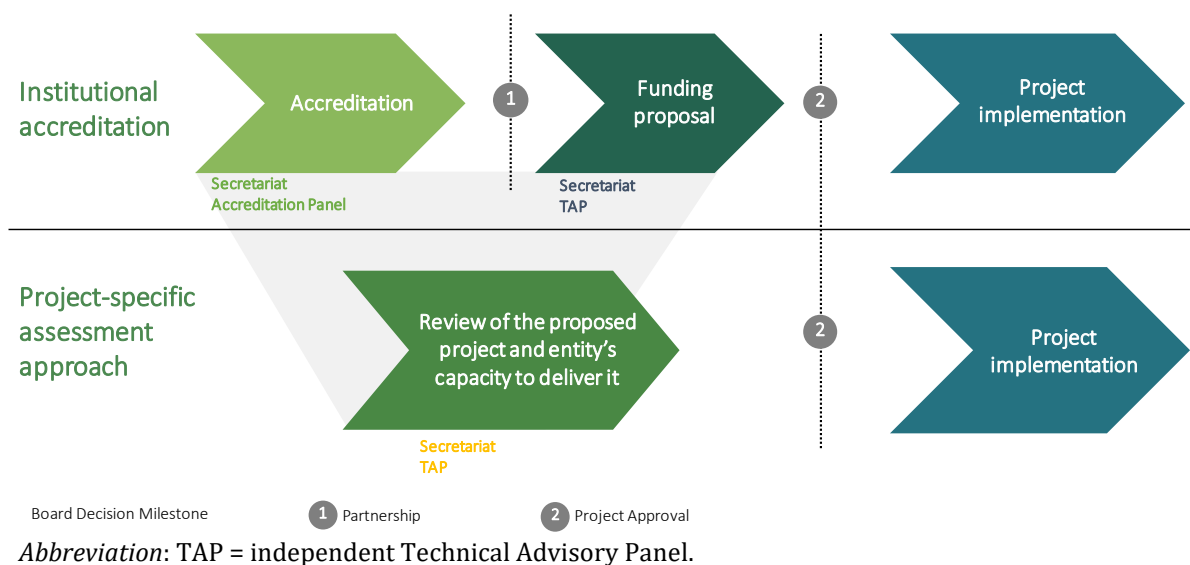


## Annex XXVII: Framework for the GCF project-specific assessment approach

### I. General objective

1. The general objective of this framework is to enable a coherent integration of the GCF fiduciary principles and standards, environmental and social safeguards (ESS) standards and Gender Policy with the 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 accreditation process contained 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 comprising (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. Institutional accreditation allows GCF to build a network of long-term partners not only through the delivery of projects, but also by building institutions. In institutional accreditation, GCF assesses institution-wide fiduciary, E&S and gender-related systems, policies, procedures, capacities and track record of the entity at its institutional level against the standards for GCF accreditation. AEs, once accredited, can submit funding proposals within the scope of their accreditation, and engage with GCF on multiple projects.
4. The PSAA is a complementary approach to institutional accreditation that allows GCF to target specific projects/programmes. It focuses on assessing whether the entity can undertake the proposed project/programme in line with the standards for GCF accreditation (see figure 1).

**Figure 1: Overview of accreditation approaches: institutional accreditation and the project-specific assessment approach**



5. Depending on the envisaged engagement with GCF, entities may apply under the institutional accreditation (portfolio) and the PSAA (targeted project/programme) sequentially or in parallel. Entities may be encouraged to seek institutional accreditation after undergoing

the PSAA should they have the potential to be a long-term partner and show interest in aligning their institutional systems to the standards of GCF accreditation. The institutional capacity checks related to delivery of the targeted project/programme under the PSAA would be used to inform the institutional accreditation process, noting that the broader institution-wide systems and capacities for a potential portfolio of projects/programmes will be assessed in institutional accreditation.

6. The PSAA 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 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.

7. Unless otherwise specifically modified herein, all other relevant GCF policies apply as usual to this PSAA framework.

## II. Applicability

8. The PSAA applies to any funding proposal submitted by entities not yet accredited to GCF, in particular direct access entities and entities responding to requests for proposals issued by GCF.<sup>1</sup>

9. Entities submitting such funding proposals may be entities not yet accredited to GCF that submit or have submitted funding proposals.

