

Annex XII: Pilot framework for the GCF project-specific assessment approach

I. General objective

1. The general objective of this pilot framework is to enable a coherent integration of the GCF fiduciary principles and standards, environmental and social safeguards (ESS) and Gender Policy with the GCF project-specific assessment approach (PSAA) as an accreditation approach, and its related operational systems and procedures, including the organizational structure and governance system dedicated to supporting it.
2. The “Initial guiding framework for the GCF’s accreditation process” in annex I to decision B.07/02 focuses on assessing an organization’s institutional systems, policies and procedures in place that meet the GCF standards for accreditation related to fiduciary, ESS and gender requirements, and the track record in applying such systems, policies and procedures, resulting in an accreditation type comprised of (a) a maximum project or programme activity size category, (b) fiduciary functions and (c) a maximum environmental and social (E&S) risk level within which an accredited entity (AE) can undertake projects/programmes with GCF funding.
3. The PSAA accreditation approach is consistent with the initial guiding framework for the GCF accreditation process. However, it focuses on the organization’s ability to implement the proposed project/programme presented to GCF rather than a hypothetical set of projects/programmes that the entity may bring forward in the future. In doing so, this pilot framework aims to provide a more fit-for-purpose approach to accreditation in relation to the intended programming. Additionally, it aims to broaden access to GCF for entities for whom the institution-wide approach in accreditation does not as readily respond to the nature and number of projects they intend to develop with GCF support, and the higher transaction costs associated with the process.
4. Unless otherwise specifically modified herein, all other relevant GCF policies apply as usual to the pilot framework.

II. Applicability

5. PSAA applies to any funding proposal submitted under the Simplified Approvals Process Pilot Scheme (SAP)¹ and the following requests for proposal (RFPs) approved by the Board:
 - (a) A pilot phase for enhancing direct access;²
 - (b) A pilot scheme to support micro, small, and medium-sized enterprises;³ and
 - (c) A pilot programme to mobilize funds at scale.⁴
6. Entities submitting such funding proposals may include entities not yet accredited to GCF as well as AEs that submit or have submitted funding proposals in relation to the pilot programmes referred to in paragraph 5 above that go beyond their existing approved accreditation scope.

¹ Decision B.18/06.

² Decision B.10/04.

³ Decision B.10/11.

⁴ Decision B.16/03.

7. Each entity will be capped at a maximum of one approved funding proposal under this pilot approach.
8. The Secretariat shall take appropriate measures to encourage and provide support to direct access entities to submit projects or programmes under this approach.

III. Standards

9. The following GCF standards apply to PSAA, which will form part of the review of the proposed project/programme. The focus of the assessment will be on the entity's ability to meet GCF standards in implementing the proposed project/programme – not on the institution-wide systems, policies and procedures or general track record as is assessed in accreditation.⁵ The entity will be assessed against these standards in a manner that is fit-for-purpose in the context of the proposed project/programme:

- (a) GCF initial fiduciary principles and standards;⁶
- (b) GCF interim ESS;⁷ and
- (c) GCF Gender Policy.⁸

10. GCF policies and standards that apply to the project cycle, which include but are not limited to the investment framework, risk management framework, results management framework, Environmental and Social Policy, Indigenous Peoples Policy, Information Disclosure Policy, Policy on Prohibited Practices, and monitoring and accountability framework, among others, will be applied as usual to the proposed project/programme and the project cycle for consideration of the funding proposal.

IV. Project-specific assessment approach process

4.1 Process

11. An entity may submit a concept note under the SAP or the RFPs referred to in paragraph 5 above.

12. In accordance with paragraph 47 of the Governing Instrument of the GCF and the initial no-objection procedure per decision B.08/10, a nomination (applicable to direct access entities) and no-objection letter (for the proposed project) from the national designated authority (NDA) or focal point is required for all funding proposals for a project/programme submitted in this pilot. In order for the entity to be considered for PSAA under SAP or the RFPs, on receipt of a concept note submission from the entity, the Secretariat will seek confirmation from the NDA or focal point that the concept note fits under national priorities and country ownership, in line with decision B.17/09, paragraph (f).

