

Green Climate Fund

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# Business Model Framework: Access Modalities

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**GCF/B.04/05**

11 June 2013

**Meeting of the Board**

26-28 June 2013

Songdo, Republic of Korea

Agenda item 4 (c)

## **Recommended action of the Board**

It is recommended that the Board:

- a) Takes note of the information presented in document GCF/B.04/05 *Business Model Framework: Access Modalities*;
- b) Provides guidance on the policy matters and options regarding the access modalities for the Fund; and
- c) Adopts the draft decision presented in Annex I to this document.

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# Business model framework: Access modalities

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## I. Introduction

1. At its March 2013 meeting in Berlin, Germany, the Board requested the Interim Secretariat to undertake work on a number of documents on the Fund's business model framework, with the assistance of consultants (decision B.01-13/06). One of the documents to be prepared for consideration at the June 2013 Board meeting was to address the access modalities for the Fund, including specifically:

- “(i) An assessment of best-practice access modalities in other multilateral funds, including direct and international access, and their availability across different funding programmes; and*
- (ii) A review of eligibility for accessing resources and accreditation procedures in other multilateral funds.”*

2. The purpose of this document is to present to the Board an assessment of options for the access modalities for the Fund, which it could adopt to attain its objectives. This document should be read in conjunction with other five documents on the business model framework.<sup>1</sup>

3. The Governing Instrument for the Fund provides specific guidance on the access modalities for the Fund:

Paragraph 31. *“The Fund will provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach and will encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects.”*

Paragraph 40: *“The Fund will provide resources for readiness and preparatory activities and technical assistance, such as the preparation or strengthening of low-emission development strategies or plans, NAMAs, NAPs, NAPAs and for in-country institutional strengthening, including the strengthening of capacities for country coordination and to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund.”*

Paragraph 45: *“Access to Fund resources will be through national, regional and international implementing entities accredited by the Board. Recipient countries will determine the mode of access and both modalities can be used simultaneously.”*

Paragraph 46: *“Recipient countries may designate a national authority. This national designated authority will recommend to the Board funding proposals in the context of national climate strategies and plans, including through consultation processes. The national designated authorities will be consulted on other funding proposals for consideration prior to submission to the Fund, to ensure consistency with national climate strategies and plans.”*

Paragraph 47: *“Recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding. The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.”*

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<sup>1</sup> GCF/B.04/03-04 and 06-08.

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Paragraph 48: *“Recipient countries will also be able to access the Fund through accredited international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions.”*

Paragraph 49: *“The Board will develop, manage and oversee an accreditation process for all implementing entities based on specific accreditation criteria that reflect the Fund’s fiduciary principles and standards and environmental and social safeguards.”*

4. Moreover, the Board reached convergence at its March 2013 meeting that the Fund should “commence as a fund that operates through accredited national, regional and international intermediaries and implementing entities.”

## II. Access modalities

5. Many access modalities exist, ranging from models where all decision and the control over all processes is exercised by a central body at fund or board level to models devolving, to different degrees, responsibilities and functions (for example, to national bodies).

6. Different access modalities are examined in this document, with a view to identifying examples and concepts that support a country-driven model, providing a range of choices for developing country governments. The key differences between access modalities are determined by who is meant to perform which function. Several existing funds are allocating certain access functions to other entities. Table 1 shows how and to which degree various funds do this. This overview of existing funds emphasizes that there is neither a uniform model of using direct or international access modalities, nor of how functions are being distributed from strategic governance down to execution.

7. Building on this, and the experience from other existing funds (Bird et al. 2011; AfDB 2012; ODI 2013), the functions associated with the access to Green Climate Fund funding can be roughly divided into three functional categories. The responsibilities listed here are exemplary and do not represent a comprehensive definition of functions.

### (a) **Fund management functions**

- (i) Strategic fund management: Provision of strategic guidance and oversight; setting of fiduciary, environmental and social standards, policies, and accreditation and other procedures; strategic accountability functions for how finance is allocated;
- (ii) Country coordination: oversight and accountability, reviewing/approving activity proposals, no-objection procedures, approving accreditation requests (based on procedures determined by the Board);
- (iii) Financial intermediation (see paragraph 9).

- (b) **Implementing functions:**<sup>2</sup> Facilitation and project management, including holding/managing approved funds: reviewing/approving activity proposals, monitoring and evaluation, environmental and social risk management, identifying eligible activities, appraising activity concepts, managing approved funds, supervision of activities;

- (c) **Executing functions:** Receiving funds, managing and administering day-to-day activities.

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<sup>2</sup> Since IEs will be exercising due diligence functions vis-à-vis the execution level (on behalf of the Fund), an IE would generally be separate from an EE (in line with the common practice of existing funds). If an IE were to execute (parts of) a project, monitoring and evaluation would need to be transferred to another, independent entity, such as an accredited external auditor or the NDA or the Board. This may only apply to exceptional cases, including certain capacity-building measures, for example.

**Table 1: Summary of the distribution of functions in existing funds**

Fund	Fund management	Country coordination	Implementation		Execution
			Type of entity	National or international	
<b>Climate Investment Funds (CIFs)</b> <sup>3</sup>	Trust Fund Committee based on MDB investment plan		MDBs	International;	End recipients
<b>Global Environment Facility (GEF)</b> <sup>4</sup>	Council with Secretariat (Strategic governance: Assembly)		GEF agencies	International.	Domestic organizations
<b>GEF direct access pilot</b>				National	Domestic organizations
<b>Adaptation Fund</b> <sup>5</sup>	Board with Secretariat (plus Interim Trustee)	Designated authority	Multilateral, regional and sub-regional IEs	International.	IEs with implementing partners
			NIE	National	National ministries and contractors
<b>GAVI Alliance</b> <sup>6</sup>	Board with Secretariat	Country coordinating body	GAVI Alliance partner organizations <sup>7</sup>	International.	National ministries and contractors
			Ministry (of health)	National	
<b>Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund)</b> <sup>8</sup>	Board with Secretariat, advised by Technical Review Panel (TRP) <sup>9</sup> and Local Fund Agents (LFAs) <sup>10</sup>	Country Coordinating Mechanisms (CCMs) (including fund management)		International <sup>11</sup>	UNDP as Principal Recipient
				National	Principal Recipient (and sub-recipients)

<sup>3</sup> Climate Investment Funds <https://www.climateinvestmentfunds.org>

<sup>4</sup> Global Environment Facility <http://www.thegef.org/gef/>.

<sup>5</sup> Adaptation Fund <https://www.adaptation-fund.org/>.

<sup>6</sup> Formerly the "Global Alliance for Vaccines and Immunization" <http://www.gavialliance.org/index.aspx>.

<sup>7</sup> "Only in cases where this arrangement [i.e. using the national ministry of health as Implementing Entity] is considered to carry too much risk to GAVI, as indicated through a country financial management assessment (FMA), are alternative approaches taken. These involve either strengthening measures or disbursement through a GAVI partner organization i.e. WHO, UNICEF, World Bank." (AfDB 2012).

<sup>8</sup> <http://www.theglobalfund.org/en/>.

