

Green Climate Fund

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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**

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**GCF/B.07/02**

7 May 2014

**Meeting of the Board**

18-21 May 2014

Songdo, Republic of Korea

Agenda item 6

## **Recommended action by the Board**

It is recommended that the Board:

- (a) Take note of the information presented in document GCF/B.07/02 *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*; and
- (b) Provide guidance on policy matters relating to 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

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## 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 (IEs) based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards (ESS).<sup>1</sup>
  - (a) At its October 2013 meeting, by its decision B.05/08, the Board noted convergence on the need to develop a guiding framework and procedures for the accreditation process of the Fund. The guiding framework should include:
    - (i) The Fund's own ESS and fiduciary principles and standards;
    - (ii) The criteria and application procedures for the accreditation of intermediaries and IEs 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 to the same document, 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 noted that the guiding framework and procedures for the accreditation process of the Fund 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 ESS of the entities referred to in Annex VI to the same document, as a basis for developing the Fund's own criteria and standards.
2. 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.
3. The Board decided that the following Board members will be part of the team referred to in paragraph 2 above: Mr. Arnaud Buisse, H.E. Mr. Jan Cedergren, Mr. Derek Gibbs<sup>2</sup> and Mr. David Kaluba.
4. The report on the activities of the team can be found in Annex VII to this document.

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<sup>1</sup> Governing Instrument (annex to decision 3/CP.17 of the Conference of the Parties to the United Nations Framework Convention on Climate Change), paragraph 49.

<sup>2</sup> Mr. Derek Gibbs was replaced by Mr. Patrick McCaskie shortly before the Board meeting in February 2014.

## 1.1 Scope of the document

5. The present document provides an initial guiding framework for the Fund's accreditation process for consideration by the Board at its May 2014 meeting, and also as part of the essential requirements for the Fund's resource mobilization process.<sup>3</sup>
6. With regard to the Fund's fiduciary principles and standards, the document proposes a set of fiduciary standards that include initial basic fiduciary standards and an initial set of specialized standards.
7. On ESS, the initial guiding framework for the Fund's accreditation process (see Annex II) proposes the adoption, on an interim basis, of the Performance Standards (PS) of the International Finance Corporation (IFC), which will also serve as a basis for the development of the Fund's own ESS.

## 1.2 Linkages with other documents

8. This document has linkages to the following documents:
  - (a) *Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding* (GCF/B.07/03);
  - (b) *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility* (GCF/B.07/08).
9. In addition, this document should also be considered in the context of ongoing discussions by the Board on other relevant issues, such as:
  - (a) Initial terms and conditions of financial instruments;
  - (b) Additional modalities that further enhance direct access, including through funding entities;
  - (c) Gender policy and action plan.

## II. Operational understanding of implementing entities and intermediaries

### 2.1 Implementing entities

10. The role of an IE relates to the management and oversight of project implementation, which includes the origination and preparation of a funding proposal, the subsequent management of the necessary stages of the implementation process until its conclusion (project management) on behalf of the provider of funds (the Fund), and reporting obligations.
11. IEs typically perform this function by transferring funds from the funding source (the Fund) to executing entities (EEs). EEs are the project owners or entities directly responsible for the operational implementation and execution of the project with full accountability to the relevant IE or intermediary.
12. From an operational point of view, an IE can therefore be understood as a legal entity, public or private in nature, duly accredited to the Fund, whose accredited institutional capacities enable it to submit funding proposals in relation to specific projects to be funded by the Fund, with the explicit role of managing the approved project cycle from preparation to conclusion.
13. IEs are expected to channel solely grants from the Fund and will be entitled to collect a fee for the services provided in accordance with the terms and conditions to be applied by the Fund.

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<sup>3</sup> Annex XXII to document GCF/B.05/23 and decision GCF/B.05/17.

14. With regard to the role of project and programme implementation, the responsibilities of an IE will include the managing, financial, administrative, monitoring and evaluation, and reporting duties that are necessary for the successful full implementation of the approved funding proposal and in accordance with relevant operational guidelines of the Fund.

## 2.2 Intermediaries

15. Intermediaries can be understood as referring to subnational, national, regional or international public and private entities (financial or non-financial) with accredited capacities for intermediation.

16. Intermediaries are regarded as those accredited sub-national, national, regional or international entities that have been able to demonstrate additional specialized capacities that enable them to intermediate or administer grants and/or loans, blend the Fund's resources, including with their own resources, and, in general, provide tailored instruments to EEs, conclude agreements with EEs corresponding to the type of instruments extended, disburse funds to, and, in the case of loans, receive debt service from, EEs, and ensure that the EE adheres to the Fund's interim ESS, initial fiduciary standards and other requirements. These additional capacities for intermediation may be accredited at the outset or gradually as the institution evolves. For this reason, such institutions will be able to perform as both IEs and intermediaries.

17. According to this understanding, the scope of the roles and responsibilities of intermediaries is broader than that of IEs, stemming from their capacities for the intermediation or administration of grants and/or loans, which may include one or more of the following tasks on a programme or project basis:

- (a) Grant award mechanisms;
- (b) On-lending and capacity to undertake due diligence thereof;
- (c) Financial blending.

## III. Overview of the elements of the guiding framework for the Fund's accreditation process

18. 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. The initial guiding framework for the Fund's accreditation process comprises the following elements:

- (a) General objective;
- (b) Guiding principles;
- (c) Fund's initial fiduciary principles and standards;
- (d) Fund's interim ESS;
- (e) Governance and organizational arrangements;
- (f) Accreditation process;
- (g) Complementarity and coherence; and
- (h) Review of the guiding framework.

19. An additional element has been included (i.e. consideration of the Fund's accreditation process in relation to other relevant accreditation processes and entities already accredited under other processes of other relevant funds).

20. Figure 1 provides an overview of the initial guiding framework for the Fund's accreditation process. The objective and guiding principles form the basis of the framework. The next layer shows

the key governance-related elements (governance and organizational arrangements, complementarity and coherence, and the review). The third layer contains the sets of criteria that will underpin the accreditation process, particularly the review and assessment of each application for accreditation. The top layer depicts the three key stages of the accreditation process.

