

Green Climate Fund

**Guiding Framework and Procedures
for Accrediting National, Regional and
International Implementing Entities
and Intermediaries, Including the
Fund's Fiduciary Principles and
Standards and Environmental and
Social Safeguards (Progress Report)**

GCF/B.06/09

11 February 2014

Meeting of the Board

19-21 February 2014

Bali, Indonesia

Agenda item 12 (b)

Recommended action by the Board

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.06/09 *Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards (Progress Report)*; and
- (b) Provides guidance on policy matters regarding the guiding framework for the Fund's accreditation process.

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Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards (Progress Report)

I. Introduction, scope and linkages with other documents

1. The Governing Instrument mandates the Board to 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.¹
2. At its October 2013 meeting, in its decision B.05/08, the Board agreed on the following:
 - (a) The need to develop a guiding framework and procedures for the accreditation process of the Fund, which should include:
 - (i) The Fund's own environmental and social safeguards and fiduciary principles and standards;
 - (ii) The criteria and application procedures for the accreditation of intermediaries and implementing entities of the Fund;
 - (iii) The most appropriate governance and organizational approach for the Fund's accreditation process, including an Independent Technical Advisory Function to conduct the accreditation process, taking into account Annex X and Annex XI to document GCF/B.05/23, and the terms of reference contained in Annex XI, as appropriate; and
 - (iv) An assessment of the list of the institutions accredited by other funds, as contained in Annex VIII to document GCF/B.05/23, in light of the development of the guiding framework for the accreditation process of the Fund;
 - (b) Furthermore, the Board agreed that such guiding framework for the Fund's accreditation process should:
 - (i) Enhance country ownership;
 - (ii) Accommodate different capacities and capabilities of countries; and
 - (iii) Accredite entities in a transparent, objective and credible manner, in line with the Fund's objectives, results and guiding principles;
 - (c) The Board acknowledged the best-practice fiduciary principles and standards referred to in Annex V to document GCF/B.05/23 and the environmental and social safeguards of the entities referred to in Annex VI to the same document, as the basis for developing the Fund's own criteria and standards.
3. The Board also requested a team of four Board members/alternate members to oversee the development of the guiding framework for the Fund's accreditation process by the Secretariat, which will also include four senior international experts to be nominated by the Executive Director, for consideration by the Board no later than at its second meeting in 2014.
4. The Board decided that the following Board members will be part of the team referred to above: Mr. Arnaud Buisse, H.E. Mr. Jan Cedergren, Mr. Derek Gibbs and Mr. David Kaluba.

¹ Governing Instrument, paragraph 49.

1.1 Scope of the document

5. The guiding framework for the Fund's accreditation process involves the definition and development of a variety of inter-connected elements, including the guiding principles, fiduciary standards, environmental and social safeguards, procedures for accreditation of related institutional capacities, organizational arrangements and allocation of responsibilities to implement such procedures.

6. Based on this and the mandate given by the Board, this document provides a progress report on the following elements:

- (a) Report on the activities of the Board's team on accreditation;
- (b) Draft inputs for the final development of the guiding framework for the Fund's accreditation process, which at this point include:
 - (i) General objectives of the guiding framework;
 - (ii) Guiding principles for the accreditation process;
 - (iii) Initial fiduciary standards:
 - Basic fiduciary standards;
 - Specialized fiduciary standards for project and programme management.
 - (iv) Initial environmental and social safeguards.

7. These draft inputs are intended to facilitate convergence and capture key feedback from the Board for the final elaboration of the guiding framework for the Fund's accreditation process.

8. With regard to the Fund's fiduciary principles and standards, the document proposes an initial set of standards that include basic fiduciary standards and the set of specialized standards for accreditation of project/programme management capacities.

9. Given that discussions and Board decision on additional modalities for direct access and the ensuing clarification of the operational understanding of implementing entities, intermediaries and funding entities are expected at the February 2014 Board meeting (see document GCF/B.06/15), the operational definition of each type of entity and the specialized fiduciary standards applicable to each of them are left for revision and final elaboration in the report to be considered at the May 2014 Board meeting.

10. Chapter IV outlines the additional elements of the guiding framework for the Fund's accreditation process that are left for the final report to be prepared for the May 2014 Board meeting.

1.2 Linkages with other documents

11. This document has linkages to the document GCF/B.06/15 on additional modalities that further enhance direct access.

12. The connection stems from the operational understanding to be applied to the concept of implementing entities, intermediaries and funding entities, which will in turn define the specific fiduciary requirements to be applied.

II. Report on the activities of the Board's team on accreditation

13. The team appointed by the Board at its October 2013 meeting was able to hold two video conferences by the time of the submission of this progress report. An in-person meeting is also expected to be held at the margins of the February 2014 Board meeting.

2.1 Selection of senior international experts

14. At the initial virtual meeting of the Board's team, the Secretariat provided an update on the selection and nomination of senior international experts to assist the Board's team.

15. The Secretariat informed about the following figures concerning the selection process:

- (a) One-hundred-seventeen applications were received in total;
- (b) Seventy-five applicants were deemed eligible, 41 were deemed not eligible and one application was not readable and therefore not considered;
- (c) Twenty applicants were long-listed out of the 75 eligible candidates;
- (d) Nine applicants were short-listed, with a recommendation of four primary choices and five back-up candidates.

16. Six individuals from the short list were interviewed based on the criteria aimed at, primarily, achieving a desirable mix and combination of experience and expertise; and, secondly, regional and gender balance. The final selection resulted in the appointment of the following experts:

- (a) Mr. Peter Richard Carter (United Kingdom);
- (b) Mr. Gonzalo Castro de la Mata (Peru);
- (c) Mr. Wolfgang Diernhofer (Austria); and
- (d) Ms. Isna Marifa (Indonesia).

2.2 First virtual meeting

17. The first meeting of the Board's team was held through video conference on 20 December 2013. All four appointed Board members joined the video conference, which was facilitated by the Secretariat, with participation of the Executive Director.

18. At this first virtual meeting, the Board team agreed, among other internal operational arrangements, on the following:

- (a) Nomination of H.E. Mr. Jan Cedergren as the Chair of the team and Mr. David Kaluba as the Vice-Chair;
- (b) Adoption of the work plan of the team for the preparation of the progress report and discussion of next steps at the February 2014 Board meeting;
- (c) With regard to quorum, it was decided that virtual meetings can only be held if at least three Board members are present. It was furthermore agreed that advisors may participate in virtual meetings in the absence of Board members, but may not make decisions on their behalf;
- (d) The team also agreed to have an in-person meeting at the margins of the February 2014 Board meeting.