10. Each entity will be capped at a maximum of one approved funding proposal under this approach.

11. Funding proposals submitted under the PSAA may include only those that are in either category C/intermediation 3 or category B/intermediation 2.<sup>2</sup>

12. The Secretariat shall take appropriate measures, such as through the GCF Readiness and Preparatory Support Programme and the Project Preparation Facility in accordance with paragraph 41, to encourage and provide support to direct access entities to submit projects or programmes under this approach.

## III. Standards

13. The following GCF standards apply to the 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 are assessed in the institutional accreditation process.<sup>3</sup> The entity will be assessed against these standards in a manner that is fit-for-purpose in the context of the proposed project/programme:

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<sup>1</sup> The requests for proposals may include those for the pilot phase for enhancing direct access (decision B.10/04), a pilot programme to support micro, small, and medium-sized enterprises (decision B.10/11), and a pilot programme to mobilize funds at scale in order to address adaptation and mitigation (decision B.16/03).

<sup>2</sup> Refer to the GCF Environmental and Social Policy contained in decision B.19/06.

<sup>3</sup> Decision B.07/02, paragraph (a).

- (a) GCF fiduciary principles and standards include:
- (i) Initial fiduciary principles and standards;<sup>4</sup>
  - (ii) Policy on the Protection of Whistleblowers and Witnesses;<sup>5</sup>
  - (iii) Anti-Money Laundering and Countering the Financing of Terrorism Policy;<sup>6</sup>
  - (iv) Standards for the Implementation of the GCF Anti-Money Laundering and Countering the Financing of Terrorism Policy;<sup>7</sup>
  - (v) Policy on Prohibited Practices;<sup>8</sup> and
  - (vi) Policy on the Prevention and Protection from Sexual Exploitation, Sexual Abuse, and Sexual Harassment;<sup>9</sup>
- (b) Environmental and Social Policy,<sup>10</sup> interim ESS standards (including regarding indigenous peoples)<sup>11</sup> and, as relevant, the Information Disclosure Policy<sup>12</sup> regarding requirements to disclose E&S information for category A/intermediation 1 and category B/intermediation 2 projects/programmes. In addition, PSAA applicants must apply the Policy on the Prevention and Protection from Sexual Exploitation, Sexual Abuse, and Sexual Harassment;<sup>13</sup> and
- (c) Gender Policy<sup>14</sup> and the Policy on the Prevention and Protection from Sexual Exploitation, Sexual Abuse, and Sexual Harassment.<sup>15</sup>

14. 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

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<sup>4</sup> Decision B.07/02.

<sup>5</sup> Decision B.BM-2018/21.

<sup>6</sup> Decision B.18/10.

<sup>7</sup> Decision B.23/15, paragraph (b), requests the Accreditation Committee, in consultation with the Head of the Independent Integrity Unit, to consider the best way to integrate the Anti-Money Laundering and Countering the Financing of Terrorism Policy in the interim fiduciary standards and present to the Board a proposal for its consideration in 2019 as a matter of urgency. A proposal on integration has yet to be presented to the Board for its consideration. After adoption by the Board of the revised initial fiduciary standards, the accreditation process may be amended to reflect them.

<sup>8</sup> The Policy on Prohibited Practices adopted in decision B.22/19 replaces the General Policy on Prohibited Practices adopted by the Board in decision B.12/31, paragraph (h).

<sup>9</sup> Decision B.23/16, paragraph (b), requests the Accreditation Committee, in consultation with the Head of the Independent Integrity Unit, to consider the best way to update and amend, as appropriate, the requirements placed on accredited entities in the relevant standards, safeguards and policies of the GCF so as to integrate the obligations set out in the policy. A proposal on the update or amendment has yet to be presented to the Board for its consideration. After adoption by the Board of either the revised initial fiduciary standards, ESS standards or Gender Policy, the accreditation process may be amended to reflect them.

<sup>10</sup> Decision B.19/10.

<sup>11</sup> Decision B.07/02.

<sup>12</sup> Decision B.12/35.