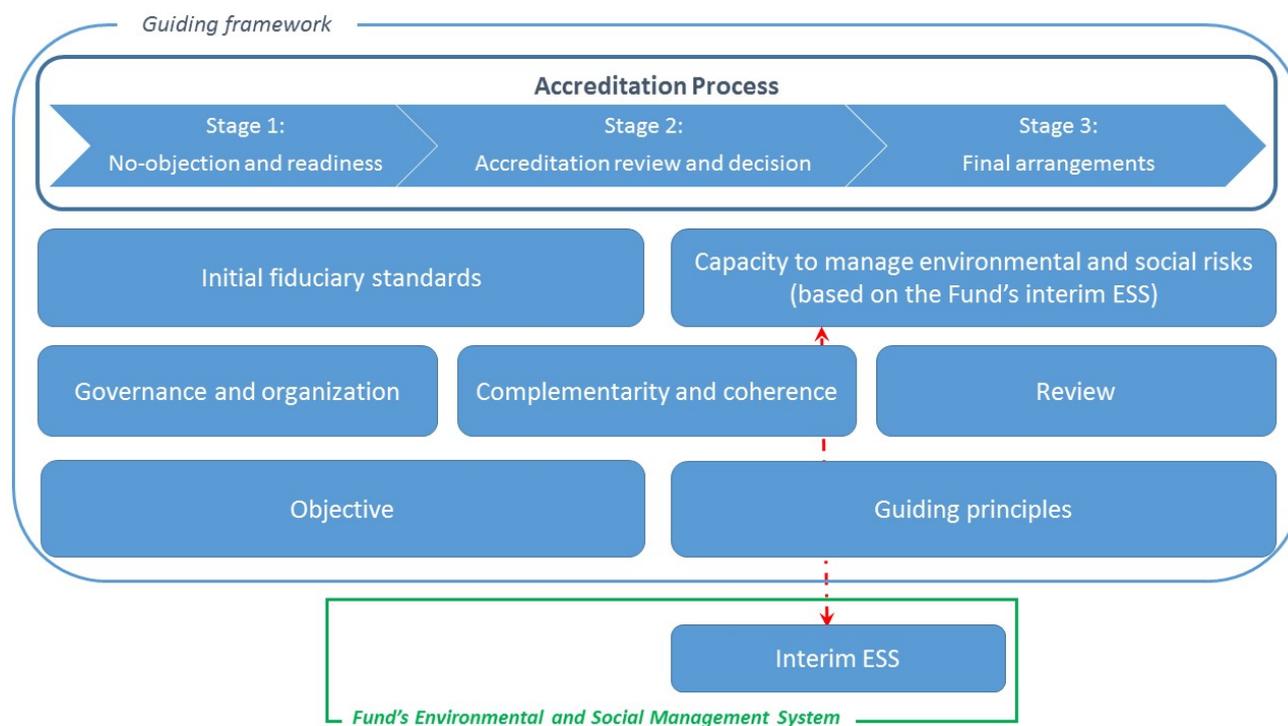


Figure 1. Overview of the guiding framework

21. It should be noted that the interim ESS will be applied at the level of project and programme identification, preparation and implementation. The accreditation process will use specific criteria to assess the applicant entity's capacity to manage environmental and social risks in accordance with the Fund's interim ESS.

22. It is recommended that the Fund's own ESS be further developed on the basis of the interim ESS proposed in this document and also as part of a broader environmental and social management system (ESMS).

#### IV. Considerations on the Fund's initial fiduciary standards

23. It is proposed to differentiate the Fund's initial fiduciary principles and standards into two types (basic and specialized) during the initial phase of the Fund.

24. It is proposed that the basic fiduciary standards include key minimum fiduciary requirements to ensure acceptable standards and capacities in:

- (a) Core financial and administrative functions;
- (b) Good governance;
- (c) Procurement processes and systems;
- (d) Transparency and integrity; and
- (e) Project cycle management.

25. All entities seeking accreditation to the Fund will need to satisfy and comply with this set of basic fiduciary standards and criteria. Accreditation against this set of fiduciary standards will entitle

the entity to identify, prepare, submit and fully implement funding proposals relating to specific projects.

26. Specialized fiduciary standards at this point refer to intermediation functions relating to institutional capacities for identifying, preparing, proposing, managing and fully implementing not only project- but also programme-based funding proposals using one or more of the financial instruments/functions listed below:

(a) Grant award and/or funding allocation mechanisms; and

(b) Loans/on-lending and financial blending.

27. Other institutional capacities or intermediation functions may be subsequently added if necessary as well as, depending on the financial instruments to be used by the Fund, their terms and conditions and the guidelines to be provided in the Fund's investment framework. Additional institutional capacities, roles or functions relating to intermediation and the types of financial instruments that may be used include:

(a) Equity and quasi-equity investments;

(b) Risk guarantees; and

(c) Climate insurance schemes.

28. The specialized fiduciary standards to accredit these additional institutional capacities may be elaborated after the May 2014 meeting, in accordance with the work plan of the Accreditation Panel.

29. Accreditation regarding the fiduciary standards of the Fund may also in future be differentiated based on a range of criteria that are to be determined, such as sector (e.g. energy, transport, etc.) and/or theme (e.g. mitigation or adaptation); scale of intended activities (e.g. small-scale); risk of intended activities (e.g. categories of environmental and social risk as defined by the scaled risk-based approach of the Fund); etc.

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

31. Building on decision GCF/B.05/08, the proposed initial fiduciary standards for the Fund contained in Annex III were drawn up based primarily on these standards, particularly those of the Global Environment Facility (GEF), the Adaptation Fund and the EuropeAid (EU DEVCO). In addition to these, the proposed initial sets of fiduciary principles and standards also draw on best practices from most multilateral development banks (MDBs) as communicated to the Secretariat through individual consultations.

## **V. Consideration of the Fund's interim environmental and social safeguards**

32. Following discussions at the February 2014 Board meeting on using recognized and comprehensive environmental and social standards as the basis for the Fund's own ESS, the recommendation is to utilize the IFC's PS, as mentioned in paragraph 7 above, as the interim ESS of the Fund until the Fund's own ESS has been developed.

33. This option has the added benefit of being able to utilize the significant amount of supporting materials already developed by IFC and others based on years of experience. Furthermore, many institutions and organizations are already familiar with the PS. Discussions at the February 2014 meeting also signalled a desire for the Fund to develop its own ESS in the future, which should be tailored to the specific activities of the Fund and build upon the experience of and lessons learned by the Fund in its initial phase.

34. Once the Fund has built up a track record of experience and lessons learned, an in-depth review should be conducted, including benchmarking against the latest MDB standards and implementation

experience of other climate funds in order to develop the Fund's own ESS, taking the IFC PS as a starting point. The review should ensure that:

- (a) The environmental and social sustainability objectives of the Fund are being met; and
- (b) The Fund's ESS, policies and procedures are consistent with good practices but are tailored to the type of environmental and social risks relevant to the Fund's operations, and that they promote opportunities for enhanced benefit.

35. The interim ESS serve as a reference point for establishing criteria for accrediting institutional capacities and entities seeking accreditation to the Fund, and for identifying, measuring and managing environmental and social risks. However, their main purpose is to determine the key environmental and social risks the accredited entity intends to address in the conceptualization, preparation and implementation of funding proposals, and to provide guidance on how these risks are to be managed.