2.3 Second virtual meeting

19. At its second virtual meeting, which took place on 24 January 2014, the team discussed the draft progress report prepared by the Secretariat and contained in this document. All four Board members joined the video conference and the appointed senior international experts were introduced to the team and were able to provide their expert input and advice.
20. On the environmental and social safeguards, the inputs provided by the international senior experts referred to the following:
- (a) There was general agreement with the approach taken in the progress report;
 - (b) There was broad agreement with the proposed definition of the Fund's environmental and social safeguards. It was considered reasonable to follow the same approach as the Adaptation Fund and elaborate the Fund's own environmental and social safeguards drawing on the Adaptation Fund's environmental and social policy and based on the performance standards of the International Finance Corporation (IFC). Suggestions were made that the experience of regional development banks should also be taken into account in the completion of the final report for the May 2014 Board meeting;
 - (c) It was stressed that there is a need to balance applicability with comprehensiveness, as well as simplicity and ease of application with robustness of environmental and social safeguards. Caution was also expressed indicating that flexibility and simplicity should not imply weakness in the definition of environmental and social safeguards;
 - (d) It was noted that the Fund should consider using minimum standards for its safeguards and that the accreditation process should be a dynamic framework that can evolve over time;
 - (e) It was also recommended to differentiate between safeguards and performance standards. Safeguards are designed to "do no harm", whereas performance standards are aspirational and promote the mainstreaming of sound environmental management into project design. Using a combination of both was recommended;
 - (f) It was also recommended that the Fund should have a very clear statement of what activities may not take place due to safeguard considerations, which may be adapted from the World Bank's safeguard policies and IFC's performance standards. It was also suggested to use broader terminology, for instance, "environmental and social objectives and safeguards";
 - (g) Proposals were made on alternative approaches to categorizing the proposed environmental and social safeguards, which can be taken into account in the further elaboration of the guiding framework.
21. On the fiduciary standards, the experts' inputs referred to the following:
- (a) There was general agreement on the approach, scope and typology proposed in the progress report for the description and categorization of basic and specialized fiduciary standards;
 - (b) Recommendations were made to include fiduciary criteria to assess entities' capacities across the entire project cycle, from identification to closure.
22. The guidance provided by Board members was as follows:
- (a) There was general agreement with the approach of the progress report with regard to both the environmental and social safeguards and the fiduciary standards, as well as the overall development of the guiding framework;
 - (b) With regard to environmental and social safeguards, it was recommended that the Fund's standards should be in line with best practices, but should be tailored to the type

of challenges faced by the Fund. It was stressed that the accreditation process needs to be flexible and dynamic, and that, while standards should be high, importance needs to be attached to capacity building for institutions that are applying for accreditation. Furthermore, it was advised that the safeguard policies of regional institutions should be taken into account;

- (c) With regard to the Fund's fiduciary standards, the importance of using differentiated and flexible fiduciary requirements was highlighted, which can allow achieving balance between standards reflecting best practices in international institutions and readiness of potential applicants from recipient countries. The need for capacity building was also stressed.

III. Guiding framework for the Fund's accreditation process

23. Document GCF/B.05/08 introduced the concept of a guiding framework for the Fund's accreditation process in order to bring coherence to the many elements that relate to the Fund's accreditation process. These elements are:

- (a) General objective;
- (b) Guiding principles;
- (c) Fund's fiduciary principles and standards;
- (d) Fund's environmental and social safeguards;
- (e) Additional criteria to enhance effectiveness;
- (f) Governance and organizational arrangements;
- (g) Accreditation cycle; and
- (h) Review of the guiding framework.

24. An additional element refers to the consideration of the Fund's accreditation process in relation with other relevant accreditation processes and entities already accredited under those other processes. It is suggested that this consideration be included as an additional element of the guiding framework under discussion.

25. The following sections provide a conceptual description of each element, which are elaborated and presented in draft form in Annexes I and II.

3.1 General objective

26. The general objective of the guiding framework refers to the need to put all the necessary elements relating to the Fund's accreditation process within a logical and coherent operational context.

27. The objective should, therefore, reflect the need for a clear and concise statement of purpose that will serve as the cornerstone for the definition of all the other elements that would be part of this guiding framework. This general objective will also guide any future revisions of the guiding framework and updates to be applied as necessary.

28. Section I of the draft guiding framework, contained in Annex I to this document, presents a proposed statement of purpose to define this general objective.

3.2 Guiding principles

29. As mentioned above, the guiding principles are intended to provide the strategic perspective for the development and definition of all the other elements of the guiding framework for the Fund's accreditation process.
30. These guiding principles should be based primarily on the Governing Instrument, as well as relevant policy guidance formulated by the Board or stemming from relevant decisions of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC).
31. Building on the above, the first set of guiding principles proposed to provide the necessary broad strategic vision and policy guidance for the elaboration of other elements of the guiding framework for the Fund's accreditation process is presented in Section II of Annex I to this document.

3.3 Fiduciary standards

32. Based on the considerations presented in document GCF/B.05/08, and the parallel discussion on additional modalities that further enhance the direct access of the Fund (document GCF/B.05/15) relating to funding entities, it is considered appropriate that the Fund adopts a differentiated approach to the definition of the required minimum fiduciary standards, making a distinction between basic and specialized fiduciary standards.
33. **Basic fiduciary standards** will be applied to all the entities seeking accreditation and would refer to fundamental institutional capacities that need to be in place and fully functional in any entity seeking accreditation with the Fund.
34. **Specialized fiduciary standards** would relate to specific institutional capacities and resources that are required by the Fund, according to the expected scope of responsibilities and roles to be assigned to the entity seeking accreditation.

3.3.1 Basic fiduciary standards

35. Table 1 of document GCF/B.05/08 suggested two sets of basic minimum fiduciary standards. On this basis, the following is proposed:
- (a) Key administrative and financial capacities, which refer to:
- (i) General management and administrative capacities;
 - (ii) Financial management and accounting;
 - (iii) Internal and external audit;
 - (iv) Control frameworks; and
 - (v) Procurement.
- (b) Transparency and accountability, which refer to:
- (i) Disclosure of conflict of interest;
 - (ii) Code of ethics;
 - (iii) Capacity to prevent or deal with financial mismanagement and other forms of malpractices; and
 - (iv) Investigation function.