<sup>13</sup> Decision B.23/16, paragraph (b) of the decision requests the Accreditation Committee, in consultation with the Head of the Independent Integrity Unit, to consider the best way to update and amend, as appropriate, the requirements placed on accredited entities in the relevant standards, safeguards and policies of the GCF so as to integrate the obligations set out in the policy. A proposal on the update or amendment has yet to be presented to the Board for its consideration. After adoption by the Board of either the revised initial fiduciary standards, ESS standards or Gender Policy, the accreditation process may be amended to reflect them.

<sup>14</sup> Decision B.09/11.

<sup>15</sup> Decision B.23/16, paragraph (b), requests the Accreditation Committee, in consultation with the Head of the Independent Integrity Unit, to consider the best way to update and amend, as appropriate, the requirements placed on accredited entities in the relevant standards, safeguards and policies of the GCF so as to integrate the obligations set out in the policy. A proposal on the update or amendment has yet to be presented to the Board for its consideration. After adoption by the Board of either the revised initial fiduciary standards, ESS standards or Gender Policy, the accreditation process may be amended to reflect them.

framework, Environmental and Social Policy, Indigenous Peoples Policy, Information Disclosure Policy, Policy on Prohibited Practices, Anti-Money Laundering and Countering the Financing of Terrorism Policy and monitoring and accountability framework, 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

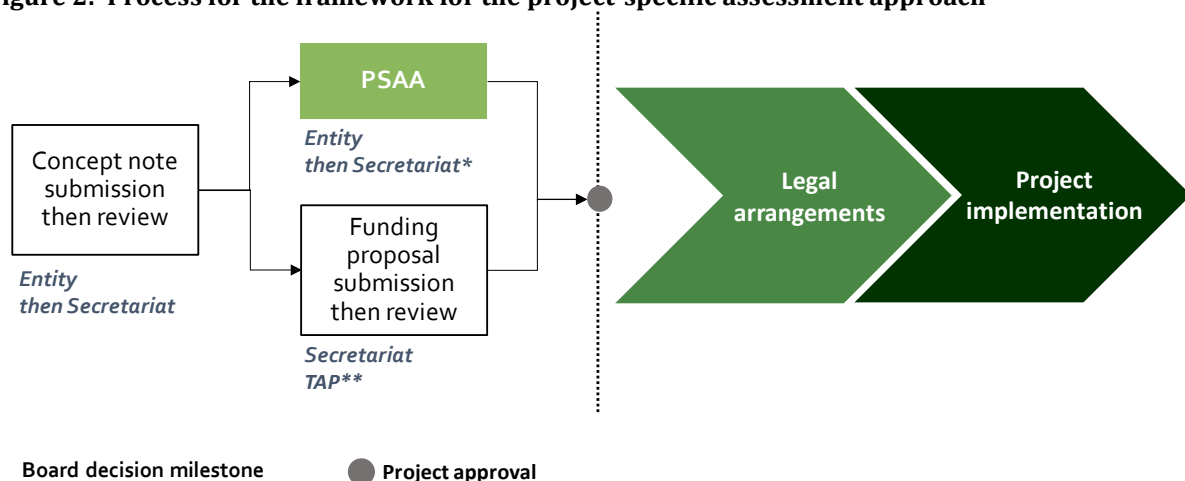
15. An entity may submit a concept note in accordance with paragraph 8 above.

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

17. Once 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.

18. 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 (see figure 2).

**Figure 2: Process for the 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.

\*\* The independent TAP review focuses on the funding proposal, in line with its terms of reference per decision B.09/10, paragraph (a).

**Abbreviations:** PSAA = project-specific assessment approach, TAP = independent Technical Advisory Panel.

19. 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.
20. 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 capacity assessment in section 4.2 below); 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.
21. 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.
22. The Secretariat will augment its capacity to support it in undertaking such assessments on its behalf.
23. The results of the assessment along with the funding proposal and assessment will be presented to the Board for a funding decision.
24. 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.
25. 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

26. The 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 fiduciary standards and principles contained in section III above at the institutional level that allow it to implement the proposed project; and
  - (f) Whether the entity has the capacity to manage relevant E&S and gender risks, in line with the environmental, social and gender related standards and policies indicated in

section III above, and scaled risk-based approach,<sup>16</sup> at the institutional level that allow it to implement the proposed project.