<sup>9</sup> The TRP is an independent body of international experts responsible for reviewing proposals based on technical criteria and providing funding recommendations to the Board.

<sup>10</sup> Local Fund Agents (LFAs): The Global Fund contracts firms to act as LFAs to independently oversee programme performance and the use of funds. LFAs have to provide recommendations to the Secretariat on the capacity of the recipient entities, request disbursement of funds and manage result reports submitted by Principal Recipients.

<sup>11</sup> Implementation splits between CCMs and Principal Recipients.

8. Financial intermediation in the context of the Fund represents a specific case of fund management, which can be exercised at the Fund level or be devolved to accredited intermediaries meeting the corresponding standards (to be developed by the Fund). In the latter case, financing provided by the Fund would be intermediated “into (concessional) loan financing via implementing entities (IEs) which are financial institutions endowed with banking functions, such as multilateral development banks (MDBs), International Financial Institutions (IFIs) (international, regional and bilateral development finance institutions), and national development banks or other national financial entities including funding entities (FEs). These financial institutions would [...] provide a wide range of financial instruments beyond grants (soft loans, equity, guarantee schemes, other modalities and facilities, in hard or local currency), tailored to the specific requirements of end recipients.” (IDFC 2013).

## 2.1 Examples of access modalities of relevance to the Board

9. Based on the above overview of functions, this Section presents different types of access modalities, by providing a description of the division of functions, examples from existing funds and the summary of the assessment of each option. Based on the literature, existing experience and the guidance from the Governing Instrument, three kinds of access modalities can be differentiated:

- (a) Direct access modalities;
- (b) International access modalities;
- (c) Modalities for enhancing access.

**Table 2: Overview of access modalities and functions**

Access options	Fund management			Implementation	Execution (Executing Entities, EEs)
	Strategic fund management	Financial intermediation	Country coordination		
<b>Direct</b>	Fund	n/a	NDA	NIEs	EEs
<b>International</b>	Fund	n/a	NDA	IIEs	EEs
<b>Enhanced</b>	Fund	Intermediaries	NDA	NIEs or IIEs	EEs

### 2.1.1 Direct access

10. Description: Implementing functions are devolved to designated national bodies, operational fund management functions are retained at the Fund level.

Strategic fund management	Country coordination	Implementation	Execution
Fund	NDA	NIEs	EEs

11. Examples: Adaptation Fund, GAVI Alliance, GEF, Global Fund.<sup>12</sup>

12. “So far, most of the existing vertical funds<sup>1</sup> mainly operate with grants as financial inputs that are delivered as grants to end-recipients, without financial intermediation” (IDFC 2013).

<sup>12</sup> In 2002, the Global Fund was established to support work in the area of HIV/AIDS, tuberculosis and malaria (see Annex III for more details).

Both GAVI Alliance and the Global Fund have direct access as default, however, “the Global Fund relies on UNDP to play the role of an interim Principal Recipient in 29 countries that are considered ‘high-risk and low capacity’ (out of a total of 140) and where no national entity has been identified to play this role”. (Bird et al. 2011).

13. The Adaptation Fund grants access to finance, among others, through national Implementing Entities (NIEs). These are national legal entities nominated by the Parties and recognized by the Board as meeting the fiduciary standards approved by the Board.

14. “The early stages of this process were challenging, and many of the first applicants for accreditation as NIEs were not recommended for accreditation (Bird et al., 2011). Over time, however, processes and systems have become clearer to prospect NIEs. 15 NIEs have now been accredited, including institutions in Least Developed Countries and Small Island Developing States, as well as government ministries, including in Rwanda and Jordan.” (ODI 2013)

15. Approved funding for NIEs includes funding for the Planning Institute of Jamaica (PIOJ), Uruguay’s National Innovation and Research Agency (ANII), the Unidad para el Cambio Rural (UCAR) in Argentina and Senegal-based Centre de Suivi Ecologique, representing US\$ 34 million or 19 per cent of total approved funds. The transfer rate (amount transferred/amount approved) is 32 per cent for NIEs, compared to 29 per cent for IIEs. (estimated based on data from the Adaptation Fund website).<sup>13</sup>

16. The GEF is piloting direct access “identifying ten new implementing partners for GEF projects,” with the aim of accrediting “at least five national institutions” (AFDB 2012).<sup>14</sup>

### 2.1.2 International and regional access

17. Description: Implementing functions are performed by accredited international and regional entities, such as United Nations (UN) agencies, MDBs, IFIs and regional institutions; all fund management functions are retained at the Fund level.

<b>Strategic fund management</b>	<b>Country coordination</b>	<b>Implementation</b>	<b>Execution</b>
Fund	NDA	IIEs	EEs

18. Examples: Traditional multilateral access model, Adaptation Fund, GEF (Least Developed Countries Fund, Special Climate Change Fund), CIFs.

19. This is the modality with by far the longest track record. Under the Adaptation Fund, a group of Parties may nominate regional and sub-regional entities as implementing entities (RIEs/SRIEs), as well as Multilateral Implementing Entities (MIEs), any of which are required to be recognized by the Adaptation Fund Board as meeting the fiduciary standards of the Adaptation Fund.

20. The GEF uses ten “GEF agencies” to access funds on behalf of eligible countries. These agencies assist eligible countries and non-governmental organizations (NGOs) in the development, implementation, and management of GEF projects on the ground and may involve partners where a GEF agency lacks expertise and/or experience.

### 2.1.3 Enhancing access

21. These modalities differ from the above as they devolve certain (operational) fund management functions and could also foresee the provision of financial intermediation by others.

<sup>13</sup> [https://www.adaptation-fund.org/funded\\_projects](https://www.adaptation-fund.org/funded_projects).

<sup>14</sup> In May 2011, the GEF Council decided to implement the ‘GEF-5 Pilot on Broadening the GEF Partnership’ (ibid.).



22. Description: IFIs, MDBs or national climate change funds are provided access to certain operational fund management functions, using domestic, bilateral or international IEs as a matter of choice. Funding and implementing functions are carried out by separate entities.

<b>Strategic fund management</b>	<b>Financial intermediation</b> (and other operational fund management functions)	<b>Country coordination</b>	<b>Implementation</b>	<b>Execution</b>
Fund	Intermediaries	NDA	NIEs or IIEs	EES

23. Examples: National trust funds, direct budget support, credit lines; the Global Fund.

24. There is limited experience with devolving fund management to the national level in climate finance. The Global Fund delegates Fund management within each participating country to a “Country Coordinating Mechanism (CCM), which is a multi-stakeholder forum that submits national grant proposals to the Board. The CCM also nominates a Principal Recipient to receive funding direct from the Global Fund. The Principal Recipient is then responsible for implementing activities using country fiduciary systems. Local Funding Agents (LFAs) are contracted to undertake the due diligence and financial monitoring function”. (Bird et al. 2011).