3.3.2 Specialized fiduciary standards for project cycle management

36. These refer to the necessary institutional capacity to manage, oversee and administer the full cycle of a funding proposal connected with the implementation of a specific project or programme. Based on this, this set of specialized institutional capacities will refer to:

- (a) Project/programme preparation and appraisal (from concept to full funding proposal);
- (b) Project implementation, oversight and control;
- (c) Monitoring and evaluation; and
- (d) Project-at-risk systems and related project risk management capabilities.

3.3.3 Specialized fiduciary standards

37. Document GCF/B.05/08 proposed other sets of specialize fiduciary standards that will be relevant to assess: 1) institutional capacities relating to mechanisms for awarding grants, 2) financial structuring (including through blending, on-lending and financial engineering), and potentially others.

38. In the first case, the entity should be able to demonstrate appropriate institutional capacities for effective, consistent and transparent grant award procedure within an approved programme.

39. In the second case, the intermediary is expected to display capacity for financial blending, on-lending and/or structuring or financial instruments and financial engineering, as listed in document GCF/B.06/15.

40. Table 1 summarizes the criteria discussed above, building on document GCF/B.05/08. Annex II presents the proposed initial set of Fund's fiduciary principles and standards, which can be subject of further revision in the final elaboration of the guiding framework in accordance with further guidance to be received from the Board's team on accreditation and the Board, particularly in relation to the elements discussed in document GCF/B.06/15.

Table 1: Overview of proposed fiduciary standards

Level	Purpose	Scope
Basic fiduciary criteria	Key administrative and financial capacities	<ul style="list-style-type: none"> • General management and administrative capacities • Financial management and accounting • Internal and external audit • Control frameworks • Procurement
	Transparency and accountability	<ul style="list-style-type: none"> • Disclosure of conflict of interest • Code of ethics • Capacity to prevent or deal with financial mismanagement and other forms of malpractices • Investigation function
Specialized fiduciary criteria	Project/programme management	<ul style="list-style-type: none"> • Project/programme preparation and appraisal (from concept to full funding proposal) • Project implementation, oversight and control • Monitoring and evaluation • Project-at-risk systems and related project risk management capabilities
	Grant award mechanisms	<ul style="list-style-type: none"> • Grant award procedures • Transparent allocation of financial resources • Public access to information on beneficiaries and results • Good standing with regard to multilateral funding (e.g. through recognized public expenditure reviews)
	Financial structuring, including through blending, on-lending and financial engineering	<ul style="list-style-type: none"> • Financial resources management • Public access to information on beneficiaries and results • Investment management, policies and systems, including in relation to portfolio management • Financial risk management, including asset liability management

41. At its October 2013 meeting, the Board acknowledged the fiduciary principles and standards discussed in document GCF/B.05/08, which made reference to fiduciary standards in use by relevant funds and institutions.

42. Building on this decision, the elaboration of the proposed initial Fund's fiduciary standards, contained in Annex II, is based mostly on these acknowledged standards, particularly those of the Global Environment Facility (GEF), the Adaptation Fund and the European Union Development Cooperation (EU DEVCO).

3.4 Environmental and social safeguards

43. In its decision B.05/08, paragraph (b), the Board acknowledged a number of environmental and social safeguards from other institutions. It is recommended that recent developments made by regional development banks are also taken into account in the final elaboration of the guiding framework.

44. Table 2 provides a broad comparison of relevant matters and risk factors covered by these sets of standards, including the recently adopted environmental and social policy of the Adaptation Fund.²

² Decision B.22/23 by the Adaptation Fund Board, contained in document AFB/B.22/7.

Table 2: Broad comparison of environmental and social topics between various safeguards*

Topic	GEF minimum environmental and social safeguard standards	Adaptation Fund environmental and social principles	World Bank safeguard policies	IFC performance standards
Entity environmental and social management system	×	×	×	×
Entity environmental and social policy	×			☐
Environmental and social impact assessment	×	×	×	×
Natural habitats	×	×	×	×
Involuntary resettlement	×	×	×	×
Indigenous people	×	×	×	×
Land acquisition	×		×	×
Pest management	×		×	×
Invasive species	×	×	×	×
Land and soil conservation	×	×	×	×
Physical cultural resources	×	×	×	×
Community safety and security	×		×	×
Safety of dams	×		×	×
Marginalized and vulnerable groups	×	×	×	×
Human rights	×	×	×	×
Gender equity and women's empowerment	×	×		×
Core labour rights		×		×
Pollution prevention and resource efficiency		×	×	×
Public health	×	×	×	×

* It should be noted that this is a broad comparison and that there are different ways to address matters, for example, through an environmental and social impact assessment (ESIA), even if there is no specific principle.

Topic/Issue	GEF minimum environmental and social safeguard standards	Adaptation Fund environmental and social principles	World Bank safeguard policies	IFC performance standards
Accountability and grievance systems	×	×		×
Stakeholder consultation and disclosure	×	×	×	×

3.5 Options for the Fund's environmental and social safeguards

45. Building on decision B.05/08, paragraph (b), the Fund may choose between simply adopting one of the existing environmental and social safeguards, without modifications or adjustments, or, alternatively, defining its own environmental and social safeguards, based on one of the existing set of standards or policies already acknowledged.

46. The Fund's purpose is to promote, within the context of sustainable development, the paradigm shift towards low-emission and climate resilient development pathways, by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change. In support of this objective, the Fund intends to delineate the minimum environmental and social safeguards and use the following criteria to assess the possible options from the acknowledged sets of environmental and social safeguards, including the environmental and social policy of the Adaptation Fund, approved in November 2013:

- (a) Consistent with best practices;
- (b) Reflect the range of potential project or programme risks and impacts;
- (c) Outcomes-based as opposed to prescriptive;
- (d) Strike a balance between thoroughness and user-friendliness and comprehensibility;
- (e) Applicable to all stages of the project cycle, both upstream and downstream; and
- (f) Designed in such a way to be adaptable over time, as best practice evolves.

47. Given the broad scope of entities and types of projects that Fund's resources may enable, it should be anticipated that the full range of environmental and social risks and impacts will be encountered and the Fund's environmental and social safeguards should help entities/projects/programmes identify and manage these risk issues.

48. Table 3 contains a summary overview analysis of the main acknowledged environmental and social safeguards and conclusions to advise on the choice vis-à-vis the criteria set out in paragraph 46.

