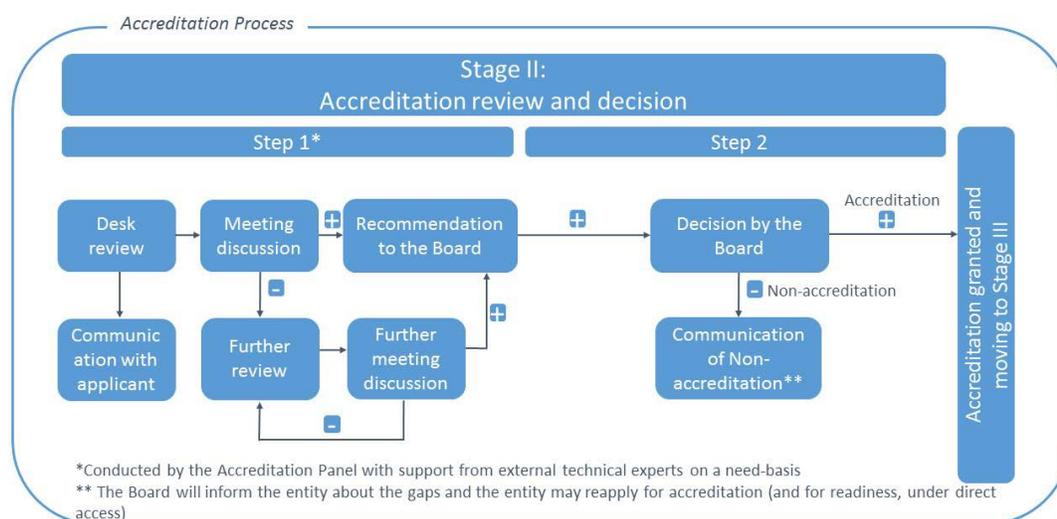
**Figure 2: Overview of Stage I of the Accreditation Process**

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:
- 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;
  - 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;
  - 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;
  - 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;
  - 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:

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- (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.