Annex IX: Workplan and Budget of the Independent Integrity Unit for 2020

I.   Context

1.   The Independent Integrity Unit (IIU) was established by the Board of the GCF under the authority of Article 69 of the Governing Instrument, with a detailed Terms of Reference (ToR).[1] The IIU commenced operations in November 2016 and has executed its mandate based on the workplans and budgets approved by the Board in 2017, 2018 and 2019.

2.   The IIU was created as an independent unit under the authority of the Board to provide integrity oversight and support to the Secretariat in establishing safeguards to ensure accountability in the use of GCF resources. The vision of the Unit has therefore been (in line with the ToR) to support the achievement of the objectives of the GCF by working closely with the Secretariat to formulate strategies, policies and activities to safeguard GCF resources, prevent the occurrence of integrity violations, and to investigate any violations that occur.

3.   The end of the first three-year term of the IIU presents an opportune moment to reflect on the achievements over this initial three-year phase and to design a strategic plan for accomplishing the objectives of the Unit over the next three years. An IIU Strategic Plan 2019-2022 is scheduled to be elaborated during the fourth quarter of 2019.

II.   Review of 2019 workplan and achievements

4.   <u>Three-year 2017-2019 strategy:</u> In reviewing the work of the IIU in 2019, cognisance is taken of the fact that the workplan represented the third part of a three-year plan to complete the integrity policy framework of the GCF, enhance its investigative capacity, as well as to consolidate the Unit in terms of its existence as a functioning arm of the Board providing critical oversight and complementing the accountability structures of the Secretariat.

5.   <u>Recent important milestones:</u> The arrival of the new Executive Director, Mr. Yannick Glemarec, offered an opportunity to reinvigorate the relationship between the Secretariat and the IIU, and to agree a strategic framework for collaboration. The onboarding of the Senior Ethics Advisor also represented an important milestone in the Secretariat's fulfilment of its responsibilities within the COSO accountability framework. The IIU is working closely with the Senior Ethics Advisor to identify opportunities for complementarity.

6.   <u>Completion of the GCF integrity policy framework</u>: The IIU workplan and budget for 2019 were approved by the Board at its twenty-first meeting. The workplan focused the Unit on completing the GCF integrity policy framework, which culminated in the adoption by the Board of three key integrity policies and implementation procedures:

(a)   Standards for the Implementation of the Anti-Money Laundering and Financing of Terrorism Policy;

(b)   Updated Policy on Prohibited Practices; and

(c)   Policy on the Protection and Prevention from Sexual Exploitation, Sexual Abuse and Sexual Harassment.

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[1] Terms of Reference of the Independent Integrity Unit.

7.   The IIU worked closely with the Ethics and Audit Committee of the Board and the Secretariat in developing these policies and provided advisories on policy implementation issues and other integrity-related matters.

8.   <u>Development of guidelines for integrity issues</u>: The 2019 workplan also required the IIU to develop administrative guidelines on the implementation of the GCF policies on ethics and conflicts of interest for Board-appointed officials, external panels and committees, and personnel of independent units. These guidelines are an essential guide on the procedures for declarations of interest and conflicts of interest by covered individuals. The IIU developed the guidelines in consultation with the Secretariat and submitted them for the endorsement of the Ethics and Audit Committee. The guidelines are now in force and are being consulted by the relevant personnel.

9.   <u>Proactive integrity risk assessments</u>: The IIU proposed in its workplan for the year under review to establish a system of proactive interventions to monitor the accountable use of GCF resources, and to detect any indicators of misuse, fraud and corruption. As a means to commence proactive oversight of the GCF funded projects and programs (in line with its workplan), the IIU has developed methodologies to conduct Proactive Integrity Reviews (PIRs) based on international best practices. In developing these methodologies, the IIU consulted extensively with the European Investment Bank (EIB), World Food Programme (WFP) and Asian Development Bank (ADB), all of whom have established advanced models for implementing proactive systems for project oversight. Based on these consultations, the IIU has designed a PIR model which combines both a statistical and descriptive approach and entails a two-tier approach of risk assessment and physical review of projects and programs based on an established risk rating.