Table 3: Options for the development of the Fund's environmental and social safeguards

Option	Pro	Con	Conclusion
Adoption of IFC's performance standards (1 January 2012)	<ul style="list-style-type: none"> - De facto global standard and recognized as best practice, particularly for the private sector;³ - Extensive support materials are publically available; - Holistically incorporate gender and climate change; - The private sector is familiar with this standard that enables leveraging private sector money; - Given that the IFC is part of the World Bank Group, the performance standards are consistent with the World Bank safeguard policies; - Market-tested for over 7 years in a variety of project settings and by a variety of users; - IFC conducted extensive global consultations on the standards during update process. 	<ul style="list-style-type: none"> - Very comprehensive, technical and detailed (40 pages of performance standards + 271 pages of guidance notes); - Designed for IFCs' lending, therefore the topics covered are likely more than are needed for the Fund's scope of operations. This may make the performance standards too bulky and complex for some entities. 	Not recommended - The performance standards meet all of the criteria for assessment, with the exception of striking a balance between thoroughness and comprehensibility in order to enable clients to understand and implement them.
Adoption of the Adaptation Fund's environmental and social principles (November 2013)	<ul style="list-style-type: none"> - The principles are largely a subset of the IFC performance standards, which have been selected for the type of lending the Adaptation Fund is targeting; - The principles address a wider range of key matters than the GEF and the World Bank, including human rights, core labour standards, public health, lands and soil conservation and consent from indigenous people (United Nations Declaration on the Rights of Indigenous 	<ul style="list-style-type: none"> - No further definition of principles is currently available (the Adaptation Fund is working on this); - The principles do not include environmental and social assessment and management (instead, this is part of the delivery process), dam safety, community safety or security, or full replacement value for 	Not recommended, unless with slight alteration – the environmental and social policy does not address all of the risk issues that the Fund's operations may face given the differences in scope and targets thus, this option does not meet the criteria for assessment of options discussed above without minor adjustment.

³ The 79 Equator Principles financial institutions, 15 European development financial institutions, 32 export credit agencies, the Chinese Government for the financial sector, World Bank private sector lending, United States Millennium Challenge Corporation for government and private sector lending, the European Bank for Reconstruction and Development and numerous private sector companies either use the IFC performance standards directly or slightly adapted.

	<p>People);</p> <ul style="list-style-type: none"> - The principles are stated as clear simple outcomes (3 pages). 	<p>compensation in economic displacement;</p> <ul style="list-style-type: none"> - A few of the principles should be altered to reflect the Fund's purpose. 	
<p>Adoption of the World Bank's safeguards and policies (various dates)</p>	<ul style="list-style-type: none"> - Recognized globally and provided the basis of topics included in the 2006 IFC performance standards; - Governments that receive World Bank lending are familiar with the safeguards. 	<ul style="list-style-type: none"> - World Bank is in the process of updating the safeguards for completion in 2015; - Treat environmental and social as separate even though they are integrated; - Mix of process and aspirational requirements for the World Bank and the client - therefore can be confusing for users. 	<p>Not recommended – do not address all the environmental and social risk issues that may be encountered by the Fund. Thus, this option does not meet the criteria.</p>
<p>Adoption of the GEF minimum environmental and social safeguards standards (18 November 2011)</p>	<ul style="list-style-type: none"> - Topics are largely a subset of those in the World Bank safeguards. 	<ul style="list-style-type: none"> - Targeted for topics key to GEF lending - therefore has a narrower scope of risk issues than will be encountered by the Fund's clients. 	<p>Not recommended – do not address the environmental and social risk issues that may be encountered by Fund operations. Thus, this option does not meet the criteria.</p>
<p>Development of the Fund's own environmental and social safeguards, based on a set of acknowledged environmental and social safeguards</p>	<ul style="list-style-type: none"> - Could be tailored to the specific risk issues likely to be encountered in the Fund's operations, based on the Fund's initial results areas, and yet be informed by the experience and leadership of others; - Could be drafted in a language that Fund entities can best understand, thus increasing the likelihood of implementation; - Could be made consistent with the IFC performance standards so that Fund entities that are already implementing the IFC performance standards would be familiar with them and clients that are implementing the World Bank safeguards would be largely familiar with the requirements. 	<ul style="list-style-type: none"> - The Fund's environmental and social safeguards would require additional elaboration in a guidance or reference-type document (like the Adaptation Fund is currently preparing) or referral to the IFC performance standards and guidance notes for more context. 	<p>It is recommended to develop a set of initial environmental and social safeguards for the Fund, largely based upon the Adaptation Fund's environmental and social principles, with a fine-tuning of a few issues and addition of a couple of other risk issues that the Adaptation Fund either addresses outside of the principles or that were not considered as risk issues likely to be encountered by their implementing entities, but that may be relevant to the Fund's entities.</p> <p>Further guidance will also be needed on how to further define and interpret the principles.</p>

49. After analysing the acknowledged environmental and social safeguards of the institutions listed in Table 3 and also studying the approach of others, such as the Forest Carbon Partnership Facility (FCPF) and the United Nations Collaborative Programme in Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD Programme), it is acknowledged that the IFC performance standards are the most comprehensive and best practice safeguards. However, it is recommended, at least during an initial phase, not to adopt the IFC performance standards in total, but to establish the safeguards for the Fund in a style similar to the Adaptation Fund's environmental and social principles, which include relevant risk issues from the IFC performance standards. The primary advantage of the proposed approach is that the Fund's environmental and social safeguards would be a simpler set of outcome requirements that can be incorporated in a few pages, and are more appropriate for the kinds of activities that the Fund will be undertaking, as compared to the large and complex IFC performance standards. This does not preclude adoption of the complete IFC performance standards at a future date, once systems are in place and experience has been accumulated.

50. On this basis, Annex I contains the proposed initial Fund's environmental and social safeguards, which are largely based on the environmental and social principles of the Adaptation Fund, which are found in its environmental and social policy.

51. The proposed initial draft environmental and social safeguards of the Fund will be supported by an overarching assessment and management process intended to facilitate the identification and avoidance of risks and impacts, and if avoidance is not possible, then minimizing and managing them. This process will be elaborated for the May 2014 Board meeting.

3.5.1 Further considerations

52. It should be noted that the environmental and social safeguards are a piece of a larger operational framework that will be developed and for which context is important. This operational framework should clarify and put in context the following elements:

- (a) Approach to the accreditation of entities with regard to the Fund's environmental and social safeguards: this element is to be further elaborated in the context of the guiding framework for the Fund's accreditation process;
- (b) Approach to the application of the environmental and social safeguards at the project/programme level: implementing entities and intermediaries will be expected to be able to apply the Fund's environmental and social safeguards when implementing approved funding proposals. A scaled risk-based approach is envisioned to categorize funding proposals on the basis of risk, in line with international practice to categorize environmental and social risks of a given funding proposal according to their potential impact.