36. The IFC Guidance Notes<sup>4</sup> provide further details on the PS. The PS also address a number of cross-cutting thematic issues such as climate change, gender, biodiversity, water, and human rights. As an example, gender features in a number of the PS. It is highlighted in PS1 in its analysis of risks, impacts and opportunities, and also during consultations; PS2 addresses gender issues in the parts relevant to working conditions, terms of employment, avoidance of sexual harassment, retrenchment, accommodations, non-discrimination in hiring and the provision of equal opportunity, and the prevention of human trafficking; PS4 addresses community health, safety and security, as well as exposure to communicable diseases; and PS5 recognizes that land acquisition and livelihood loss can have differentiated gender impacts.

## 5.1 Applying the interim environmental and social safeguards: scaled risk-based approach

37. The application of the Fund's interim ESS will be implemented in a risk-based manner and not in a one size fits all approach. The scaled risk-based approach (SRBA) will ensure that environmental and social requirements and processes are commensurate to the level of risk and, coupled with the modular application of the PS, that they will not slow down or overburden low- to no-risk projects.

38. Classifying financing activities in this way also provides the Fund with a tool for quickly judging the Fund's exposure to environmental and social risks, both at an individual project level as well as at the portfolio level. It also allows it to potentially establish a tiered accreditation approach based on the environmental and social risk categories defined in the Fund's scaled-risk based approach, as entities build their capacities to manage these risks. The SRBA is further explained in Annex II.

## 5.2 Development of the Fund's environmental and social management system

39. As noted in GCF/B.06/09, paragraph 52, the Fund's ESS is a piece of a larger operational framework, and this will form the basis of the Fund's ESMS. An ESMS is a set of management processes and procedures that allow an organization to identify, analyse, control and reduce the environmental and social impacts of its activities in a consistent way and to improve performance in this regard over time.

40. It is recommended to commence the development of the Fund's ESMS in order to establish coherence and comprehensiveness among the various policies, processes and procedures needed for the systematic and consistent management of environmental and social risks while maximizing

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<sup>4</sup> IFC, "International Finance Corporation's Guidance Notes: Performance Standards on Environmental and Social Sustainability", 1 January 2012. Available from <<http://www.ifc.org/wps/wcm/connect/efdaaa8043649142947696d3e9bda932/Guidance+Notes+to+Performance+Standards+on+Environmental+and+Social+Sustainability.pdf?MOD=AJPERES>>.

opportunities, and to increase the ability of the Fund to learn and improve. Annex VI provides a basic outline of the initial key elements including:

(a) **Policies:**

- (i) The Fund's environmental and social policy;
- (ii) Links to the Fund's initial information disclosure practice;
- (iii) Links to the Fund's gender policy;
- (iv) Links to the Fund's independent evaluation unit;
- (v) Links to the Fund's independent redress mechanism;

(b) **Standards:**

The Fund's interim ESS and supporting guidance notes (to be customized in the future based on the IFC PS and Guidance Notes);

(c) **Process and procedures:**

- (i) Scaled risk-based approach;
- (ii) Environmental and social review of the institutional capacities of entities for the accreditation process;
- (iii) Monitoring and reporting; and

(d) **Organizational capacity and functions:**

- (i) Environmental and social roles and responsibilities within the Fund as well as between the Fund and various entities.

## VI. Considerations of a governance and organizational approach

41. The guiding framework will define the key actors in the accreditation process and their main roles and responsibilities. These include:

- (a) The Board;
- (b) The Accreditation Panel;
- (c) The Secretariat; and
- (d) External technical experts.

42. Annex II to this document recommends to establish an Accreditation Panel. This panel will be composed of four Board members/alternates, two of which will be serving as Chair and Vice-Chair, and at least five senior expert members that specialize in fields of competency directly related to the Fund's initial fiduciary standards and/or interim ESS including social and gender competencies.

43. The Accreditation Panel may use external technical experts in conducting the review of applications for accreditation, which may include specialized consultancy firms or individual contractors with the necessary expertise. These experts will be functionally accountable to and report only to the accreditation panel, though they will be administratively accountable to the Secretariat for contracting purposes.

44. In conducting the review of applications for accreditation, the Accreditation Panel may make use of external technical experts, which may include specialized consultancy firms or individual contractors with necessary expertise and regional/local presence. The Secretariat will be in charge of stage I of the accreditation process.

45. The Accreditation Panel may also invite observers to parts of their meetings where non-confidential information will be discussed. This can be further elaborated by the Panel in its own rules and procedures, as can issues such as quorum, frequency and the location of meetings.

46. Annex V contains the draft terms of reference for the Accreditation Panel of the Fund.

## VII. Considerations on the accreditation process

47. The initial accreditation process is proposed to consist of three main stages, which are fully detailed in Annex II. These are:

- (a) Stage I: No-objection and readiness;
- (b) Stage II: Accreditation review and decision; and
- (c) Stage III: Final arrangements.

### 7.1 Stage I: No-objection and readiness

48. Stage I will be triggered by the submission of an application by the applicant entity. This stage may follow one of two tracks:

- (a) Direct access track (for subnational, national and regional applicant entities);
- (b) International access track (for international entities, including United Nations agencies, MDBs, international financial institutions and regional institutions).

49. In the case of the direct access track, two mandatory steps will apply ('no-objection' and 'institutional assessment and completeness check') and one optional step ('readiness').

50. In the case of the international access track, entities will only be required to go through the 'institutional assessment and completeness check'.

51. The main purpose of the 'institutional assessment and completeness check' step is to ensure that applications are properly submitted with all the necessary information and that they comply with the additional criteria, including legal status and mandate, institutional track record, alignment with the Fund's objectives and guiding principles.

52. The 'readiness step' applies only to entities applying for accreditation under the direct access modality of the Fund and focuses on assisting the applicant entity in developing core institutional capacities and, in general, building the capacity of the applicant to meet the Fund's fiduciary standards and ESS.

### 7.2 Stage II: Accreditation review and decision

53. The second stage of the accreditation process will consist of two key steps:

- (a) Accreditation review (to be conducted by the Accreditation Panel of the Fund);
- (b) Decision by the Board (upon the recommendation of the Accreditation Panel).

54. Upon completing its review, the Accreditation Panel will recommend to the Board whether or not accreditation should be granted to the applicant.

55. The Board will then consider the recommendation and the report by the Accreditation Panel on each individual application and decide whether the application should be granted or not. In the case an application is not granted, the Board will provide reasons for the decision and may invite the applicant to reapply for accreditation once the issues have been resolved, which may be then followed by a focused accreditation review in stage II.

### 7.3 Stage III: Final arrangements

56. Entities will be accredited upon the successful conclusion of stage II. Stage III will therefore consist of the necessary due diligence with regard to payment and the conclusion of legal arrangements between the entity and the Fund.