10.   <u>Awareness-raising and capacity building support</u>: The IIU has developed a communication strategy to promote effective messaging. The strategy seeks to encourage a positive understanding of the GCF Integrity Framework, support the embedding of accountability safeguards in GCF operations, and foster a culture of integrity across the GCF. Further to this, the IIU initiated a number of awareness-raising activities during the reporting period. Some of these activities are already being conducted while others are being planned for implementation later in 2019:

(a)   Ahead of the twenty-second meeting of the Board in February 2019, IIU hosted an information session on the GCF integrity standards for staff, Board members, alternates and their advisors. The session was well-attended and provided an opportunity for information sharing and cross-learning;

(b)   The GCF Integrity Forum scheduled to hold in December 2019 is planned to provide capacity building support to accredited entities (AEs) in addressing emerging integrity issues in climate finance and to optimize implementation of GCF integrity policies. It is also proposed to establish a platform for climate finance institutions to identify common challenges and agree common standards; and

(c)   The IIU has also designed a poster campaign which essentially comprises the publication of a series of outreach materials to enhance understanding on GCF integrity standards amongst GCF staff and other stakeholders.

11.   <u>Investigation</u>: The IIU received multiple complaints mainly in relation to staff misconduct in the period under review. Full assessments and investigations were conducted in a timely manner to mitigate potential reputational and financial risks to the GCF. Furthermore, during the reporting period, the IIU witnessed a significant increase in reports relating to GCF-funded activities:

Investigation statistics (as at 30 September 2019)

Table 1: Reports received by the IIU

Reports of suspected wrongdoing	2016	2017	2018	*2019*
Reports submitted to the IIU	1	9	19	*30*
Reports closed after preliminary assessment	0	5	2	*16*

Table 2: Investigative activities by the IIU

Investigations	2016	2017	2018	*2019*
Investigations opened	1	4	6	*4*
Investigations suspended	0	1	0	*0*
Investigations carried forward to next period	1	2	4	*4*
Cases with finalized main investigative activities	3*	2	3	*2*
Cases closed with reports submitted to appropriate bodies	3*	0	3	2

*Investigations conducted by Internal Audit prior to the establishment of the IIU

Table 3: Type of reports received by the IIU

Type of reports	2016	2017	2018	*2019*
Project-related reports	**0**	**2**	**3**	***4***
Fraud	0	1	2	*1*
Corruption	0	0	1	*2*
Collusion	0	1	0	*1*
Staff misconduct	**1**	**4**	**13**	***17***
Abuse*	0	1	4	*6*
SEAH	1	0	1	*2*
Harassment	0	1	3	*4*
Fraud	0	1	0	*1*
Collusion	0	1	0	*1*
Retaliation against whistleblowers and witnesses	0	0	1	*0*
Conflict of interest	0	0	4	*3*
Non-integrity violation	**0**	**3**	**3**	**9**
Total	**1**	**9**	**19**	***30***

* Includes abuse of office, abuse of power and abuse of resources.

12.   Given IIU's complementary investigation functions as defined in the Accreditation Master Agreements (AMAs), IIU managed challenges in project-related complaints in the following manner:

(a)   Enhanced cooperation and consultation with AEs on integrity matters including information-sharing, undertaking joint investigations and collaborations;

(b)   The Unit provided briefs on project-related complaints to the Executive Director to ensure smooth cooperation between the IIU and the Secretariat in conducting or following the investigations conducted by AEs;

(c)   The IIU refined its investigation workflow and procedures, and currently is in the process of finalizing the Investigation Standards to ensure quality and consistent investigations across the Fund; and

(d)   The IIU improved the existing case management system by introducing new tools for collaborative work on investigations and task management.

13.   Staffing and Recruitment: Regarding staffing, there has been a significant increase in the number of staff with five positions filled in both the prevention and investigation workstreams. The recruitment processes for the Lead Investigator and IT Forensic Investigator positions were completed in July and offers were made shortly after to the successful candidates. After contract negotiation both offers were accepted, and the staff members are expected to onboard in December and October 2019 respectively. The Integrity and Compliance Officer onboarded in August 2019, while two Junior Investigators joined the team in April 2019.

14.   Enhanced capacity: The recruitment of these new staff members represents a significant enhancement of the capacity of IIU to effectively achieve its 2020 workplan and beyond. It also creates the prospect for greater ambition in terms of developing and implementing new proactive initiatives, and in extending investigative support to GCF's Direct Access Entities (DAEs).

15.   Reporting: As mandated by the Board, and in accordance with Article 2 of the IIU ToR which requires the Unit to "report to the Board directly or through the Ethics and Audit Committee", the IIU has consulted with the EAC on the implementation of the 2019 workplan, and has reported on its activities to the EAC on a quarterly basis.