53. These two elements are expected to be elaborated and included in the final report for the May 2014 Board meeting.

54. In general, the environmental and social safeguards should be considered as part of a broader environmental and social framework which may include: a Fund's environmental and social policy, procedural instructions to clients on how to apply the safeguards, further elaboration on the safeguards in the form of guidance or reference, and potentially also best-practice guidance to national designated authorities (NDAs) or focal points on strategic environmental and social assessment.

55. The environmental and social safeguards are drafted to include only minimum environmental and social requirements that the entities need to address in the preparation and implementation of funding proposals. This allows for clearer responsibilities and requirements to be referenced in the terms and conditions for intermediaries and implementing entities, as needed and appropriate.

IV. Next steps

56. As elaborated in Section 1.1, the following elements of the guiding framework for the Fund's accreditation process are left for the final report to be prepared for the May 2014 Board meeting:
- (a) Governance, organizational arrangements and other necessary provisions thereof;
 - (b) Accreditation cycle: general guidance for compliance through an evidence-based process, provisions related to renewal of accreditation and other related matters;
 - (c) Fiduciary standards: full elaboration of specialized fiduciary standards;
 - (d) Environmental and social safeguards: operational approach for assessing relevant institutional capabilities in the accreditation process, as well as elaboration of a scaled risk-based approach for the application of environmental and social safeguards by implementing entities and intermediaries;
 - (e) Additional criteria to enhance effectiveness, such as through preparedness, track record and appropriate institutional profile;
 - (f) Consideration of entities already accredited with other relevant funds and institutions; and
 - (g) Provisions for the review of the guiding framework for the Fund's accreditation process.

Annex I: Draft guiding framework for the Fund's accreditation process

I. General objective

1. The Fund's accreditation process will be fundamental in ensuring that all sub-national, national, regional and international intermediaries and implementing entities working with the Fund meet all its required best-practice fiduciary principles and standards and environmental and social safeguards, and that these entities are fully aligned with the Fund's objectives and guiding principles.
2. The general objective of this guiding framework is therefore to enable a coherent integration of the Fund's fiduciary principles and standards and environmental and social safeguards with the Fund's accreditation process and its related operational systems and procedures, including the organizational structure and governance system dedicated to supporting it.

II. Guiding principles for the Fund's accreditation process

3. The guiding principles for the Fund's accreditation process will consist of:
 - (a) **Best practices and continuous update:** The Fund's fiduciary principles and standards and environmental and social safeguards will be consistently in line with international best practices and standards, and systematically endeavour to reflect the best of the experience and lessons learned by relevant institutions, as well as lessons learned from its own experiences with fiduciary principles and standards and environmental and social safeguards;
 - (b) **Accountability, transparency, fairness and professionalism:** Its governance system, procedures and organizational approach will ensure accountability, transparency, fairness and adequate professionalism in the accreditation process and across all operational procedures, allowing for reasonable levels of assurance and comparability about the presence and performance of the required institutional capacities;
 - (c) **Ensuring reliability and credibility while retaining flexibility:** Its modalities will pursue rigorous, independent, objective and systematic assessment and review processes, while giving due attention to special circumstances of applicant entities;
 - (d) **Striking a balance between robustness and institutional capacity:** A dynamic accreditation process will aim at enabling potential entities to increase their scope of activities as their capacity increases over time; and
 - (e) **Readiness and effectiveness:** The accreditation process will take into account the additional criteria to enhance effectiveness, which may also allow for readiness and preparatory support in the context of different capacities and capabilities of countries and institutions.

III. Fund's fiduciary principles and standards

4. The Fund's fiduciary principles and standards will distinguish between basic fiduciary criteria and specialized fiduciary criteria, which will reflect the institutional capacities necessary to deliver against the Fund's objectives and in accordance with the scope of responsibilities entrusted to the implementing entity or intermediary.

5. The Fund's fiduciary principles and standards will apply to intermediaries and implementing entities that will need to comply with them to obtain accreditation with the Fund and maintain them properly thereafter for as long as the entity intends to retain its accreditation status and commitments with the Fund.

6. Annex II describes the requirements relating to both sets of fiduciary principles and standards.

3.1 Basic fiduciary standards

7. The Fund's basic fiduciary criteria refer to the minimum institutional capacities that all entities intending to work under the international or direct access to the Fund will need to meet in relation to:

- (a) General management and administrative capacities;
- (b) Key administrative and financial capacities; and
- (c) Transparency and accountability.

3.2 Specialized fiduciary standards

8. The Fund's specialized fiduciary criteria refer to the institutional capacities that entities intending to work under the international or direct access to the Fund, as applicable, will need to meet in relation to:

- (a) Project/programme management;
- (b) Grant award mechanisms; and
- (c) Financial structuring including through blending, on-lending and financial engineering.

9. Other sets of specialized fiduciary standards will be added as necessary and appropriate, and in accordance with decisions by the Board on additional modalities that further enhance direct access.

IV. Fund's initial environmental and social safeguards

10. All projects/programmes will be designed and implemented to be consistent with the environmental and social criteria listed below. It is to be expected that not all of the criteria will be relevant to all funding proposals and that the specific geographic setting and context will determine which criteria are applicable.

4.1 Compliance with the law

11. Projects/programmes will need to be in compliance with all applicable national law, including those laws implementing host country obligations under international law.

4.2 Assessment and management of environmental and social risks and impacts

12. Projects/programmes will need to have an environmental and social management system (ESMS) that:

- (a) Includes an overarching policy;

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- (b) Ensures environmental and social risks are identified and assessed at the earliest possible stage of design;
 - (c) Adopts measures to avoid, or where avoidance is not possible, to minimize those risks as outlined in a management programme or plan;
 - (d) Has organizational capacity to implement the ESMS;
 - (e) Provides for emergency preparedness and response;
 - (f) Includes monitoring and review of the effectiveness of the ESMS;
 - (g) Establishes a process of stakeholder engagement and disclosure, and
 - (h) Provides a grievance mechanism for affected communities.
13. The ESMS will be appropriate to the nature and scale of the funding proposal and commensurate with the level of environmental and social risks and impacts.

4.3 Disadvantaged and vulnerable groups

14. Projects/programmes will avoid imposing any disproportionate adverse impacts on disadvantaged and vulnerable groups. Where individuals or groups are identified as disadvantaged or vulnerable, measures will be implemented so that adverse impacts do not fall disproportionately on them and they are not disadvantaged in sharing development benefits and opportunities.