25. According to the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), “to date, more than 30 countries are establishing national FEs dedicated to climate finance – or national climate funds.” (GIZ 2012). Examples of national climate change trust funds include the Bangladesh Climate Change Resilience Fund (BCCRF), the China Clean Development Mechanism Fund (CCDM Fund), the Sustainable Island Resource Framework Fund (SIRF Fund) and other financial institutions based on bilateral or domestic climate change funding. Another existing form of bilateral funding that could provide lessons in this context is direct budget support.<sup>15</sup>

26. Multilateral and bilateral banks have experience with lending through local and national banks in the form of credit lines, which are then managed by national or local banks.<sup>16</sup>

## 2.2 Summary

27. From this assessment and the overview of how existing funds distribute roles in the process of accessing finance, it becomes clear that:

- (a) Regarding international versus direct access:
  - (i) Most funds use international and direct access in parallel; and
  - (ii) Where funds started with IIEs, NIEs have been accredited in the meantime. However, all funds retain international implementation modalities where national entities are unable to meet fund’s fiduciary standards, or do not chose to pursue NIE as an access modality.
- (b) Regarding the degree of devolving or allocating functions to other entities, there is no uniform way of splitting different functions;

<sup>15</sup> “The circumstances where donors have employed budget support therefore provide valuable insights for direct access.” Foster and Levy (2001) identified three sets of conditions for direct budget support: “1)An agreement exists between the international community and government on policies and expenditure priorities; 2) The case for budget support can demonstrate specific benefits over alternative aid modalities; 3) Any known weaknesses in public expenditure management should be addressed by additional safeguards, including the earmarking of support to specific expenditures or additional accountability provisions”.(Bird et al. 2011).

<sup>16</sup> Recipient banks would generally need to answer a set of inquiries before qualifying as financial intermediary, covering issues such as corporate features, organization, management and staffing; finance policies and procedures, including the International Finance Corporation (IFC) exclusion list (IFC 2013); operations and financial reviews (for the last x years) and projections; and other relevant sources of information (KfW, personal communication).

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- (c) (a) and (b) above underline the importance of:
- (i) Combining the (basic) examples for access modalities presented above; and
  - (ii) Using one type of access modality early in the process with a view to phasing in other access options over time. This would, for example, be the case for countries that are not yet in position to use direct access. These could start with international access and in parallel build up the necessary conditions for using direct access modalities.

28. Building on this discussion of access modalities, the next Section on accreditation procedures presents two basic variants.

### III. Accreditation procedures

#### 3.1 Assessment of relevant practice and literature review

29. This Section assesses, based on experience of existing accreditation processes, key matters that effective accreditation processes need to include (for each of the financial intermediaries and IEs at different levels). Based on the experience with existing schemes, these key matters can be structured as follows:

- (a) Design and application of the principles and standards for the accreditation, covering fiduciary, environmental and social standards against which applicants will be assessed;
- (b) Decision process on potential applicant institutions, including accreditation modalities and operational rules and guidelines for national, regional and international IEs as well as international intermediaries; and
- (c) Responsibilities in review and decision-making on the accreditation applications; and types of review consequences;

30. In order to systematically start the accreditation process, it would be advisable to apply early-on a coherent set of provisions for these elements, once the key aspects of (a) are agreed. Accordingly, the discussion of (a) is included in this Chapter, while the discussion of (b) and (c) is found in Annex II (a).

31. A key basis for the analysis (presented in Annex II (a)) and the options outlined was the experience with accreditation, primarily under the Adaptation Fund, GEF and the Global Fund and also drawing on insights gained from the CIFs, Clean Development Mechanism and the GAVI Alliance.

32. While the analysis (Annex II (a)) discusses key insights from existing funds regarding, *inter alia*, fiduciary standards and principles and environmental and social safeguards (and Annex II (b) contains a more detailed discussion of this for three selected funds), this document does not aim to provide concrete options for decision by the Board on these standards (see also Enting/KfW 2011).<sup>17</sup> It summarizes key elements and possible variants of standards, principles and safeguards that will need to be addressed in future Board decisions.

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<sup>17</sup> "It is not possible to give a final answer on how benchmark FS [Fiduciary standards] for the GCF should look like. This will depend on a number of aspects, which have not come to an agreement yet, most importantly the objective of FS and the overall business model of the GCF in terms of content and structure but also regarding financial and fiduciary responsibilities." (ibid., p.3).

### 3.1.1. Fiduciary principles and standards

33. According to paragraph 63 of the Governing Instrument, "the Board will agree on, adopt, and ensure the application of best practice fiduciary principles and standards to the Fund's entities, the trustee's function related to the Fund, and to all operations, projects and programmes financed by the Fund, including the implementing entities."

34. The application of fiduciary management standards and principles is a core element in existing accreditation processes, such as under the Adaptation Fund and GEF. The standards applied can to some extent be regarded as "internationally agreed" standards, since they were adopted by the respective governance bodies. The Adaptation Fund defines these fiduciary standards as "a reference frameworks of policies, systems and practices which are required by an organization to effectively manage funds and projects on a sustainable basis."

35. In both the GEF and the Adaptation Fund, the institutions to be accredited serve the functions of an IE. Both the Adaptation Fund and GEF apply in principle the same standards to national, regional or multilateral applicants. No specific accreditation is applied to executing entities. However, both also put emphasis on the importance of separating the functions of IEs and executing entities.

36. As part of the efforts to strengthen the collaboration between the World Bank and the UN in crisis and post crisis situations, a number of UN agencies, funds and programmes and the World Bank developed an instrument designed to facilitate the transfer of funds from a World Bank-administered trust fund for crisis and post-crisis situations to a UN organization, or from a UN Development Group (UNDG) trust fund for crisis and post-crisis situations to the World Bank. (UNDP 2009). This instrument, which allows the recipient of the money to apply all its own regulations, rules and procedures (including those relating to procurement, audit, programme support cost, and the like) when using these funds, includes: the Fiduciary Principles Accord (FPA); the Disbursement Agreement (DA), which is be used to transfer resources from a World Bank Trust Fund to UN agencies, funds and programmes; and the memorandum of understanding that will be used to transfer resources from a UNDG Trust Fund to the World Bank.

37. The Global Fund's fiduciary principles rely on local stakeholders at country level to implement programmes and manage grant proceeds, to promote rapid release of funds, to monitor and evaluate programme effectiveness, and, as far as possible, to use existing in-country standards. The Principal Recipients of resources need certain minimum capacities and systems. The Global Fund assesses whether that entity has (or has access to) the required minimum capacities, as relevant for the particular proposal that has been approved for grant funding.

38. In order to access resources from the GAVI Alliance, the country needs to meet the financial management assessments (FMAs), which are carried out by the GAVI Alliance Secretariat to determine the level of fiduciary risk associated with this arrangement. Thereby, the GAVI Alliance applies a country-by-country approach that aims to strike a balance between the need to increase transparency and accountability in the management of grants, and the need to maintain flexible and effective programme implementation.

39. In the context of the CDM, the Executive Board accredits the so-called Designated Operational Entities (DOEs). They serve as independent auditors to validate project proposals or verify whether implemented projects have achieved planned greenhouse gas emission reductions. Therefore, they are not recipients of funding. However, the accreditation process may provide procedural insights. The accreditation standards cover a range of areas which can be compared to fiduciary standards covered by other instruments, from legal matters to finance and procurement aspects to handling complaints and confidentiality management. The guidance provided by the Executive Board can be regarded as quite detailed. It also includes regular on-site surveillance and spot-checks after accreditation.