13. After the Secretariat has reviewed the concept note submitted and determined it satisfactory to be developed into a funding proposal, the entity should submit an application to facilitate the assessment of the entity either prior to or in parallel with the development of the funding proposal.

⁵ Decision B.07/02, paragraph (a) and annex I to the decision.

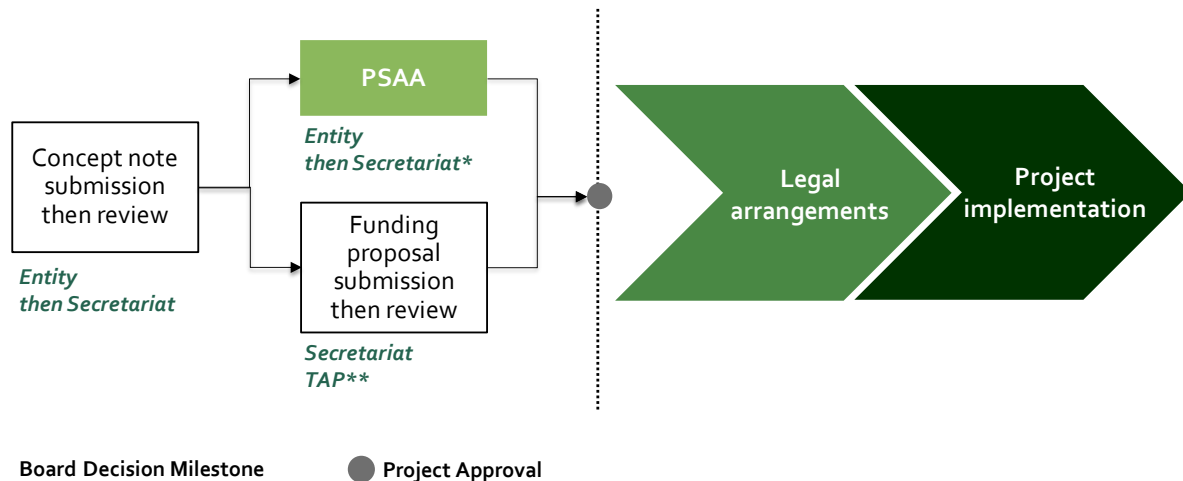
⁶ Decision B.07/02, paragraph (b) and annex II to the decision.

⁷ Decision B.09/11, paragraph (a) and annex XIII to the decision.

⁸ Decision B.07/02, paragraph (b) and annex II to the decision.

14. The Secretariat will undertake a project-specific assessment of the entity and, together with the review of the funding proposal itself, include its assessment of the entity as part of the Secretariat’s assessment of the funding proposal (refer to figure 3 below).

Figure 3: Process for the pilot framework for the project-specific assessment approach



* The Secretariat will augment its capacity by using external experts, third party organizations and/or service providers to support it in undertaking such assessments on its behalf.

** Independent technical advisory panel (TAP) review focuses on the funding proposal, in line with its terms of reference per decision B.09/10, paragraph (a).

Abbreviations: TAP = independent technical advisory panel, PSAA = project-specific assessment approach.

15. The PSAA process will be based on two main stages:
- (a) Stage I: project-specific assessment of the entity and consideration of the funding proposal; and
 - (b) Stage II: final arrangements.
16. The purpose of Stage I is twofold:
- (a) To determine whether the entity submitting a funding proposal has appropriate legal status and sufficient institutional capabilities to implement the proposed project/programme in a manner that meets the GCF fiduciary, environmental, social and gender standards (institutional assessment in section 4.2 of this framework); and
 - (b) To assess the funding proposal submitted by the entity, following the established procedure for the SAP or the standard proposal approval process, as applicable.
17. Unless stated otherwise in this annex, the Secretariat will undertake an assessment of the proposed project/programme and the entity submitting the funding proposal in a manner consistent with all relevant GCF policies, and will also build on assessments previously undertaken by GCF, where applicable.
18. The Secretariat will augment its capacity by using external experts, third-party organizations and/or service providers to support it in undertaking such assessments on its behalf.
19. The results of the assessment along with the funding proposal and assessment will be presented to the Board for a funding decision.
20. The Board’s consideration of whether to work with an entity for the proposed project will be taken into account as part of its consideration of the funding proposal.