57. Once stage III is successfully concluded, the accredited entity will be considered ready and operational, and can then submit funding proposals to the Fund.

## VIII. Considerations on complementarity and coherence

58. The initial guiding framework proposed establishes an ongoing and dynamic process for complementarity and coherence with the accreditation processes of other relevant funds.

59. The purpose of this element of the guiding framework is to:

- (a) Establish coherent and continuous collaborative links with the other relevant funds on accreditation matters;
- (b) Define the appropriate degree of comparability and compatibility criteria across accreditation systems; and
- (c) Develop guidelines and a fast-track mechanism on the basis of paragraph 59 (b) above for entities already accredited to other relevant funds.

60. Regarding a fast-track mechanism for entities already accredited to relevant funds, the following options may be considered:

- (a) Initiate a fast-track accreditation process focused only on specific criteria to be determined as relevant and necessary for ensuring coherence and compatibility with the Fund's fiduciary standards and ESS;
- (b) Grant conditional temporary accreditation with a specified time limit (e.g. one year) while a fast-track accreditation process is underway.

61. The Accreditation Panel should be tasked with proposing to the Board, at its October 2014 meeting, the most appropriate approach to and a specific work plan for the accreditation of entities already accredited to other relevant funds.

## IX. Recommendations and next steps

62. The proposed initial guiding framework provides the basis for the operationalization of the accreditation process through operational guidelines, systems and procedures.

63. It is proposed that the Board adopt the IFC PS as the Fund's interim ESS, with the understanding that once the Fund has built up a track record of experience and lessons learned, it will develop its own ESS. Additional guidance will be developed for accredited entities on how to categorize projects in accordance with the Fund's interim ESS and the SRBA.

64. With regard to the Fund's initial fiduciary standards, further development will be conducted on a need and ongoing basis to facilitate the use of other types of financial instruments beyond grants, on-lending and blending.

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## Annex I: Draft decision of the Board

The Board, having considered document GCF/B.07/02 *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*:

- (a) Decides to adopt the initial guiding framework for the Fund's accreditation process as contained in Annex II to this document;
- (b) Also decides to adopt the initial fiduciary principles and standards contained in Annex III to this document;
- (c) Further decides to adopt, on an interim basis, the Performance Standards of the International Finance Corporation (IFC), as contained in Annex IV to this document, noting that their use and implementation will be guided by the IFC Guidance Notes;<sup>1</sup>
- (d) Establishes the Fund's Accreditation Panel, which will be in charge of conducting the accreditation process in accordance with its terms of reference;
- (e) Adopts the terms of reference for the Fund's Accreditation Panel contained in Annex V to this document;
- (f) Requests the team established in decision B.05/08 (d) and (e) to serve as the Fund's Accreditation Panel for its first term, with [Name of Board member or alternate] as Chair and [Name of Board member or alternate] as Vice-Chair, and to provisionally appoint one additional expert member for endorsement by the Board at its October 2014 meeting;
- (g) Requests the Secretariat to develop, in consultation with the Accreditation Panel hereby established, a policy on accreditation fees;
- (h) Requests the Secretariat to develop, under the guidance of the Accreditation Panel, the following elements for consideration by the Board at its October 2014 meeting:
  - (i) A tiered accreditation approach that takes into account relevant criteria, such as theme and sector, and environmental and social risks;
  - (ii) A work programme on complementarity and coherence with the accreditation systems and processes of other relevant funds, including a compatibility and comparability assessment of these systems and processes, and a proposal for the consideration and potential accreditation of implementing entities (IEs) and intermediaries already accredited by these funds;
  - (iii) An environmental and social management system for the Fund, based on the outline contained in Annex VI, which will include guidelines on the categorization of projects by IEs and intermediaries according to the level of environmental and social risk and in accordance with the Fund's interim ESS, as well as a work plan on the development of the Fund's own ESS which will include an indicative timeline or milestones for its completion;
- (i) Recalls decision B.05/14, paragraph (b), on providing readiness and preparatory support to enable IEs and intermediaries to meet the Fund's fiduciary principles and

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<sup>1</sup> IFC, "International Finance Corporation's Guidance Notes: Performance Standards on Environmental and Social Sustainability", 1 January 2012. Available from <http://www.ifc.org/wps/wcm/connect/efdaaa8043649142947696d3e9bda932/Guidance+Notes+to+Performance+Standards+on+Environmental+and+Social+Sustainability.pdf?MOD=AJPERES>.

standards, and environmental and social safeguards, in order to directly access the Fund;

- (j) Requests the Secretariat to develop, under the guidance of the Accreditation Panel, additional specialized fiduciary standards that may be deemed necessary to effectively accommodate all institutional capacities required in IEs and intermediaries in the initial phase of operations of the Fund as deemed necessary.

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## Annex II: Initial guiding framework for the Fund's accreditation process

### I. General objective

1. The general objective of this guiding framework is 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 accreditation process of the Fund

2. 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 with regard to the presence and performance of the required institutional capacities;
- (c) **A dynamic process that is reliable, credible and flexible:** Its modalities will pursue rigorous, independent, objective and systematic assessment and review processes, while giving due attention to special circumstances of applicant entities. A dynamic accreditation process will aim at enabling potential entities to increase their scope of activities as their capacity increases over time;
- (d) **Coherence and integration with other relevant provisions of the Fund:** The Fund's fiduciary principles and standards, environmental and social safeguards, and general accreditation procedures will be consistent and properly linked with other relevant elements of the Fund's governance, particularly the Fund's independent redress mechanism, interim disclosure policy, gender policy and others as appropriate; and
- (e) **Readiness and effectiveness:** The accreditation process will allow for readiness and preparatory support in the context of direct access and the different capacities and capabilities of countries and institutions to enhance country ownership, with a view to facilitating capacity-building.

### III. Fund's initial fiduciary principles and standards

3. 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 (IE) or intermediary.