40. The CIFs work with a number of MDBs which generally apply their own standards. An accreditation process, however, has not been applied so far.

41. “A critical, lesson learned from the Global Fund is the question of recourse when financial irregularities occur. A key lesson here is that the use of country fiduciary systems must be underpinned by strong oversight of such systems by the fund at the international level. Indeed, the Global Fund has since strengthened its oversight procedures and now provides its trustee with assurance of the strength of the fiduciary standards of PRs before disbursements are made.” (Bird et al. 2011).

42. For a more detailed discussion of fiduciary standards, see Annex II (b).

### 3.1.2. Environmental and social safeguards

43. The GEF introduced a set of minimum environmental and social safeguards and gender mainstreaming criteria already at the level of the accreditation process. The Adaptation Fund does not include an explicit set of safeguards in the accreditation process, but applies certain provisions when it comes to the review and decision on specific projects and addresses in practice related aspects in the review of the institutional capacity.

44. For a more detailed discussion of environmental and social safeguards, see Annex II (b).

### 3.1.3. Additional criteria

45. Given the fact that the GEF has already been working with a number of multilateral agencies, it has established a number of value-added criteria in the recent accreditation process, which are: a) relevance to the GEF, b) demonstration of environmental and climate change adaptation results, c) scale of engagement, d) capacity to leverage co-financing, e) institutional efficiency, f) networks and contacts. National institutions in addition are required to show their project experience and whether their accreditation would enhance country ownership. The Adaptation Fund Board elaborated additional, but not mandatory guidelines to Designated Authorities for the selection of an NIE, addressing partially similar aspects.

46. The CIF’s Clean Technology Fund bases country access on “Official Development Assistance (ODA) eligibility (according to the Organization for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) guidelines)” (CIF 2011) plus the existence of “an active MDB country programme” (ibid.).

### 3.1.4. Types of activities

47. There is usually a connection between the types of activities to be funded and the capacity of the institutions related to these activities. For example, under the Adaptation Fund, countries can currently submit adaptation project proposals of up to US\$ 10 million. The capacity of the institutions to apply the standards to these project types is an explicit element of the accreditation. Under the GEF, institutions must also document their experience with project implementation, including that they have existed for at least five years, and, accompanying application for accreditation, identify a project or project type which they aim to implement. The GEF also applies a simplified direct access procedure for funding the preparation of United Nations Framework Convention on Climate Change national communications and biennial update reports without accreditation process. In the case of the CDM, the DOEs are accredited based on the experience they have in one or more specific sectors, but they are only allowed to perform their functions in specific sectors.

## 3.2 Accreditation options for consideration by the Board

48. This Section sets out options for consideration in developing the accreditation standards and process. Just like the access modalities, the following accreditation options are not mutually exclusive and present basic concepts that can be reflected and combined in different ways in the final accreditation procedures developed and adopted by the Fund.

### 3.2.1 Option 1: Fund accreditation criteria

49. **Description:** The Board and the Secretariat would develop the Fund's own comprehensive accreditation criteria, with a differentiated set of criteria in the areas of fiduciary standards and principles, environmental and social safeguards and potentially other criteria (see Annex II and Chapter 3.1.1, for a more detailed discussion). In addition, they would develop the Fund's accreditation processes.

(a) The differentiation would need to reflect the different functions to be performed and for which accreditation is sought (differentiating, for example, normal IEs from FEs or financial intermediaries carrying out operational fund management functions). The application of criteria would generally pursue full compliance, but would allow a conditional accreditation with a time-bound grace period to fulfil outstanding duties, preferably through internal adjustments and exceptionally through sub-contracting specific functions to institutions with adequate capacity.

50. **Assessment:** This variant would have the advantage that it could take into account the different needs regarding fiduciary standards and principles, social and environmental safeguards according to different functions and risks. It could thereby accommodate also the differing capacities of the recipient countries and potential applicant institutions, but the focus would still be on achieving results through a flexible approach. It could still ensure best practice criteria in relation to differentiation of different aspects. Limitations in terms of types of activities, thematic areas or scale of funding could be applied (see Section 3.3).

51. **Implications for decisions of the Board:** The Board, by developing a process for accrediting, in a phased approach, local, national, regional and international entities, consistent with the core principle of country ownership, will need to take a decision on the (development of the) Fund's own approach to:

- (a) Design and application of the principles and standards for accreditation, covering fiduciary, environmental and social standards against which applicants will be assessed;
- (b) Decision process on potential applicant institutions, including accreditation modalities and operational rules and guidelines for national, regional and international IEs as well as international intermediaries; and
- (c) Responsibilities in review and decision-making on accreditation applications; and types of review consequences.

52. Section 3.1 (for point (a)) and Annex II (a) (for points (b) and (c)) provide examples of how existing funds are approaching these matters.

### 3.2.2 Option 2: Using existing accreditations

53. **Description:** In considering its own (standard) accreditation procedures, the Fund should assess options for accrediting IEs which have already undergone an international accreditation process or are otherwise considered eligible for existing funds. These IEs would be screened against Fund's accreditation criteria.

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- (a) **Option 2a:** IEs accredited through international accreditation processes (under the Adaptation Fund, GEF and CIFs) could be considered by the Fund as eligible for receiving funding; and
- (b) **Option 2b:** IEs accredited through MDBs and other IFIs or FEs (or financial intermediaries) applying established accreditation criteria with internationally agreed fiduciary standards and environmental and social standards consistent with Fund's criteria could be considered by the Fund as eligible for receiving funding.

54. For both Options 2a and 2b, an existing international accreditation of an IE may need to prove compliance with specific additional conditions as set out by the Fund's own criteria.

55. Both Options 2a and 2b would require the fulfilment of fiduciary standards comprising financial integrity and management; institutional capacity; and transparency and self-investigative powers, or other criteria to be established by the Fund. The specific demands under each of these categories could vary between different types of IEs, implying a higher level of compliance by FEs and financial intermediaries, as per criteria in Section 3.3(c), or other criteria to be identified by the Board.

56. **Assessment:** Option 2 would allow a low-risk and rapid progress in accreditation, allowing major international entities as well as those domestic developing country institutions which have already undergone an intense accreditation process under the Adaptation Fund or GEF to be accredited without a time-consuming and resource-intensive additional accreditation process. It would also honour some countries investments into institutional strengthening. At the same time, it would keep the option of establishing higher or additional conditions by the Board, if it deems it necessary. It would not limit the Board in any way with regard to specific criteria and conditions for the funding of activities.

Option 2 would facilitate a prompt start in terms of the flexible use of financial instruments; this would, however, need to be done in a balanced manner that not to disfavour countries without previously accredited bodies.