16.   Budget utilization: While fully achieving its workplan, projecting to year-end 2019 IIU would have underspent its approved budget by about 50%. This low rate of budget utilization is largely due to the following reasons:

(a)   Significant delays in the completion of the recruitment process resulting in shortfalls in staff headcount, particularly at the senior level. While it was projected that the Lead Investigator would be onboard by mid-year at the latest, the recruitment process was only finalised in July due to delays in scheduling the availability of external selection panel members from the UN Office of Internal Oversight Services and the European Investment Bank. The selected candidate has now requested a start date towards the end of the year. The IT Forensic Investigator will also only be onboarding at the end of October; and

(b)   As a result of recruitment delays there has been a concomitant reduction in expenditure on the travel and the ICT infrastructure budget line items. These budget items would be impacted by the onboarding of new staff, particularly as ICT purchases will be led by the IT Forensic Investigator.

III.   Workplan for 2020

17.   2020 represents the first year of IIU's second three-year term. This coincides with both the upscaling of GCF project implementation and disbursements, as well as the GCF first replenishment process. It is therefore the vision of IIU to position itself in knowledge, capacity and resources to deliver effective oversight that would support the Secretariat in the achievement of its strategic plan.

18.   Building on the work of previous years, the key priorities for 2020 are as follows:

(a)   Upscale investigative responses in line with increasing project disbursements;

(b)   Establishment of the GCF administrative remedies and exclusions framework;

(c)   Monitoring the implementation of integrity policies;

(d)   Proactive integrity risk assessments and project/program reviews;

(e)   Technical support and assistance for accredited entities; and

(f)   Awareness-raising and training.

3.1   Upscale investigative responses with increasing project disbursements

19.   It is anticipated that by the beginning of 2020, there will be 78 GCF-funded projects under implementation in different regions. This represents a considerable increase in GCF operations that implicates a substantial outflow of GCF funds. It concomitantly creates an obligation on the IIU to ensure the accountable use of the funds by applying appropriate proactive and reactive responses to any risks of integrity violations. An increase in disbursements results in an increased likelihood of financial loss and/or reputational damage through the commission of integrity violations. It is therefore important that the IIU is sufficiently prepared to prevent and respond to integrity violations and to conduct investigations where required.

3.2   Establishment of the GCF administrative remedies framework

3.2.1   Development of the Policy on Administrative Remedies

20.   To give effect to obligations set out in the Policy on Prohibited Practices (decision B.22/19) and as mandated by the Terms of Reference of the Head of the Unit and by decision B.22/19, paragraph (b), the IIU aims to present to the Board a Policy on Administrative Remedies and Exclusions in early 2020. The Policy elaborates a range of administrative remedies based on the principles stipulated in the Policy on Prohibited Practices. Additionally, it defines a GCF exclusions system that requires the creation of a two-tier regime for the review of investigation outcomes and the imposition of exclusions which serve primarily to enforce compliance with GCF integrity standards, and ultimately to exclude grave defaulters as a means of safeguarding GCF finances and reputation.

3.2.2   Integrity compliance

21.   Following the establishment of an exclusions regime, the IIU will work with excluded entities to ensure that they meet the required integrity standards. The IIU will monitor the implementation of integrity compliance programmes which will be a principal condition for

determining a debarment period (or a conditional non-debarment), or in case of existing debarments, early termination of debarment. In determining whether a sanctioned entity has met its conditions for release, the IIU will assess whether it has put in place integrity compliance-related controls that:

(a)   Are tailored to its risks and profile;

(b)   Are consistent with the principles set out in the IIU Integrity Compliance Guidelines[2]; and

(c)   Have a demonstrated record of implementation.

3.3   Monitoring the implementation of integrity policies

3.3.1   Establishing the AML/CFT monitoring system

22.   Subsequent to the adoption of the AML/CFT Policy, the procedures for the implementation of the AML/CFT Policy were also approved by the Board at B23. The Policy is in the process of being implemented by the Secretariat. The IIU has responsibility under the Policy to monitor its implementation in accordance with the Standards approved by the Board. In fulfilment of this obligation, the IIU proposes to formally establish and strengthen an effective due diligence process to prevent and combat the risk of the occurrence of money laundering and financing of terrorism in any GCF activities.

23.   The IIU will closely monitor the implementation of the AML/ CFT policy by engaging with the Secretariat to ensure that Covered Individuals and Counterparties have appropriate procedures and mechanisms in place to effectively address ML/ FT risks. It will also ensure that the implementation of the AML/CFT Policy reflecting international best practices, consistent with evolving FATF recommendations and changing requirements and proposes appropriate actions in line with those changes.

3.3.2   Monitoring responsibilities defined by various integrity policies

24.   With a successful establishment of the GCF integrity policy framework in the first three years' of the Unit's operation, the Unit was assigned monitoring responsibilities to ensure overall effective implementation of the policies and standards. As one of the priorities for 2020, the IIU is committed to identify and fulfil its monitoring obligations defined by each policy following a risk-based approach and through regular engagement with the Secretariat, establishment of working groups and reporting to the Board. Based on the review of the policy implementation, the IIU also aims to recommend improvements to policies and controls to mitigate opportunities for policy violations.