21. Stage II will conclude the process through the validation and finalization of formal arrangements between the applicant and GCF upon the successful completion of Stage I.

4.2 Entity's institutional capacity assessment

22. PSAA, as a part of the assessment of the proposed project, will include an assessment of the entity's institutional capacities to implement the proposed project. This will include:

- (a) How the entity contributes to the mandate of GCF;
- (b) Potential reputational risks to GCF;
- (c) Legal status: the entity has full legal capacity and independent legal personality within the relevant jurisdiction that enables it to undertake the proposed project/programme to be considered for funding by GCF and to undertake the same responsibilities with respect to project/programme implementation as an AE and enter into legal agreements with GCF in its own name;
- (d) Confirmation by the Secretariat that the role of the entity in the proposed project does not conflict with the obligations it owes and will owe to GCF in its capacity as an entity accredited for the purposes of delivering the proposed project;
- (e) How the entity meets the GCF initial basic fiduciary standards and initial specialized fiduciary standards at the institutional level that allow it to implement the proposed project; and
- (f) Whether the entity has the capacity to manage relevant environmental and social risks in line with the GCF interim ESS and scaled risk-based approach as well as the GCF Gender Policy at the institutional level that allow it to implement the proposed project.

23. PSAA will entail two steps that include capacity checks at both the project and institutional levels as well as an overall capacity assessment. The standards, as contained in section 3 of this framework, will be applied in a fit-for-purpose manner in the assessment of the entity's capacities to implement the proposed project/programme, as detailed below.

24. **Step 1: capacity checks:**

- (a) **Institutional capacity check.** This check will focus on those elements that are most needed to ensure an entity has the institutional capacity to implement the proposed project/programme. This check would include, as applicable:
 - (i) Review of internal control mechanisms such as financial controls, organizational structure, anti-money laundering (AML), countering the financing of terrorism (CFT) and other prohibited practices, fraud and mismanagement systems, in so far as they relate to the undertaking of the proposed project;
 - (ii) Depending on the E&S risk level and relation to the financing structure of the proposed project/programme, institutional function, organizational structure and competency on E&S due diligence, processes to assess and manage E&S risks, indigenous peoples engagement, consultations and grievance redress mechanisms. This check will also look into the functions, structure and competency to address gender issues as may be assessed in the proposed projects; and
 - (iii) Third-party reviews such as reviews from bilateral and multilateral organizations, and any other institutional-level evaluations; and

- (b) **Project track record check.** The entity will submit examples of projects that the entity has implemented in the past that are similar to the proposed project in (1) project/programme activity size, (2) E&S risk category, and (3) financial instruments and financing modalities. Preferably, the entity will have examples of both completed and current projects. Depending on the type of project being proposed, an indicative list of information to be provided may include:
- (i) Fiduciary standards information:
1. Organization structure and chart, including evidence of independent legal personality and legal capacity;
 2. Structure, involvement and experience of oversight bodies (e.g. audit committee and audit function), including a board of directors or equivalent of the entity and quality and experience of senior management;
 3. Previous track record in the country or region where the proposed project/programme would take place; and
 4. Entity profile in terms of types of past activities (e.g. assets built in the past, products and services sold, percentage of revenue generated from activities), information on the current projects portfolio, and forecasted profile of the entity for the near future (e.g. three years), including its investment strategy;
 5. Basic financial information (e.g. balance sheet and profit and loss statement) and ratios to assess company sustainability for the proposed project/programme duration;
 6. Evidence of structure and use of financial instruments in past projects that are relevant to the proposed project/programme. This may include evidence of the entity's project management experience;
 7. Where applicable, a project-specific procurement plan on a rolling basis and evidence of procuring various types of goods, works and services in similar projects, including experience and capacity to select, manage and oversee executing entities;
 8. Application of prohibited practices, AML/CFT requirements, including due diligence such as "know-your-customer" checks and similar due diligence of the executing entities in the proposed project/programme;
 9. Disclosure of past incidences of fraud, non-compliance and malpractices;
 10. Institutional and contractual arrangements with executing entities for similar financing structures applied in past projects/programmes;
 11. Risk management and risk identification systems and procedures to be applied in the planning and implementation process of the proposed project/programme;
 12. Project-specific financial audits, including audits of procurement activities, or similar reviews for projects/programmes similar to the proposed project/programme;
 13. Monitoring and evaluation plans and reports and evaluation reports, including terminal evaluations. Completed projects should include project-specific financial audits and terminal evaluations or similar