57. **Implications for decisions by the Board:** For Option 2, the Board, in addition to decisions relating to Option 1, would need to:

- (a) Define criteria for assessing eligible institutions based on existing fiduciary, environmental and social standards (possibly with a time-bound validity to be confirmed by the Board) compatible with the Fund's own standards;
- (b) Develop processes for compliance with potential additional conditions, like the type of activity, thematic area, scale funding, and functions (implementation, operational fund management, financial intermediation, accreditation of executing entities, etc.) that accreditation is sought for; and
- (c) Define the process for the provision of the necessary information to be provided by the entities (potentially in cooperation with those institutions which have already accredited them).

### 3.2.3 Sequencing

58. While Option 1 represents the base model which will need to be developed in any case, Option 2 provides for the possibility of a prompt start using either only conventional types of IEs (Option 2a) or, in addition, FEs or financial intermediaries (Option 2b).

59. Regarding the compliance with the Fund's own standards and principles, a grace period could be considered.

60. The choices on what sort of financial instruments are to be prioritized, and on the desired speed at which funding is to be flowing, together with the availability of relevant skill

sets, will determine which of the access modalities would be most appropriate to be used in the start-up phase of the Fund, should the Board decide to have such a phase.

61. Rather than presenting a binary choice between distinct and mutually exclusive options, the final access modalities (including accreditation procedures and standards) governing the Fund's operations at country level are more likely to be modular in character, combining choices along the matters presented above, based on different national contexts.

### 3.3 Cross-cutting matters

62. A number of considerations of procedural requirements are needed independent of the specific choice of the accreditation options discussed above.

- (a) **Governance:** It will be required to agree on the process for reviewing accreditations and taking decisions on them. As applied in similar processes, the Board may consider the option of establishing a specific Accreditation Panel (as presented in document GCF/B.04/08 (Structure and Organisation)). Its key task would be to review the applications received and prepare recommendations for decision-making. These would generally follow the four categories: a) accreditation, b) conditional accreditation, c) further review and d) denial of accreditation. Additionally, provisions for suspension or cancellation of accreditations would have to be considered;
- (b) **Decisions on applicants:** Given the broad scope of the Fund, it could be more appropriate in the long run not to restrict the recipient countries in the number of institutions they would like to work with. Initially, to reduce the administrative burden relating to accreditation, the number of IEs could be capped. However, coordination, potentially through NDAs, is recommended. The Fund could consider providing guidelines (like in the Adaptation Fund and GEF) for countries starting a process of identifying appropriate institutions, including consultation processes;
- (c) **Variations of the above-mentioned accreditation options** based on type of project, thematic area and scale of funding: Accreditation options could be further differentiated by providing for specific accreditation procedures for:
  - (i) **Different types of activities** that are implemented or executed (infrastructure investments versus capacity building, where accreditation for the latter could be simplified, for example) and risks associated with the funding of certain types of activities (e.g. risk categories of projects; overall risks in a specific recipient country, experience and risks relating to a specific entity).
  - (ii) **Thematic areas:** Entities could seek accreditation for adaptation or mitigation only or for (more or less) specifically defined areas such as energy, renewable energy, energy efficiency or adaptation, adaptation of crop farming systems, coastal flood protection, etc.
  - (iii) **Scale of funding:** Accreditation could be granted for different levels of funding, with more rigorous requirements (for example, in terms of the capacity of an institution to carry out certain ex-ante impact assessments) for high volumes of funding (as done under the structural funds of the European Union for the so-called "major projects" category – see European Commission). Provisions for granting grace periods, as discussed above, could be ruled out when the scale of funding that an IE is dealing with is above a certain threshold; or, vice versa, during grace periods, only a certain maximum funding volume can be implemented by the entity in question.
  - (iv) Similar to the different degrees of devolvement of functions in different access models, the Board may decide to devolve the role of accrediting executing

entities. For this purpose, the Board may decide to require compliance with additional criteria needed for executing such an accreditation function.

(d) **Key elements for the assessment of fiduciary standards and principles and environmental and social safeguards relevant to future Board decisions:**

- (i) Standards applied by different funds or development banks vary significantly in terms of their level of ambition. Eventually, a decision will need to be taken on how to trade off access vs. rigour. Variations could help by combining comparatively less rigorous standards with limited access. A minimum level of standards should probably be defined, while more ambitious standards could be applicable beyond certain thresholds, for fund management functions or (for certain functions) after an initial grace period. All of these concepts were discussed above;
- (ii) It is important to note that those institutions which apply direct access usually do not set up specific oversight and accountability frameworks just for direct access, but apply the same approaches to direct and international access;
- (iii) Fiduciary standards and principles of the funds can generally be categorized according to three sets of criteria: financial integrity and management; institutional capacity; and transparency and self-investigative powers (see Annex II, where, based on this, Adaptation Fund, GEF and the Global Fund's standards are described). Moreover, they depend on several dimensions, which could be described (drawing on Enting/KfW 2011) as:
- **Principles:** Effectively addressing the trade-off between ambition and rigour on one, and inclusiveness on the other hand, while being sufficiently flexible to allow for their “applicability to different jurisdictions”;
  - **Coverage:** Usually comprising an entity's entire business;
  - **Competencies:** “Each area of coverage has to be described by a number of required competencies “. (Might be handled similarly to GEF and the Adaptation Fund);
  - **Specific capabilities:** In order to comply with the competency requirements, an entity needs to prove that it has specific capabilities. (“The methodology used by the Adaptation Fund to formulate these capabilities appears to be suitable for the Green Climate Fund as well. They will need to be identified carefully in order to reflect the Green Climate Fund's business model, and to ensure both inclusiveness and high fiduciary ambition. Even though, some capabilities still could be drawn from Adaptation Fund (i.e. underlying GEF fiduciary standards), most of the required specific capabilities will likely to be very Green Climate Fund-specific.” (Enting/KfW 2011)).
- (iv) Environmental and social safeguards are not consistently (across the funds analysed here) applied from the outset. While the GEF does this from the outset, in the case of the Adaptation Fund, they only come in at the project review stage; and
- (v) The assessment of the three funds found that the legal agreements signed between the funding institutions and the IEs are crucial elements in order to ensure mutual accountability and compliance with the standards.

63. **Support for the accreditation process:** The Board may consider provisions for specific capacity support relating to the accreditation process and the fulfilment of the required criteria in line with the Governing Instrument. Specific modalities will be elaborated in the



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document on readiness and preparatory support to be prepared for the September 2013 Board meeting.