4.4 Human rights

15. Projects/programmes will respect internationally accepted human rights.

4.5 Gender equity and women's empowerment

16. Projects/programmes will be designed and implemented in such a way that both women and men:

- (a) Are able to participate fully and equitably;
- (b) Receive comparable social and economic benefits; and
- (c) Do not suffer disproportionate adverse effects during the development process.

4.6 Labour and working conditions

17. Projects/programmes will comply with national employment and labour laws and be guided by the conventions and instruments of the International Labour Organization and the United Nations relating to the fundamental rights of workers. Projects/programmes will provide a safe and healthy working environment and will take steps to prevent incidents, injury, and disease arising from, associated with, or occurring in the course of work.

4.7 Indigenous peoples

18. Projects/programmes will be consistent with the rights and responsibilities set forth in the United Nations Declaration on the Rights of Indigenous Peoples and other applicable international instruments relating to indigenous peoples.

4.8 Involuntary resettlement

19. Projects/programmes will be designed and implemented in a way that avoids the need for involuntary resettlement (physical and economic displacement). When limited involuntary resettlement is unavoidable, it should be minimized and ideally resolved through negotiated settlement and expropriation should be avoided. Due process should be observed so that displaced persons are informed of their rights, consulted on their options, and offered technically, economically and socially feasible resettlement alternatives or fair and adequate compensation (at replacement cost). If livelihoods are adversely impacted, they should be restored.

4.9 Protection of natural habitats

20. Projects/programmes will not cause unjustified conversion or degradation of critical natural habitats, including areas that are:

- (a) Legally protected;
- (b) Officially proposed for protection;
- (c) Recognized by authoritative sources for their high conservation value, including as critical habitat; or
- (d) Recognized as protected by traditional or indigenous local communities.

4.10 Conservation of biological diversity

21. Projects/programmes will be designed and implemented in a way that avoids any significant or unjustified reduction or loss of biological diversity or the introduction of known invasive species.

4.11 Climate change

22. Projects/programmes will not result in any significant or unjustified increase in greenhouse gas emissions or other drivers of climate change but would contribute to climate mitigation or adaptation to the adverse effects of climate change.

4.12 Pollution prevention and resource efficiency

23. Projects/programmes will be designed and implemented in a way that meets the applicable international standards for maximizing energy efficiency and minimizing material resource use (including water), the production of wastes, and the release of pollutants.

4.13 Public health and safety and security

24. Projects/programmes will be designed and implemented in a way that avoids potentially significant negative impacts on public health, safety and security from risks such as infrastructure and equipment design and safety, hazardous materials management and safety, exposure to disease, and those posed by security arrangements.

4.14 Physical and cultural heritage

25. Projects/programmes will be designed and implemented in a way that avoids the alteration, damage, or removal of any physical cultural resources, cultural sites, and sites with unique natural values recognized as such at the community, national or international levels. Projects/programmes should also not permanently interfere with existing access and use of such physical and cultural resources.

4.15 Land and soil conservation

26. Projects/programmes will be designed and implemented in a way that promotes soil conservation and avoids degradation or conversion of productive lands or land that provides valuable ecosystem services including deforestation and forest degradation.

Annex II: Draft Fund's fiduciary principles and standards

I. Initial basic fiduciary standards

1.1 Key administrative and financial capacities

1. Underlying principles are:

- (a) Financial inputs and outputs are properly accounted for, reported and administered transparently, in accordance with pertinent regulations and laws, and with due accountability;
- (b) Information relating to the overall administration and management of the entity is available, consistent, reliable, complete and relevant to the required fiduciary standards;
- (c) Operations of the entity show track record in effectiveness and efficiency.

1.1.1 General management and administrative capacities

2. Fiduciary requirements under general management and administrative capacities refer to the overall governance and oversight structure that formally defines the roles, responsibilities and assigned authority of each functional area and individual in the organization.

- (a) Clear and formal definition of the main "corporate governance" actors of the entity and of their respective roles and responsibilities (for example, oversight authorities, audit committee, regulators, governing board, executive body, internal audit body, external audit body);
- (b) Existence of adequate internal oversight bodies and transparent rules regarding the appointment, termination and remuneration of members of such committees;
- (c) A consistent, clear and adequately communicated organization chart available, which describes, as a minimum, the entity's key areas of authority and responsibility, as well as well-defined reporting/delegation lines;
- (d) A consistent and formal process to set objectives and to ensure that the chosen objectives support, and align with, the mission of the entity. Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve; and
- (e) A general management plan that also includes processes to monitor and report on the achievement of set objectives.

1.1.2 Financial management and accounting

- (a) Financial statements follow Generally Accepted Accounting Principles (GAAP) and are prepared in accordance with recognized accounting standards such as International Financial Reporting Standards (IFRS), or International Public Sector Accounting Standards (IPSAS) in the case of public entities, or national standards deemed comparable; and
- (b) The entity has in place a clear and complete set of financial statements that provide information on:
 - (i) A statement of assets, liabilities and fund balances (statement of financial position);

- (ii) A statement of financial performance (income and expenses/revenue and expenditure);
 - (iii) A statement of changes in financial position or a statement of changes in reserves and fund balances;
 - (iv) A statement of cash flows;
 - (v) A description of the accounting policies used explaining the accounting framework used; and
 - (vi) Appropriate notes and disclosures in annex to the financial statements, particularly explaining the accounting framework used, the basis of preparation of the financial statements and the specific accounting policies that are necessary for a proper understanding of financial statements.
- (c) Financial statements are reported periodically, consistently in relation to previous reporting periods and allow for comparison among reporting periods;
 - (d) Demonstration of use of accounting and financial information systems based on the accounting principles and procedures indicated in (a) above and how the accounting policies of the entity are adapted to the nature and complexity of its activities;
 - (e) Transparent and consistent payment and disbursement systems are in place with documented procedures and clear allocation of responsibilities. The entity has also legal and operational capacity to receive international payments from the Fund's Trustee and to make payments to the Fund's trustee;
 - (f) Track record in the preparation and transparent use of business plans, financial projections and budgets and ability to continuously monitor performance and expenditure against these; and
 - (g) Resources, systems and procedures (including fiduciary accounts, as appropriate) are in place that ensure proper financial reporting over the use of funding received from the Fund.

1.1.3 Internal and external audit

A. Independent audit committee

3. An independent audit committee, or comparable body, is appointed and fully functional and oversees the work of the internal audit function as well as the external audit firm as it relates to the audit of financial statements and control systems and reporting.