- reviews, including audits of the expenditures and results compared to planned budget and implementation plans;
14. Audit and assurance reports (external and internal) of the entity's financial management and control systems/framework, including on financial mismanagement, AML/CFT and prohibited practices, such as fraud, corruption, and whistle-blower policies;
 15. Information on the internal governance reliability of the entity, its internal policies, code of conduct and/or code of ethics, and internal monitoring of legal and information technology (IT) Issues;
 16. Credit ratings received from international and national rating agencies, or evaluation reports/reviews received from multilateral and bilateral organizations on the entity's performance in the past regarding financial management capabilities for similar projects/programmes to the one proposed;
 17. IT arrangements for disclosing project-related information (e.g. website/web page or publicly available reports), where the information on project/programme progress and completion is published as well as a weblink for the public to submit comments or complaints that would be used in the proposed project/programme;
 18. Records of any complaints received from the public and employees with regard to the implemented projects in the past, and records of incidents of fraud/malpractice identified and investigated together with the information on the status of the investigation process;
 19. Such other best practices in fiduciary management as may be applicable/appropriate to the specific project/programme; and
 20. Information on the entity's ability to safeguard the interests of GCF, including the disclosure of any potential conflicts of interest that may arise out of its role to implement the project/programme or inconsistencies with GCF fiduciary standards, ESS and Gender Policy; and
- (ii) Environmental, social and gender information:
1. For a Category A/Intermediation 1 or B/Intermediation 2 project/programme, provide a sample of E&S risk screening and assessment (environmental and social impact assessments or related instruments), environmental and social management plans or related E&S risk management plans, monitoring, supervision and evaluation, results of E&S project audits, environmental permits and clearances, compliance and non-compliance (grievance) reports of past projects/programmes that are similar to the proposed project/programme;
 2. For a Category C/Intermediation 3 project/programme, provide a sample of E&S risk screening of past projects/programmes that are similar to the proposed project/programme; and
 3. Gender policies and initiatives to mainstream gender considerations that have been applied in past projects/programmes that are similar to the proposed project/programme; and

4. Environmental management system certifications and sustainability reports.

25. **Step 2: overall capacity check.** Based on the institutional capacity and project track record checks, the entity may be assessed to have high capacity in certain areas (e.g. financial management) and low capacity in other areas (e.g. management of E&S and gender risks) as follows:

- (a) **High capacity** would indicate that the entity has a well-developed financial management system, a well-functioning control framework, including risk management, and robust systems and policies in place to prevent money-laundering and the financing of terrorism and other prohibited practices, such as fraud and corruption, and with sufficient scope to manage E&S risks with a low likelihood of negative impact on the entity's ability to undertake the proposed project as designed;
- (b) **Medium capacity** would indicate that the entity has a developed financial management system, a functioning control framework, including risk management, and systems and policies in place to prevent money-laundering and the financing of terrorism and other prohibited practices, such as fraud and corruption, and with scope to manage E&S risks with moderate likelihood of potential negative impact on the entity's ability to undertake the project as designed; and
- (c) **Low capacity** would indicate an underdeveloped financial management system and/or weak control framework, little or no risk management, and inadequate systems and policies in place to prevent money-laundering and the financing of terrorism and other prohibited practices such as fraud and corruption and with inadequate scope to manage E&S risks with a significant likelihood of potential negative impact on the entity's ability to undertake the project as designed.