4. In this initial phase of the Fund's operations, the Fund's initial fiduciary principles and standards will distinguish between basic and specialized fiduciary standards as illustrated in the table below:

**Table: Purpose and scope of the basic and specialized fiduciary standards**

	<b>Purpose</b>	<b>Scope</b>
<b>Basic fiduciary criteria</b>	Key administrative and financial capacities	<ul style="list-style-type: none"> <li>• General management and administrative capacities</li> <li>• Financial management and accounting</li> <li>• Internal and external audit</li> <li>• Control frameworks</li> <li>• Procurement</li> </ul>
	Transparency and accountability	<ul style="list-style-type: none"> <li>• Disclosure of conflicts of interest</li> <li>• Code of ethics</li> <li>• Capacity to prevent or deal with financial mismanagement and other forms of malpractice</li> <li>• Investigations</li> </ul>
	Project management	<ul style="list-style-type: none"> <li>• Project preparation and appraisal (from concept to full funding proposal)</li> <li>• Project implementation, oversight and control</li> <li>• Monitoring and evaluation</li> <li>• Project-at-risk systems and related project risk management capabilities</li> </ul>
<b>Specialized fiduciary criteria</b>	Grant award and/or funding allocation mechanisms	<ul style="list-style-type: none"> <li>• Grant award procedures</li> <li>• Transparent allocation of financial resources</li> <li>• Public access to information on beneficiaries and results</li> <li>• Good standing with regard to multilateral funding (e.g. through recognized public expenditure reviews)</li> </ul>
	On-lending and blending	<ul style="list-style-type: none"> <li>• Appropriate registration and/or licencing by a financial oversight body or regulator in the country and/or internationally, as applicable;</li> <li>• Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;</li> <li>• Creditworthiness;</li> <li>• Due diligence policies, processes and procedures;</li> <li>• Financial resource management, including analysis of the lending portfolio of the intermediary;</li> <li>• Public access to information on beneficiaries and results;</li> <li>• Investment management, policies and systems, including in relation to portfolio management;</li> <li>• Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;</li> <li>• Financial risk management, including asset liability management;</li> <li>• Governance and organizational arrangements, including relationships between the treasury function and the operational side (front desk).</li> </ul>

5. The Fund's fiduciary principles and standards will form the fiduciary criteria of the Fund to assess IEs and intermediaries for accreditation to the Fund. Once accredited, IEs and intermediaries will be required to fully meet these criteria for as long as the entity intends to retain its accreditation status with and commitments to the Fund.
6. Annex III contains the Fund's initial fiduciary principles and standards.

#### **IV. Environmental and social safeguards**

7. The Fund will adopt, on an interim basis, the environmental and social Performance Standards (PS) of the International Finance Corporation (IFC). These will be used by the Fund in combination with the IFC's Guidance Notes, which provide more detail on each PS, until the Fund's own environmental and social safeguards (ESS) are fully developed.
8. Once the Fund has built up a track record of experience and lessons learned, an in-depth review will be conducted, including benchmarking against recently updated regional bank standards, the updated World Bank Safeguards (anticipated), and experience in implementing the Adaptation Fund principles, with a view to developing the Fund's own ESS.
9. In addition, observations from the Independent Evaluation Unit and with the independent redress mechanism will be taken into account in the development of the Fund's own ESS.
10. The process for the development of the Fund's own ESS will commence once the pipeline of funding proposals indicates: (i) the anticipated environmental and social risks and impacts; (ii) opportunities encountered; and (iii) when enough funding proposals have been implemented on the ground so that lessons may be learned.
11. The interim ESS contain the requirements that, in cases where there may be environmental and/or social impacts, accredited entities must ensure are implemented by executing entities in relation to activities supported financially by the Fund.
12. The Fund ESS will be applied to all projects, as well as individual projects or activities within a programme, to be funded by the Fund.
13. The package consists of eight standards with the first one, Performance Standard 1: Assessment and Management of Environmental and Social Risks, applying to all funding proposals.
14. Performance Standard 1 establishes the importance of:
  - (a) Integrated assessment to identify the environmental and social impacts, risks and opportunities of funding proposals;
  - (b) Effective community engagement through the disclosure of project-related information and consultation with local communities on matters that directly affect them; and
  - (c) The accredited entities' management of environmental and social performance throughout the life of the funding project or programme.
15. Performance Standards 2 through 8 establish objectives and requirements to avoid and minimize and, where residual impacts remain, compensate/offset the risks and impacts to workers, affected communities and the environment. While all relevant environmental and social risks and potential impacts should be considered as part of the assessment, Performance Standards 2 through 8 describe potential environmental and social risks and impacts that require particular attention.
16. PS 2–8 will be utilized in a modular way as needed. Where environmental or social risks and impacts are identified, the accredited entity is required to manage them in accordance with the Fund's ESS through the relevant executing entity(ies).

17. The IFC's PS and Guidance Notes will also serve as the basis for the development of the Fund's own ESS.

#### 4.1 Scaled risk-based approach

18. The application of the Fund's interim ESS will be implemented in a risk-based manner and not in a blunt, one-size-fits-all approach. This approach will ensure that environmental and social requirements and processes are commensurate to their level of risk and, coupled with the modular application of the Fund's interim ESS, will not slow down or overburden low- to no-risk projects.

19. This approach also provides the Fund with a tool for quickly judging exposure to environmental and social risks, both at the individual project level as well as the portfolio level.

20. IEs and intermediaries accredited to the Fund will have the capacity and a system for screening funding proposals in order to identify the potential environmental and social risks and/or impacts and to determine if any potential inconsistencies with the Fund's interim ESS are insurmountable and/or not manageable over a reasonable period of time.

21. Funding proposals will thus fit into the following categories:

- (a) Category A: Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (b) Category B: Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;
- (c) Category C: Activities with minimal or no adverse environmental and/or social risks and/or impacts;

22. Category for intermediation: activities involving investments through financial intermediation functions or through delivery mechanisms involving financial intermediation, and are divided into the following three levels of risk:

- (a) High level of intermediation – I1: When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (b) Medium level of intermediation – I2: When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (c) Low level of intermediation – I3: When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts.

23. Additional guidance will be developed for accredited entities on how to categorize projects.

## V. Accreditation process

24. The Fund's accreditation process will be based on three main stages:

- (a) Stage 1: No-objection and readiness;
- (b) Stage 2: Accreditation review and decision;
- (c) Stage 3: Final arrangements.