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[2] 'Integrity Compliance Guidelines' incorporates the standards, principles, and components recognized as good governance and anti-fraud and anti-corruption practices. These guidelines are directed principally at the sanctioned entities. It serves as a roadmap to help these entities to address integrity loopholes at the corporate level that encouraged the prohibited practices/ SEAH to occur. This programme will be tailor-made for the particular entity based on the prohibited/ SEAH practices identified. The overall objectives of this programme are to encourage the entities to implement appropriate controls and procedures/mechanisms in order to contain future occurrence of related malpractices. The IIU will engage with the sanctioned entities to ensure that they implement robust systems in order to ensure that they effectively address integrity risks.

3.4 Proactive integrity risk assessments and project/program reviews

3.4.1 Data-driven integrity risk assessment

25.   As part of its prevention strategy, and as mandated by the Policy on Prohibited Practices and Board-approved workplans, the IIU will be conducting proactive reviews of ongoing projects and programmes to ensure that the funds are used for their intended purposes and to detect, at an early stage, the occurrence of Prohibited Practices or integrity red flags in GCF-funded activities. In 2019, benchmarking other international best practices such as European Investment Bank's and Asia Development Bank's, the IIU established its own data-driven risk-based Proactive Integrity Review (PIR) methodology. One of its two main components is a comprehensive risk assessment module that aims to capture and rate organizational and project-related integrity risks across numerous criteria, by analysing project related data available within and outside the GCF. The risk assessment conducted in the first phase enables an intelligence-led selection of projects/programmes for review from an integrity risk perspective. Furthermore, the methodology will enable descriptive and predictive analysis capabilities that identify trends and probabilities for deviations from GCF integrity standards.

3.4.2 Proactive Integrity Review

26.   The second part of the PIR process is the conduct of in-depth desktop and on-site integrity reviews of projects or programs. The review focuses on assessing the project/program's vulnerability to Prohibited Practices, identifying areas of high risks and recommending mitigating measures if necessary.

3.4.3 GiS integrity hotspot-mapping

27.   The integrity risk assessment component of the PIR mentioned above will be implemented on a data visualization software which enables geo-spatial mapping of GCF fund flows across its recipient countries and entities. These geo-spatial maps will be overlain with data on potential integrity risks.

(a)   Expected output: The geographic information system (GiS) would initially generate a baseline GiS map of integrity hotspots which are determined on the basis of pre-selected, objective criteria such as adverse audit findings, adverse Integrity Due Diligence reports adverse performance reports, adverse investigation findings, and findings of non-compliance. This baseline map will be updated real-time with actual data derived from project audits, performance reports, evaluation reports, investigation reports and proactive integrity reviews.

(b)   Utility: The maps will be displayed with a colour-coded scheme reflecting the integrity rating of entities and countries, based on the pre-determined objective criteria enumerated above. This will determine IIU intervention priorities for preventative initiatives, as well as for both proactive and reactive investigations.

3.5 Technical support and assistance for accredited entities

3.5.1 Capacity building support for accredited entities

28.   To continue the initiative from the previous year's inaugural GCF Integrity Forum, the IIU aims to strengthen the capacities of accredited entities for effective implementation of GCF projects and integrity policies by helping to address emerging integrity issues in climate finance.

This will be achieved through best practice sharing and establishing practical strategies and alliances for sustained mutual support and engagement among accredited entities with enhanced support for direct access entities.

3.5.2   Annual GCF Integrity Forum

29.   The annual GCF Integrity Forum provides a platform for accredited entities to exchange best practices and develop peer learning alliances across GCF accredited entities with the following expected outcomes:

(a)   Accredited entity integrity capacity assessment and identification of strengths and weaknesses with enhanced support for direct access entities;

(b)   Development of capacity building strategy and workplan including mapping of integrity learning resources;

(c)   Establishment of steering committees to enable strategic development; and

(d)   Compilation of integrity best practices on topical issues.

3.6   Awareness raising and training

3.6.1   Promote awareness of GCF integrity standards

30.   The IIU, in collaboration with the Secretariat, will develop training programmes for both Fund's staff and external stakeholders including accredited entities and Delivery Partners. In addition to onsite training, online tools and instructional material embedded on the IIU webpage will be employed for this purpose.

3.6.2   International cooperation

31.   In fulfilling its mandate to actively participate in relevant networks of integrity units to ensure that the Unit is at the frontier of relevant practices and that it benefits from initiatives undertaken by other international organizations, the IIU will continue to actively take part in professional communities and conduct peer learning exercises.