26. If the entity is assessed to have high capacity to undertake the proposed project/programme, and if the funding proposal assessment is also positive, the Secretariat would recommend that the entity is able to undertake the proposed project/programme.

27. If the entity is assessed to have medium capacity to undertake the proposed project/programme, and if the funding proposal assessment is positive, a discussion of potential mitigating factors would be required (e.g. conditions during project implementation, requesting a partnership with another entity) before the Secretariat may recommend the funding proposal to the Board for its consideration.

28. If the entity is assessed to have low capacity to undertake the proposed project/programme, the Secretariat will not recommend the funding proposal, and the entity would need to address gaps identified prior to further consideration of the funding proposal under PSAA. NDAs may request support for such entities under the Readiness and Preparatory Support Programme to address gaps identified.

4.3 Proposal approval

29. Funding proposals recommended by the Secretariat under this approach shall be submitted to the Board for consideration during its regular meetings.

4.4 Legal arrangements and post approval

30. The entity or entities submitting a funding proposal to GCF under this approach will be subject to the same responsibilities with respect to project/programme implementation as an

AE were it to submit the same funding proposal under the normal GCF funding modalities, and such responsibilities will, during Stage II, be codified in legal arrangements similar to the template accreditation master agreement (AMA)⁹ and funded activity agreements (FAA) as may be relevant to the approved project/programme.

31. The legal arrangements for PSAA projects/programmes are likely to be more complex than the AMA and FAA. They will, typically, consist of a single agreement that is a hybrid of the AMA and FAA, and that will need to take into account the fact that the institutional assessment was undertaken in the context of the overall assessment of the relevant project rather than as per the current accreditation framework. As such, the PSAA legal arrangements will likely contain provisions, principally in the form of representations and covenants, that are not currently set out in the AMA or FAA.

32. The development of legal arrangements for the PSAA modality will require additional resources, including through the use of external consultancy firms, to ensure that it can be implemented in a timely manner.

V. Fees for assessing the entity

33. The Policy on Fees for Accreditation to the GCF¹⁰ applies to entities under PSAA. Fees are to be paid at the time the entity submits its application for assessment under PSAA.

VI. Entity fees for projects/programmes approved under project-specific assessment approach

34. The Policy on Fees for Accredited Entities and Delivery Partners¹¹ applies to entities under PSAA.

VII. Monitoring and accountability

35. The initial monitoring and accountability framework for AEs¹² regarding project-level monitoring and reporting will apply to entities under the PSAA with respect to project/programme implementation, as applicable. Considering the context of the project/programme, the legal agreement between GCF and the entity will also reflect the relevant reporting requirements under the PSAA legal agreement, similar to such requirements contained in the template AMA and FAAs with respect to project/programme implementation.

36. In line with decision B.10/06, paragraph (j), to advance the goal of GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development, entities with funding proposals approved within the scope of PSAA will be required to report every year to the Board through the Secretariat the extent to which the entity's overall portfolio of activities beyond those funded by GCF has evolved in this direction during the implementation period of the approved project.

37. The Secretariat will report to the Board on an annual basis on the operationalization and implementation of the PSAA.

⁹ Decision B.12/31.

¹⁰ Annex VI to decision B.08/04.

¹¹ Annex VIII to decision B.19/09.

¹² Decision B.11/10.

VIII. Review of project-specific assessment approach

38. A review of the pilot framework for the PSAA will take place after the initial three years of operationalizing the PSAA.

IX. Additional considerations

39. Entities that have submitted a concept note that has been reviewed by the Secretariat and determined to be satisfactory to then be developed into a funding proposal, and that have been assessed to have high or medium capacity as per section 4.2 above, may request support under the Project Preparation Facility.