#### **IV. Key areas for further work**

64. For the September 2013 Board meeting, the Interim Secretariat could:
- (a) Prepare a document discussing options for the Fund's own comprehensive fiduciary standards and principles and environmental and social safeguards, including accreditation processes, for intermediaries and implementing entities, such as UN agencies, MDBs, IFIs, regional institutions, national and regional IEs, and local financial intermediaries; and
  - (b) Prepare an in-depth review of international entities, including UN agencies, MDBs, bilateral development banks, IFIs and regional institutions (see also paragraph 48 of the Governing Instrument) with respect to their suitability to serve as international or regional IEs and/or intermediaries, so as to enable the Board to make an informed judgment whether to build in-house capacity from the outset and use international access (by accrediting IIEs).
65. Considering the importance of capacity building identified from the analysis of existing funds and regarding, in particular, direct access options, an analysis of how the different (national) entities are best supported in accreditation as well as in implementation and financial management, could be carried out as part of the readiness and support document to be prepared for the September 2013 Board meeting.
66. For subsequent Board meetings, the (Interim) Secretariat could:
- (a) Based on decisions taken by the Board develop a proposal for the Fund's own comprehensive accreditation process for various kinds of intermediaries and entities, including UN agencies, MDBs, IFIs, regional institutions, national and regional IEs, and financial intermediaries, including a detailed proposal for the Fund's own fiduciary standards and principles, as well as environmental and social safeguards;
  - (b) Analyse experience with national FEs or national funds, in line with the Governing Instrument's guidance regarding enhanced direct access; and
  - (c) Carry out a survey to assess the administrative and transaction costs relating to different options in order to enable the Board to compare options. The assessment would differentiate between actual cost data from existing funds and estimates of the costs relating to relevant options not yet implemented. This could also comprise an assessment (survey-based) of how long it typically takes to accredit NIEs and IIEs. This could be useful for the Board to inform any eventual comparisons of direct and international access modalities.

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**Annex I: Draft decision of the Board**

The Board, having reviewed document GCF/B.04/05 *Business Model Framework: Access Modalities*:

- (a) Notes convergence on the need for, and key elements of, an accreditation model for implementing entities and intermediaries for the Fund;
- (b) Further notes convergence on responsibilities and accountability between the Fund, its implementing entities and intermediaries;
- (c) Requests the Interim Secretariat to prepare a document with a comprehensive list of existing fiduciary standards and criteria on environmental and social safeguards; and to present an assessment of implementing entities and intermediaries, including entities accredited by the Global Environment Facility and the Adaptation Fund, regarding the completeness and coverage of their fiduciary standards and environmental and social safeguards with respect to the comprehensive list of existing standards and criteria, for consideration by the Board at its September 2013 meeting;
- (d) Further requests the Interim Secretariat to prepare a document defining the Fund's own accreditation criteria, including best practice fiduciary principles and standards and environmental and social safeguards, for entities carrying out different functions (including for intermediaries and implementing entities) for the Fund, as discussed in document GCF/B.04/05, for consideration by the Board at its first meeting in 2014; and
- (e) Further requests the Interim Secretariat to prepare a document discussing the options for the Fund's accreditation processes for various kinds of implementing entities and intermediaries, including United Nations agencies, multilateral development banks, international financial institutions, regional institutions, national and regional implementing entities, and intermediaries, for consideration by the Board at its first meeting in 2014.

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## **Annex II (a): Additional functions and roles in the accreditation process based on experience from existing funds**

### **I. Decision process on applicant institutions**

1. Neither the Adaptation Fund nor the GEF prescribe the type of institutions that countries can nominate. Experience shows that different types of institutions can fulfil the set standards, from banks of environmental foundations to government ministries. The Adaptation Fund explicitly aims at working with only one NIE per country, but recipient countries can, for example, submit proposals through an NIE and an MIE at the same time. The application through an NIE has to be signed-off by the NDA, which is an official nominated by the government. No mandatory requirements exist for the process for identification of an NIE or choice of an accredited MIE, but some guidelines are provided. The GEF has set an overall cap on the institutions to be newly accredited under GEF-5. The country-specific GEF operational focal points have to sign-off the application. The Global Fund does not limit the number of Principal Recipients per country, but they are nominated by the multi-stakeholder CCMs in relation to specific project proposals.

### **II. Responsibilities in review and decision-making on the accreditation applications and types of review consequences**

2. Both the Adaptation Fund and GEF established specific Accreditation Panels to review applications and prepare recommendations for decision-making. In the case of the Adaptation Fund, the Accreditation Panel (AP) consists of 2 Adaptation Fund Board members and 3 experts with specific expertise relating to fiduciary standards. The AP prepares recommendations to the Adaptation Fund Board to take a decision on the accreditation, but formally has no decision-making role. The assessment by the AP of how far an applicant has met the fiduciary standard has become more robust, but also flexible, as the AP has gathered more knowledge in reviewing accreditation applications. In the case of the GEF, the Accreditation Panel consists of 3 experts. The GEF Council is involved in the first stage of the review, which addresses the value-added criteria by approving applications. In the second stage, related to the review of fiduciary standards and environmental and social safeguards, the Accreditation Panel applies its technical expertise and thereby also decides on whether the agencies sufficiently meet the standards.

3. In the case of the CDM, the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP) is the final decision-making body, designating the DOEs or withdrawing their accreditation based on a recommendation by the Executive Board. A specific Accreditation Panel, composed of experts, serves as the technical panel for the Executive Board, relating to the overall accreditation process, and a CDM Assessment Team assesses the DOE to identify the level of conformity with the CDM accreditation requirements. The UNFCCC secretariat supports the implementation of the accreditation procedure. Reviews of applications include desk reviews and on-site assessments.

4. Once applications for accreditation have been received by the fund, they have to be reviewed technically, and a decision has to be taken on whether the institutions comply sufficiently with the criteria (see previous section). Both the GEF and the Adaptation Fund apply similar options as the result of the reviews: a) accreditation, b) accreditation with certain conditions, c) further review and d) non-accreditation. In the CDM, the CDM Accreditation Panel recommends to the Executive Board a) accreditation or (d) rejection, or (c) seeks additional information or proceeds with on-site assessment.

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5. Option b) has been applied in the case of the Adaptation Fund in a few cases, where the respective institutions had to deliver additional documentation within a certain time period, or had to fulfil additional reporting requirements (e.g. semi-annual reports instead of only annual reports). This allows some flexibility in the application of the standards without actually lowering them. In the case of the GEF, there is the option of a "grace period" up to one year to put in place and implement certain measures in order to bring the applicant to full compliance with GEF standards.
6. Under option c) in the Adaptation Fund, many accredited IEs have gone through an extensive communication and exchange process with the AP and the Secretariat until they delivered the necessary documentation. Sometimes this included field visits of members of the Secretariat or the AP. This process also resulted in institutional progress in the applicant institutions, according to an analysis of the Adaptation Fund. In the case of the GEF, the Accreditation Panel assessments to date indicate that a number of applicants of stage II require either further review, including field visits, in order to receive accreditation or conditional accreditation subject to compliance of GEF's environmental and social safeguards, resulting in additional cost and extension of the process in general. In the case of the CDM, an application is only forwarded after a completeness check by the Secretariat if all documentation is available<sup>1</sup>. Interestingly, the application is then publicly available for comments for a distinct period of time (15 days) providing a very transparent approach.
7. The accreditations under the Adaptation Fund and the CDM are time-bound, five years under the Adaptation Fund and three years under the CDM, with the possibility of renewal.
8. The Adaptation Fund Board can suspend or cancel the accreditation of an IE (e.g., in case of false statements or intentionally provided incomplete information relating to the accreditation or the submission of a proposal). Before any decision on suspension is taken, there would be a communication process to present views. The Adaptation Fund Board can also decide on suspension or cancellation of a project, under certain conditions. This is similar in the CDM context.