4. The audit committee or comparable body is guided and mandated by written terms of reference that address its membership requirements, duties, authority, accountability and regularity of meetings.

B. Internal audit

5. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (as defined by the Institute of Internal Auditors).

- (a) The internal audit function has documented terms of reference or charter, reviewed and approved formally by senior management and the audit committee, that outline its purpose, authorized functions, and accountability;

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- (b) Internal audit function is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors (IIA) or comparable locally defined systems;
 - (c) Auditors and/or entities that provide internal auditing services adhere to ethical principles of integrity, objectivity, confidentiality and competency, which is supported by specific legal arrangements to this effect;
 - (d) The internal audit function is independent and able to perform its respective duties objectively. It is headed by an officer specially assigned to this role with due functional independence and reporting to a level of the organization that allows the internal audit activity to properly fulfil its responsibilities;
 - (e) The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan. The audit plan outlines the priorities of the function and is consistent with the organization's goals;
 - (f) The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) ensuring proper coverage and minimization of duplication of efforts;
 - (g) The internal audit function disseminates its findings to the corresponding senior and business management units, who are responsible for acting on, and/or responding to, recommendations;
 - (h) The internal audit function has a process in place to monitor the response to its recommendations; and
 - (i) A process is in place to monitor and assess the overall effectiveness of the internal audit functions including periodic internal and external quality assessments.

C. External audit

6. The external financial audit function ensures an independent review of financial statements and internal controls (as defined by the International Federation of Accountants (IFAC)).

- (a) The entity has appointed an independent external audit firm or organization;
- (b) The work of the external audit firm or organization is consistent with the recognized international auditing standards such as International Standards on Auditing (ISA), or other audit standards that can be demonstrated as comparable;
- (c) In cases where the entity is subject to external audits carried out by a National Audit Institution or other form of public independent inspection body, provisions should be made that the external audits are guaranteed independence and impartiality, including through formal terms of reference, and are conducted periodically;
- (d) The entity exhibits all necessary provisions and arrangements to ensure that an annual audit opinion on the financial statements, and/or, as appropriate, on all financial resources received from the Fund and administered by the entity, is issued by the external auditor and made public; and
- (e) The external auditor makes regular reports of observations with respect to accounting systems, internal financial controls, and administration and management of the organization. Audits and management progress reports are reviewed by the audit committee or comparable body annually.

1.1.4 Control framework

7. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of financial reporting;
- (c) Compliance with applicable laws and regulations;
- (d) A control framework that has been adopted and that is documented and includes clearly defined roles for management, internal auditors, the board of directors or comparable body, and other personnel;
- (e) The control framework covers the control environment (“tone at the top”), risk assessment, internal control activities, monitoring, and procedures for information sharing;
- (f) The control framework has defined roles and responsibilities pertaining to accountability of fiscal agents and fiduciary trustees;
- (g) At the institutional level, risk-assessment processes are in place to identify, assess, analyse and provide a basis for proactive risk responses in each of the financial management areas. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent;
- (h) The control framework guides the financial management framework;
- (i) Procedures are in place for identifying internal controls and assessing controls details annually in core financial management areas, including:
 - (i) Budgeting;
 - (ii) Accounting;
 - (iii) Internal control;
 - (iv) Funds flow (including disbursements, cash management, unused fund close-out);
 - (v) Financial reporting; and
 - (vi) Auditing arrangements;
- (j) Provisions for regular oversight of the procurement function with consistent monitoring and follow-up on review reports evidence that a risk management process exists and allows management to identify, assess and address existing or potential issues that may hamper the achievement of the entity's objectives; and
- (k) Duties are segregated where incompatible. Related duties are subject to a regular review by management; response is required when discrepancies and exceptions are noted; and segregation of duties is maintained between settlement processing, procurement processing, risk management/reconciliations, and accounting.

1.1.5 Procurement

8. Procurement processes in the applicant entity cover regular procurement relating to the general operations of the entity, as well as procurement in the context of the implementation and execution of funding proposals approved by the Fund. These should include formal standards, guidelines and systems based on widely recognized processes and an internal control framework to ensure fair and transparent procurement processes.

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- (a) Formal internal guidelines and a procurement policy that promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability, and authority to take procurement actions;
 - (b) Specific procurement guidelines are in place with respect to different types of procurement managed by the entity, such as consultants, contractors and service providers;
 - (c) Specific procedures, guidelines and methodologies as well as adequate organizational resources for overseeing, assessing and reviewing the procurement procedures of beneficiary institutions, executing entities or project sponsors are in place;
 - (d) Procurement performance in the implementation of Fund's approved funding proposals is monitored at periodic intervals, and there are processes in place requiring a response when issues are identified;
 - (e) Procurement records are easily accessible to procurement staff, and procurement policies and awards are publicly disclosed;
 - (f) Evidence of transparent and fair procurement policies and procedures that are consistent with recognized international practice, including such provisions and practices as:
 - (i) Non-discrimination and equal treatment of candidates;
 - (ii) Dispute resolution procedures;
 - (iii) Obligation to use and adherence to tendering procedures;
 - (iv) Best value for money; and
 - (v) Adequate ex-post communication and publication of beneficiaries.

1.2 Transparency and accountability

- 9. Underlying principles are:
 - (a) Protection and commitment against mismanagement, fraudulent, corrupt and wasteful practices;
 - (b) Disclosure of any form of conflict of interest, actual, potential or perceived; and
 - (c) Code of ethics, policies and culture that drive and promote full transparency and accountability.
- 10. Transparency and accountability are to be demonstrated through an effective combination of fully functional policies, procedures, systems and approaches. The following standards outline the key standards to demonstrate fiduciary alignment with the above principles.