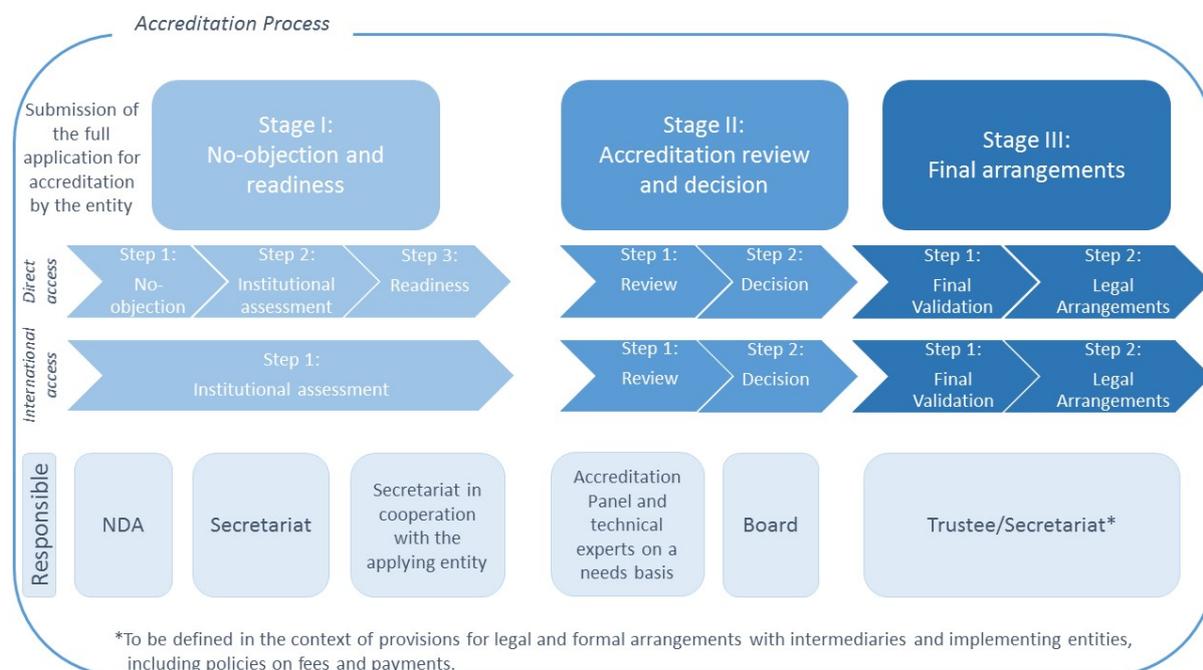


Figure 2: Overview of the accreditation process

25. The Fund will accept and review applications on a rolling basis. Applicant entities will submit their application in accordance with operational procedures to be developed by the Secretariat in consultation with the Accreditation Panel. Applicant entities will also have to include a communication indicating no-objection from the relevant national designated authority/focal point, if applicable.

## 5.1 Stage 1: No-objection and readiness

26. The overall purpose of this stage is to determine whether applicant entities show sufficient preparedness and institutional capabilities to progress to stage 2 in the accreditation process of the Fund.

27. Two tracks are envisioned: one applicable to direct access (for subnational, national and regional entities) and the other applicable to the international access (for international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions).

28. Stage I will be triggered by the submission of a full application by the applicant entity. This stage may follow one of two tracks:

- (a) Direct access track (for subnational, national and regional applicant entities);
- (b) International access track (for international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions).

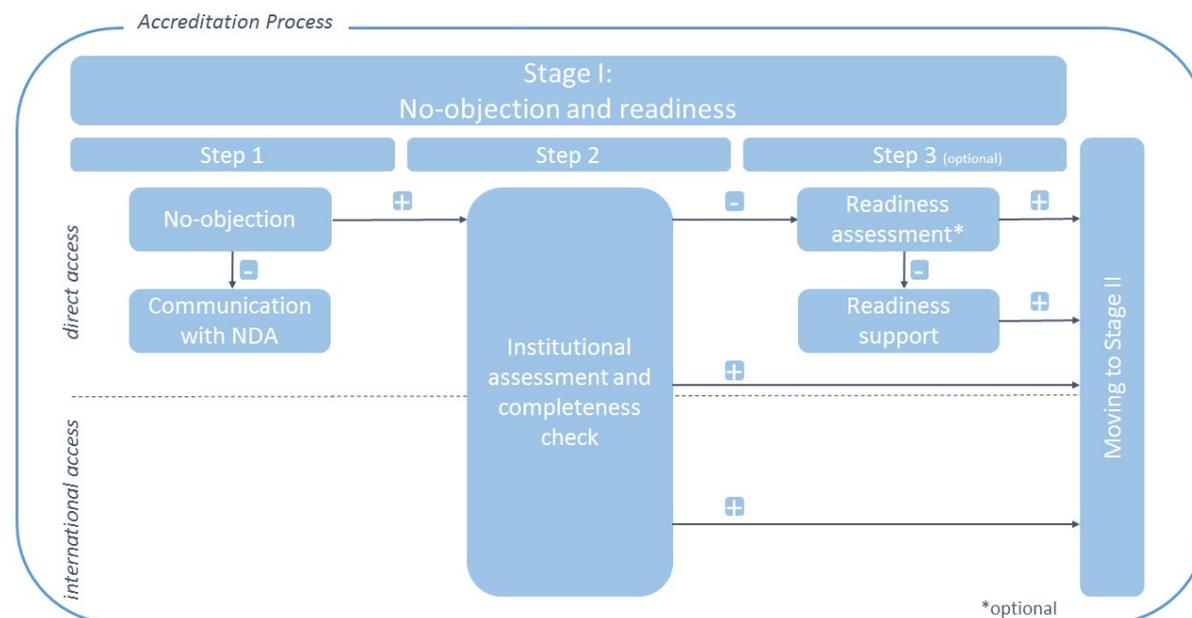


Figure 3: Overview of Stage I of the Accreditation Process

(c) In the case of the direct access track, two mandatory steps will apply ('no-objection' and 'institutional assessment and completeness check') and one optional third step ('readiness').

29. In the case of the international access track, entities will only be required to go through the 'institutional assessment and completeness check'.

30. The main purpose of the 'institutional assessment and completeness check' step is to ensure that applications are properly submitted with all the necessary information and that they comply with criteria such as legal status and mandate, institutional track record, alignment with the Fund's objectives and guiding principles.

31. The 'institutional assessment and completeness check' step will look at:

- (a) **Legal status:** The applicant entity has full legal capacity within the relevant jurisdiction that enables it to undertake the intended activities to be funded by the Fund and to become an accredited entity of the Fund;
- (b) **Registration, permits and licenses:** The applicant entity possesses all necessary, relevant and applicable registrations, permits or licenses in good standing from national and/or international regulators or oversight bodies;
- (c) **Track record:** The applicant entity exhibits a consistent and positive track record in the context of its own institutional mandate, as well as in areas relevant to the Fund's objectives and initial results areas;
- (d) **Institutional presence and relevant networks:** The applicant is able to demonstrate potential for meaningful impact in one or more of the Fund's initial result areas, and has at its disposal networks of relevant institutions and experts at the regional and national level, as appropriate;
- (e) **Readiness:** The applicant entity is able to describe succinctly how it meets the Fund's initial basic fiduciary standards and applicable initial specialized fiduciary standards, as well as demonstrate that it has the capacity and commitment to implement the Fund's ESS.

32. In the context of direct access, and in cases where weaknesses or a lack of capacity to meet the criteria above is determined, the applicant entity will be eligible to opt for a personalized readiness and preparatory support activity plan.

33. The operational details of these readiness and preparatory support activities for accreditation will be further elaborated and will also be included in the Fund's Detailed Work Programme on Readiness and Preparatory Support.

34. The Secretariat will be responsible for the overall coordination and management of this stage as well as for conducting the screening and institutional assessment based on the criteria above.