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<sup>1</sup> [http://cdm.unfccc.int/Reference/Procedures/accr\\_proc01.pdf](http://cdm.unfccc.int/Reference/Procedures/accr_proc01.pdf).

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## **Annex II (b): Assessment of different models of direct access oversight and accountability frameworks**

1. This Annex analyses different models of oversight and accountability frameworks applied in direct access between the funding institutions and the implementing and executing entities. Paragraph 68 of the Governing Instrument also requests the Board to establish "an independent integrity unit, to work with the secretariat and report to the Board, to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities."
2. This Annex does not aim at analysing the whole range of potential accountability mechanisms, e.g. between potentially affected individuals and the IEs. In that regard, the Governing Instrument also contains the provision for setting up an independent redress mechanism which "will receive complaints related to the operation of the Fund and will evaluate and make recommendations" (paragraph 69).
3. It is important to note at the beginning that those institutions which apply direct access usually do not set up specific oversight and accountability frameworks just for direct access, but apply the same approaches to direct and international access. That means that for a fully comprehensive analysis, institutions that do not apply direct access need to be also taken into account.

### **I. Requirements for fiduciary principles and standards and environmental and social safeguards for accreditation of financial intermediaries and implementing entities**

#### **1.1 Fiduciary standards and principles**

4. As outlined in Sub-section 3.1.1, the Adaptation Fund and the GEF apply certain fiduciary standards and principles in the accreditation process. The Global Fund as another institution applying a form of direct access does not generally accredit institutions, but assesses their institutional capacity relating to fiduciary aspects against the background of specific project proposals. Duties are defined in the Standard Terms and Conditions.
5. The following table shows the fiduciary aspects applied, sorted along the three categories applied by the Adaptation Fund in order to facilitate comparison.

	AF	GEF <sup>1</sup>	Global Fund: <sup>2</sup> responsibilities for Principal Recipients
<b>Financial integrity and management</b>	<ul style="list-style-type: none"> <li>(i) Accurately and regularly recording transactions and balances in a manner that adheres to broadly accepted good practices, and audited periodically by an independent firm or organization;</li> <li>(ii) Managing and disbursing funds efficiently and with safeguards to recipients on a timely basis;</li> <li>(iii) Producing forward-looking financial plans and budgets;</li> <li>(iv) Legal status to contract with the Adaptation Fund and third parties</li> </ul>	<ul style="list-style-type: none"> <li>(a) External financial audit;</li> <li>(b) Financial management and control frameworks;</li> <li>(c) Financial disclosure;</li> <li>(d) Codes of ethics;</li> <li>(e) Internal audit,</li> </ul>	<p>Ensuring that all grant funds are prudently managed and taking all necessary action to ensure that grant funds are used solely for programme purposes;</p> <p>Books and records of the Principal Recipient;</p> <p>Principal Recipient audits;</p> <p>Use of independent auditor;</p> <p>Necessary power, authority and legal capacity to:</p> <ul style="list-style-type: none"> <li>(i) Own its assets;</li> <li>(ii) Conduct programme activities; and</li> <li>(iii) Enter into agreements</li> </ul>
<b>Institutional Capacity</b>	<ul style="list-style-type: none"> <li>(i) Procurement procedures which provide for transparent practices, including in competition;</li> <li>(ii) Capacity to undertake monitoring and evaluation;</li> <li>(iii) Ability to identify, develop and appraise project;</li> <li>(iv) Competency to manage or oversee the execution of the project/programme including ability to manage sub-recipients and to support project /programme delivery and implementation.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Procurement processes;</li> <li>(b) Monitoring and project-at-risk systems; and</li> <li>(c) Evaluation function.</li> </ul>	<p>Monitoring and evaluating the progress of the programme towards its objective, including the activities implemented by sub-recipients;</p> <p>Procurement practices.</p>

<sup>1</sup> Principles rearranged according to column 1.

<sup>2</sup> Core Standard Terms and Conditions, partially much more detailed in the agreement.

<b>Transparency and self-investigative powers:</b>	Competence to deal with financial mismanagement and other forms of malpractice.	(a) Investigations function; and (b) Hotline and whistle-blower protection.	No-corruption provisions; Disclosure responsibility relating to corruption issues and conflicts of interests relating to the different institutional elements of the Global Fund; Enforce standards of conduct to govern the performance of persons affiliated with the Principal Recipient or any sub-recipient.
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6. The description reflects a varying level of detail, but also shows that, generally, similar aspects are being addressed. Therefore, the standards and principles applied can be regarded as comparable.

7. The Adaptation Fund started to develop a specific investigation procedure and set up an additional complaint mechanism on its website. The Manager of the Secretariat is provided as contact person at the Adaptation Fund level. Contact details of dedicated persons are also provided for each NIE. Regarding the MIEs, their standard procedures (in some cases including specific hotlines) are accessible via a web link. However, there is no clear whistle-blower protection.

8. There is no differentiated set of standards by project type. The Adaptation Fund standards are applied to IE accreditation independent of what projects they submit. However, the overall mandate of the Adaptation Fund is defined as supporting concrete adaptation projects (which in practice often have a capacity-building or policy-mainstreaming element), with a current cap of up to US\$ 10 million. So, generally, the project types are comparable to a certain extent, and the capacity of the institutions is reviewed against this amount and type of projects. This does not automatically mean that the accredited institutions may not be capable of handling other amounts.

9. In the case of the GEF, the applicant institutions also have to identify the specific project type they intend to implement, and the standards are reviewed also against that background. This is similar in the Global Fund. The GEF also applies a simplified direct access procedure without accreditation for the preparation of UNFCCC national communications and biennial update reports, with support of up to US\$ 500,000. However, the applying executing agencies have to demonstrate how they would address certain fiduciary aspects. The lack of accreditation may be explained by the fact that there is just only one agency to perform the function per country.

10. With regard to the relationship to executing entities or sub-recipients, the IEs (or in the case of the Global Fund, the Principal Recipient) generally have to apply the same duties to these institutions (see the Section III on agreements).

## II. Environmental and social safeguards

11. An important difference between the Adaptation Fund and the GEF approaches is that the GEF already applies environmental and social safeguards at the accreditation stage, while the Adaptation Fund considers related aspects in the project review.<sup>3</sup>

12. According to the GEF approach, the purpose of the environmental and social safeguards is to ensure that all GEF partner agencies are required to demonstrate that they have adequate agency-level safeguard systems to ensure that they avoid, minimize, or mitigate potentially

<sup>3</sup> These are not yet established as distinct environmental and social safeguards, but this is currently under consideration by the Adaptation Fund Board.