27. Notwithstanding that all entities are required to meet the standards listed in section III of this document (e.g. fiduciary standards, environmental and social safeguard standards and gender principles), the PSAA will entail two steps: capacity checks at both the project and the institutional level and an overall capacity assessment. They 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.

28. **Step 1: capacity checks:**

(a) **Institutional capacity check.** This check will focus on those elements that are most needed to ensure that 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, countering the financing of terrorism and other prohibited practices, fraud and mismanagement systems, in so far as they relate to the undertaking of the proposed project; and
- (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 and impacts, stakeholder and indigenous peoples engagement, information disclosure, 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

(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 terms of (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. 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;
  - 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;

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<sup>16</sup> Decisions B.07/02 and B.08/02.

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, anti-money-laundering and countering the financing of terrorism 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 with 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, anti-money-laundering and countering the financing of terrorism 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 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 projects/programmes similar to the one proposed;
17. Information technology 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 standards and Gender Policy; and
- (ii) Environmental, social and gender information:
1. For a category B/intermediation 2 project/programme, a sample of E&S risk screening and assessment (environmental and social impact assessments/environmental and social management system/framework and/or related safeguards instruments), environmental and social management plans and/or related E&S risk management plans, E&S monitoring, supervision and evaluation reports, results of E&S project audits, environmental permits and clearances, information disclosure and stakeholder engagement activities, 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, a sample of E&S risk screening and categorization, and management plan (if any) of the minimal E&S risks and/or impacts of past projects/programmes that are similar to the proposed project/programme;
  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.
29. **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 and/or impacts 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 and/or impacts 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 and/or impacts with a significant likelihood of potential negative impact on the entity's ability to undertake the project as designed.
30. 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.
31. 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. The Secretariat should only advance the funding proposal if there is a reasonable expectation that the gaps leading to the medium capacity assessment can be addressed.
32. 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 the gaps identified prior to further consideration of the funding proposal under the PSAA. National designated authorities may request support for such entities under the Readiness and Preparatory Support Programme to address the gaps identified.

### 4.3 Proposal approval

33. Funding proposals recommended by the Secretariat under this approach shall be submitted to the Board for consideration during its regular meetings. Entities with funding proposals approved under this approach shall be deemed accredited only for the purposes of such approved funding proposal.

### 4.4 Legal arrangements and post approval

34. 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)<sup>17</sup> and funded activity agreement (FAA) as may be relevant to the approved project/programme.
35. The legal arrangements for PSAA projects/programmes 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 are likely to contain provisions, principally in the form of representations and covenants, that are not currently set out in the AMA or FAA.

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<sup>17</sup> Decision B.12/31, and updated to include relevant Board decisions since the twelfth meeting of the Board.

## V. Fees for assessing the entity

36. The policy on fees for accreditation of the Fund<sup>18</sup> applies to entities under the PSAA, except that fees for the PSAA application shall be calculated at the ratio of 80% of the fees payable under the said policy.<sup>19</sup> Fees are to be paid at the time the entity submits its application for assessment under the PSAA.

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

37. The policy on fees for accredited entities<sup>20</sup> applies to entities under the PSAA.

## VII. Monitoring and accountability

38. The initial monitoring and accountability framework for AEs<sup>21</sup> 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.

39. 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 the PSAA will be required to report every year to the Board through the Secretariat on 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.

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

## VIII. Additional considerations

41. Entities that are applying for the project-specific assessment approach and that have submitted a project or programme concept note that has been reviewed by the Secretariat and determined to be satisfactory with regard to the GCF investment criteria to then be developed into a funding proposal, and that has been assessed to have high or medium capacity as per section 4.2 above, may request financial support under the Project Preparation Facility to help to develop the concept note into a funding proposal.

## IX. Effectiveness

42. This framework shall become effective as of 1 June 2020.

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<sup>18</sup> Decision B.08/04.

<sup>19</sup> Refer to the table contained in annex X to decision B.08/04 titled "Structure of fees for accreditation to the Fund".

<sup>20</sup> Decision B.19/09.

<sup>21</sup> Decision B.11/10.