## 5.2 Stage II: Accreditation review process and decision

35. The objective of this stage is to conduct the actual review of the applications for accreditation submitted by the interested entities, with a view to determining their suitability for accreditation to the Fund. This process will consist of two main steps: the review of the application for accreditation to be conducted by the Fund's Accreditation Panel, and the decision on the application, to be made by the Board on the basis of the outcome of the review and recommendation of the Accreditation Panel.

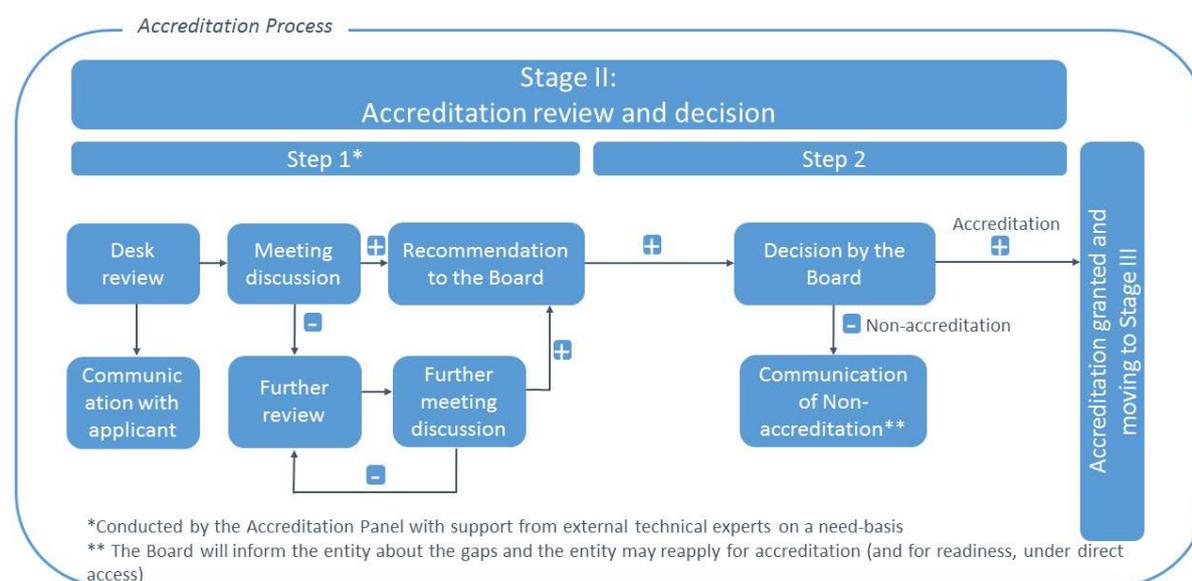


Figure 4: Overview of Stage II of the Accreditation Process

### 5.2.1 Stage II – Step 1: Review of the application for accreditation

36. This step in Stage II will ascertain whether applicant entities:

- (a) Meet the Fund's initial basic fiduciary standards and applicable initial specialized fiduciary standards; and
- (b) Have the capacity to manage environmental and social risks. Applicants will demonstrate that they have an environmental and social management system (ESMS) that is capable of consistently implementing the Fund's ESS requirements by demonstrating capacities for:
  - (i) Screening funding proposals to identify the major environmental and social risks and/or impacts and to determine if any potential gaps with the Fund's requirements are insurmountable and/or not manageable over time;

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- (ii) Reliably categorizing potential risks and impacts related to funding proposals in accordance with the Fund's scaled risk-based approach;
  - (iii) Ensuring the executing entities' capacity and commitment to implement the Fund's ESS in the development and implementation of funding proposals;
  - (iv) Ensuring the supervision of executing entities and their funding proposals;
  - (v) Reporting to the Fund on its own performance as well as the executing entity performance.
37. The accreditation process will examine the robustness of the applicant's ESMS by examining, among other things, the following key elements:
- (a) Policies and procedures related to environmental and social matters, including its disclosure policy;
  - (b) Organization and staffing, including grievance mechanisms;
  - (c) Measurement and management tools, including:
    - (i) Environmental and social indicators and data;
    - (ii) Environmental and social rating and scoring systems;
  - (d) Monitoring and reporting, including:
    - (i) Monitoring programmes;
    - (ii) Internal and external reporting;
  - (e) Internal practices and processes, including:
    - (i) Capacity evaluation of executing entities; and
    - (ii) Identification and assessment of risks and impacts of funding proposals.
38. A tiered accreditation approach will be considered, which will define the appropriate application of the criteria in paragraphs 37 and 38 above.
39. The Fund's Accreditation Panel will conduct the accreditation review process<sup>1</sup> and recommend to the Board whether the applicant entity should be accredited or not; or alternatively whether the applicant entity may reapply once it has addressed the specific areas of concern.

#### 5.2.2 Stage II – Step 2: Decision on the application for accreditation

40. At the end of this stage the Board will consider the recommendations of the Accreditation Panel and make a decision on whether the applicant entity can be granted accreditation and move on to stage 3 for final validation and legal arrangements.
41. Based on the recommendations of the Accreditation Panel, the Board may alternatively decide to assign the entity to stage 1 for additional focused readiness support and reconsider the application at a later date after the application undergoes a further focused accreditation review by the Accreditation Panel.

### 5.3 Stage 3: Final validation and arrangements

42. Stage 3 will conclude the process through the validation and finalization of formal arrangements between the applicant entity and the Fund upon the successful completion of stage 2.

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<sup>1</sup> Decision B.05/08 (d) (iii).

43. This will include validation and registration of the accredited entity's payment instructions and the conclusion of legal arrangements between the accredited entity and the Fund.

## 5.4 Additional operational considerations

44. Accreditation will be reviewed after five years. Modalities for renewal will be developed based on a range of criteria, including performance by the entity during the five-year cycle.

45. The accreditation of additional institutional capacities (e.g. on-lending and blending) can be done at any time and as soon as the entity considers itself ready to pursue such accreditation. The accreditation process will then focus only on the new capacities to be reviewed and not on all the other capacities already accredited.

46. The guiding framework will also include a policy on fees on a cost-recovery basis that should take into account relevant criteria, such as whether readiness support was provided or not during stage I, specialized fiduciary standards being accredited, scale and size of intended operations, etc.

47. It is difficult to provide a timeline for the duration of the full accreditation process for a given application. However, assuming all documentation is provided in a timely and complete manner and that the applicant does not opt for readiness support, a full accreditation cycle should be completed within six months.

48. Policies on the suspension and cancellation of accreditation will also be developed to complement these operational guidelines.

## VI. Governance and organizational approach

49. The accreditation process will include and be conducted, implemented and supported by the following actors:

- (a) The Board;
- (b) The Secretariat;
- (c) The Accreditation Panel; and
- (d) External technical experts;

### 6.1 Role and mandate of the Board

50. As defined by the Governing Instrument, the Board will develop, manage and oversee an accreditation process for all IEs and intermediaries based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards.