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adverse environmental or social impacts that could arise from GEF-supported projects. These are inter alia:<sup>4</sup>

- (a) Environmental and social impact assessment;
- (b) Natural habitats;
- (c) Involuntary resettlement;
- (d) Indigenous peoples;
- (e) Pest management;
- (f) Physical cultural resources;
- (g) Safety of dams; and
- (h) Accountability and grievance systems.<sup>5</sup>

13. The choice of the eight benchmarks is well founded and has its origin in the long experience of the GEF in financing activities in developing countries relating to three Rio conventions. The rationale for making Safeguard 1 compulsory for all GEF partner agencies is that environmental and social impact assessment is the umbrella policy framework within which application of the other safeguard standards occurs, while the safeguard emanates from the cognizance that a project in one focal area does not cause harm in another focal area. The rest of the safeguards - besides the accountability and grievance systems, which is assessed as key part of the fiduciary standards review - will be assessed as deemed necessary by the purpose and nature of the project. That means that some of the criteria might also be regarded inapplicable.

14. Therefore, apart from a mandatory environmental and social impact assessment, the de facto difference between the Adaptation Fund and the GEF approaches is less significant than it appears. However, prescribing a specific list of matters that need to be considered has the advantage of being clearly on the radar.

15. It is important to note that there are various discussions around environmental and social safeguards, and also more comprehensive or more differentiated proposals available than those that the GEF applies. It is obvious that different project types in different sectors may require different kinds of safeguards. In particular larger projects with concrete physical interventions potentially have higher risks. Discussing these is beyond the scope of this document, but it would be useful to take them into account when elaborating the detailed safeguards in the Fund.

16. Although all GEF agencies have their own policies and strategy on gender mainstreaming, the inclusion of this as safeguard in the accreditation process aims at addressing the link between gender equality and environmental sustainability and towards gender mainstreaming in its policies, programmes, and operations. The minimum requirement here is to strengthen the institutional framework for gender mainstreaming and socio-economic mainstreaming in general and to apply method to assess potential roles, benefits, impacts and risks for women and men of different ages, ethnicities, and social structure and status. The Adaptation Fund has introduced gender consideration in its project review criteria.

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<sup>4</sup> For more information see the Annex in the document: GEF Policy on Agency Minimum Standards on Environmental and Social Safeguards.

<[http://www.thegef.org/gef/sites/thegef.org/files/documents/C.41.10.Rev\\_1.Policy\\_on\\_Environmental\\_and\\_Social\\_Safeguards.Final%20of%20Nov%2018.pdf](http://www.thegef.org/gef/sites/thegef.org/files/documents/C.41.10.Rev_1.Policy_on_Environmental_and_Social_Safeguards.Final%20of%20Nov%2018.pdf)>.

<sup>5</sup> These minimum standards are not static and will be updated as international practice on this matter evolves no later than 2015.



### III. Types of agreements between institutions and their implementing entities

17. The legal agreements signed between the funding institutions and the IEs are crucial elements in ensuring mutual accountability and compliance with the set standards.

18. The standard agreement applied by the Adaptation Fund Board with all IEs (national, regional and multilateral) identifies a number of steps, which, through the linkage to the release of funds, also provides an approach to ensuring mutual accountability. These are: a) an inception report which was added recently in order to have a clearer understanding when a project actually started, b) annual project performance reports, c) independent mid-term evaluation report (for projects under implementation for more than four years), d) a final report, e) a terminal independent evaluation report and f) a final audited financial statement. The approval of the annual report by the Board is the precondition for releasing the next tranche of funds.

19. The IE carry out all its obligations under this agreement in accordance with: i) the Adaptation Fund Operational Policies and Guidelines; and ii) the IE's standard practices and procedures which have been the basis for their accreditation. In turn, the IE will make grant funds available to the EE in accordance with its standard practices and procedures. In the event that the IE makes any disbursements of the grant in a manner inconsistent with the Adaptation Fund Operational Policies and Guidelines, and these inconsistencies cannot be resolved, it will refund to the Adaptation Fund Trust Fund, through the Trustee, any such disbursements. Further, the Agreement states that the IE will be responsible for the overall management of the project or programme including all financial, monitoring and reporting responsibilities as well as any omissions or negligence of its employees [...] and contractors under the activities. The Board reserves the right to evaluate the performance of IEs at any time during an IE's accreditation period.

20. In the case of the GEF, no specific agreements under the current accreditation process exist. In the current cooperation with multilateral agencies, standard legal agreements are being used. The steps of reporting contained therein are: a) periodic progress reports, b) an annual report providing information on income and expenditures during the previous fiscal year and c) a final report within six months after the date of completion or termination of each project. The standard legal agreements do not link the reporting to the release of financial resources and therefore do not seem to provide a tool to ensure mutual accountability.

21. In the case of the Global Fund, the Standard Terms and Conditions between the Fund and the Principal Recipients define key responsibilities. When the Principal Recipient requests a disbursement according to an agreed schedule, it has to provide a programmatic progress report which describes the progress towards the programme objectives and targets (impact/outcome and programmatic indicators). The Principal Recipient is responsible for the monitoring and evaluation of this progress, including where activities are sub-contracted to sub-recipients (which could be regarded as executing entities). It is also responsible for ensuring that it applies the Standard Terms and Conditions with the sub-recipients. The so-called LFAs, usually accounting firms contracted by the Global Fund, have to verify the information provided in the request of disbursements and thereby also in the programmatic progress reports. This includes a risk-based grant rating for the Principal Recipient which impacts on the disbursement. The Global Fund provides extensive guidelines for both types of institutions how to prepare these reports, including risk-categorisation guidance for the LFA. The duties of the Principal Recipient with regard to the LFA are also spelled out in the Standard Terms and Conditions and include submission of relevant reports to the Global Fund through the LFA, permit the LFA to perform ad-hoc visits, cooperate with the LFA to identify additional training and capacity-building that the Principal Recipient and sub-recipients may need, etc.

22. Summarizing the above, one can say that there are three key elements to ensure mutual accountability in the relationship between the funding institution and the IEs:
  - (a) Spelling out duties in legal agreements (with or without formal accreditation) (applied by the Adaptation Fund, GEF and Global Fund), partially also explicitly requiring the IEs to apply most of the duties also to the executing entities (Adaptation Fund, Global Fund);
  - (b) Linking disbursements of funds to reporting and project implementation progress (applied by the Adaptation Fund and the Global Fund); and
  - (c) Retaining the right to reclaim funds, suspend or cancel projects (Global Fund, Adaptation Fund) or even the accreditation (Adaptation Fund).
23. The use of external verification in the standard reporting is only used in the Global Fund.

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### **Annex III: List of referenced and reviewed literature and information sources**

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## Table of acronyms

CCM	Country Coordinating Mechanism
CDM	Clean Development Mechanism
CIFs	Climate Investment Funds
CTF	Clean Technology Fund
EE	Executing entity
FE	Funding entity
GEF	Global Environment Facility
Global Fund	The Global Fund to Fight AIDS, Tuberculosis and Malaria
GIZ	Deutsche Gesellschaft für internationale Zusammenarbeit GmbH
IDFC	International Development Finance Club
IE	Implementing entity
IFE	International funding entity
IFI	International Financing Institution
IIE	International implementing entity
M&E	Monitoring and evaluation
MDB	Multilateral development bank
MIE	Multilateral implementing entity
NDA	National designated authority
NFE	National funding entity
NIE	National implementing entity
ODI	Overseas Development Institute
PPCR	Pilot Program for Climate Resilience

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