1.2.1 Code of ethics

- (a) The organization has in place either a documented code of ethics that defines ethical standards to be upheld, listing parties required to adhere to the standards including employees, consultants, and independent experts; or alternatively, a set of clear and formal management policies and provisions are in place to define expected ethical behaviour by all individuals contracted or functionally related to the organization;
- (b) All individuals with functional and or contractual relation to the organization are made aware of such code of ethics or policies/provisions as appropriate; and

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- (c) The organization has in place an ethics committee or has allocated such function to other relevant instances within the organization.
- 1.1.2 Disclosure of conflict of interest
- (a) The organization has a disclosure policy, or equivalent administrative provisions to this effect, that establishes necessary mandatory financial disclosures of possible, actual, perceived or apparent conflicts of interest by identified parties and as appropriate; and
- (a) The policy, or equivalent administrative provisions, specifies prohibited personal financial interests and describes the principles under which conflicts of interests are reviewed and resolved. It should also describe sanction measures for parties that do not disclose such conflicts on a proactive basis where a conflict of interest is identified.
- 1.1.3 Capacity to prevent or deal with financial mismanagement and other forms of malpractices
- (a) Demonstrated experience and track record in accessing financial resources from national and international sources, as appropriate;
- (b) Evidence of tone or statement from the governing bodies or senior management of the organization emphasising a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by staff members, consultants, contractors, or from any other relevant party associated directly or indirectly with the general operations of the entity and particularly in relation to the implementation of approved funding proposals;
- (b) Avenues and tools for reporting suspected ethics violations, misconduct and any kind of malpractice, which should be complemented by provisions and mechanisms protecting whistle-blowers and individuals reporting such violations;
- (c) Evidence of an objective investigation function for allegations of fraud and corruption, which includes procedures in the organization to process cases of fraud and mismanagement, undertake necessary investigative activities and generate periodical reports for information and follow-up by the ethics function; and
- (d) General management policies promote an organizational culture that is conducive to fairness, accountability and full transparency across the organization's activities and operations.
- 1.1.4 Investigation function
11. The investigation function provides for independent, objective investigation of allegations of fraudulent and corrupt practices (using widely recognized definitions such as those agreed by the International Financial Institutions Anti-Corruption Task Force) in all operations of the entity, and of allegations of possible entity's staff misconduct.
- (a) The investigation function has publicly available terms of reference that outline the purpose, authority, and accountability of the function. This function may be assigned to a dedicated organizational component within the entity's structure, or to an appropriate other element of the organization;
- (b) To ensure functional independence, the investigations function is headed by an officer who reports to a level of the organization that allows the investigation function to fulfil its responsibilities objectively;
- (c) The investigation function has published guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process; and

- (d) The investigation function has a defined process for periodically reporting case trends. To enhance accountability and transparency, to the extent possible, case trend reports and other information are made available to senior management and relevant business functions.

II. Initial specialized fiduciary standards

12. The Fund's specialized fiduciary criteria refer to institutional capacities that will qualify the applicant entities to undertake specialized activities depending on the nature and scope of their mandate within the Fund's operations.

2.1 Initial specialized fiduciary standards relating to project/programme management

13. Underlying principles are:

- (a) Ability to identify, formulate and appraise projects or programmes, including the identification and assessment of environmental and social risks in a scaled risk-based approach and the adoption of measures to address those risks;
- (b) Competency to manage or oversee the execution of approved funding proposals, including the ability to manage executing entities or project/programme sponsors and to support project/programme delivery and implementation;
- (c) Capacity to consistently and transparently report on the progress, delivery and implementation of the approved funding proposal; and
- (d) Capacity to undertake monitoring and evaluation, including monitoring of measures for the management of environmental and social risks.

2.1.1 Project/programme preparation and appraisal

- (a) Track record of capability and experience (including appropriate tendering procedures for project proposals) in identification and design of projects or programmes within the respective jurisdiction (sub-national, national, regional or international, as applicable);
- (b) Demonstrated capacity evidencing that project or programme objectives and outcomes in preparing funding proposals are clearly stated and key performance indicators with baselines and targets are incorporated into the project/programme design;
- (c) Ability to examine and incorporate technical, financial, economic and legal aspects as well as possible environmental, social and climate change aspects, and relevant assessments thereof, into the funding proposal at the appraisal stage; and
- (d) Appropriate fiduciary oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.

2.1.2 Project/programme implementation, oversight and control

- (a) Operational systems, procedures and overall capacity to consistently prepare project/programme implementation plans, including project/programme budgets and reporting guidelines and templates to be used by executing entities or project/programme sponsors;
- (b) Operational capacity and organizational arrangements to continuously oversee the implementation of the approved funding proposal in order to regularly assess

project/programme expenditure against project/programme budget as well as to monitor and identify opportunities for improving project/programme performance against its budget and timelines;

- (c) Appropriate reporting capabilities and capacities to appropriately publish implementation reports; and
- (d) Operational systems and overall capacity to conduct necessary activities relating to project/programme closure, including due reporting on results achieved, lessons learned, recommendations for improvement, as well as capacity to disseminate results and make key findings publicly available.

2.1.3 Monitoring and evaluation

14. The monitoring function detects, assesses, and provides management information about risks relating to projects/programmes, particularly those deemed to be at risk.

15. The evaluation function assesses the extent to which projects, programmes, strategies, policies, sectors or other activities achieve their objectives and contribute to the initial results areas of the Fund. The goal of evaluation is to provide an objective basis for assessing results, to provide accountability in the achievement of objectives, and to learn from experience (and to early detect any deviation from project/programme planning).

A. Monitoring

- (a) Operational and organizational resources are available to perform monitoring functions, policies and procedures consistent with the requirements of the Fund's monitoring and evaluation guidelines;
- (b) The roles and responsibilities of the monitoring function are clearly articulated at both the project/programme and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project/programme origination and supervision functions;
- (c) Project/programme monitoring reporting tools are available and monitoring results are periodically published.

B. Evaluation

- (a) Independent evaluations are undertaken by an established body or function as part of a systematic programme of assessing results, consistent with relevant requirements and related Fund policy;
- (d) The evaluation function follows impartial, widely recognized, documented and professional standards and methods;
- (e) The evaluation body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the entity, ideally reporting directly to the board of directors or comparable body. If its structural independence is limited, the evaluation body or function has provisions that ensure transparent reporting to senior management;
- (f) An evaluation disclosure policy is in place. Evaluation reports are disseminated as widely as possible, and at a minimum to all parties directly or indirectly involved in the project or programme. To enhance transparency, to the extent possible, reports are available publicly.

2.1.4 Project-at-risk systems and related project risk management capabilities

- (a) A process or system, such as a project-at-risk system, is in place to early flag when a project/programme has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems;
 - (b) Availability of an independent risk management function differentiated from project implementation and project supervision responsibilities;
 - (c) Risk assessment:
 - (i) Demonstrated capabilities to undertake assessment of financial, economic, political and regulatory risks at the preparation, appraisal as well as implementation stages;
 - (ii) Demonstrated ability to undertake assessment of environmental and social risks, in accordance with the Fund's environmental and social safeguards and on scaled risk-based approach at the preparation, appraisal as well as implementation stages;
 - (iii) Demonstrated ability to integrate risk mitigation and management strategies into the funding proposal at all levels listed above, and to exercise such strategies at the implementation stage.
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