51. The Board will therefore be the ultimate decision-making body on accreditation and overall policy guidance on accreditation matters, and will broadly oversee the accreditation process.

### 6.2 Role and mandate of the Accreditation Panel

52. The Accreditation Panel will function as an independent review body accountable to the Board and under its authority. Its composition and the scope of its responsibilities will be defined in the terms of reference of the Fund's Accreditation Panel contained in Annex V, and will include:

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- (a) The accreditation review process;
  - (b) Independent advice to the Board on applications for accreditation;
  - (c) Expert inputs for the further development of the Fund's fiduciary standards, environmental and social safeguards, the Fund's environmental and social management system, as well as to the review of the guiding framework of the Fund's accreditation process; and
  - (d) Expert advice and inputs for the development of the complementarity and coherence element of the guiding framework, its work programme as well as the criteria and assessment of entities already accredited to other relevant funds.

### 6.3 Role and mandate of the Secretariat

53. The Secretariat will support the systems, processes and procedures of the accreditation process and will be responsible for the following core functions:

- (a) Ongoing development, in consultation with the Accreditation Panel, of the Fund's fiduciary standards, environmental and social safeguards and criteria for the accreditation of subnational, national, regional and international intermediaries and IEs to the Fund, for adoption by the Board;
- (b) Operationalization of the procedures supporting the accreditation process of the Fund, and the execution of all necessary and related activities, including the implementation, management and maintenance of its supporting systems;
- (c) Overall responsibility for conducting the no-objection and readiness assessment and the general management of stage 1 of the Fund's accreditation process;
- (d) Presentation of the outcomes of the no-objection and readiness assessment to the Accreditation Panel for its consideration during the accreditation review;
- (e) Implementation, operation and execution of any other functions and/or activities necessary to effectively carry out its responsibilities in the accreditation process.

### 6.4 External technical experts

54. External technical experts may be engaged by the Accreditation Panel in the in-depth review of individual applications for accreditation. Independent and recognized professionals or specialized consultancy firms will need to demonstrate experience and expertise in relevant areas in order to qualify as external technical experts.

55. The Secretariat, in coordination with and on behalf of the Accreditation Panel, will be responsible for setting up and managing a roster of external technical experts through an open, competitive and transparent selection process, which should strive to ensure the availability of relevant competencies and achieve gender and regional balance where possible. The Secretariat will also assist the Accreditation Panel in developing and updating, as necessary, the terms of reference to guide the work of the external technical experts.

56. External technical experts will be compensated in accordance with relevant administrative provisions for contracting external technical support. Consequently, external technical experts will be bound by standard contractual regulations relating to the provision of consultancy services to the Fund.

## **VII. Complementarity and coherence with the accreditation processes of other relevant funds**

57. Following on the principle of complementarity and coherence underpinning the Fund's operational modalities, as outlined in the Governing Instrument, the guiding framework of the accreditation process will also pursue complementarity and coherence with the accreditation frameworks and processes of other relevant funds.

58. This element of the guiding framework includes, among other operational aspects:

- (a) Regular coordination, collaboration and exchange of information with the secretariats and accreditation panels, or their equivalent institutional arrangements, for other relevant funds;
- (b) Formal and continuous mutual update on new operational guidelines and procedures, best-practice fiduciary principles and standards, environmental and social safeguards, IT support systems and other relevant policies and procedures; and
- (c) Appropriate modalities for a fast-tracked accreditation process based on the appropriate degree of compatibility between the Fund and other accreditation systems of relevant funds.

## **VIII. Review of the guiding framework**

59. The accreditation framework will be an evolving process intended to ensure continuous improvement and alignment with international good practices and to reflect the experience gained by the Fund.

60. The Secretariat will be responsible for proposing to the Board, in collaboration with the Accreditation Panel, the terms of reference for a comprehensive review of the guiding framework of the Fund's accreditation process once the Fund has built up a track record of experience and lessons learned.

61. The Secretariat and the Accreditation Panel may also propose to the Board a focused review of specific elements of the guiding framework of the accreditation process, including the Fund's initial fiduciary standards and initial environmental and social safeguards, as deemed necessary and in the context of the development of the Fund's additional specialized fiduciary standards, its ESS, and its environmental and social management system.

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## **Annex III: Draft initial fiduciary principles and standards of the Fund**

### **I. Initial basic fiduciary standards**

#### **1.1 Key administrative and financial capacities**

1. Underlying principles of the Fund's initial basic fiduciary standards for administrative and financial capacities 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; and
- (c) Operations of the entity show a track record in effectiveness and efficiency.

##### **1.1.1 General management and administrative capacities**

2. Fiduciary requirements regarding 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, etc.);
- (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.
- (e) Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve; and
- (f) 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 the Generally Accepted Accounting Principles (GAAP) and are prepared in accordance with recognized accounting standards, such as the International Financial Reporting Standards (IFRS), or the International Public Sector Accounting Standards (IPSAS) in the case of public entities, or national standards deemed comparable; and

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- (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 annexes to the financial statements, in particular 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 the financial statements.
- (c) Financial statements are reported periodically, consistent with previous reporting periods, and allow for comparison among reporting periods;
- (d) The entity uses accounting and financial information systems based on the accounting principles and procedures indicated in paragraph (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) A track record in the preparation and transparent use of business plans, financial projections and budgets, and the 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, 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

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improve the effectiveness of risk management, control, and governance processes (as defined by the Institute of Internal Auditors).

- (a) The internal audit function has a documented terms of reference or charter, reviewed and approved formally by senior management and the audit committee, that outlines its purpose, authorized functions and accountability;
- (b) The internal audit function is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors 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, who reports 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 a minimization of duplication of efforts;
- (g) The internal audit function disseminates its findings to the corresponding senior management units and business management units, which 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 so 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) A control framework that covers the control environment ("tone at the top"), risk assessment, internal control activities, monitoring, and procedures for information sharing;
- (f) A control framework that defines roles and responsibilities pertaining to the 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 the details of the controls 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.

- (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 and 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 the 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 a functional and/or contractual relationship to the organization are made aware of such codes of ethics or policies/provisions as appropriate; and
- (c) The organization has in place an ethics committee or has allocated such functions to other relevant instances within the organization.

**1.2.2 Disclosure of conflict of interest**

- (a) The organization has a disclosure policy, or equivalent administrative provisions to this effect, that establishes the necessary mandatory financial disclosures of possible, actual, perceived or apparent conflicts of interest by identified parties as appropriate; and
- (b) 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.

**1.2.3 Capacity to prevent or deal with financial mismanagement and other forms of malpractice**

- (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 emphasizing 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;
- (c) Avenues and tools for reporting suspected ethics violations, misconduct, and any kind of malpractice, which should be complemented by provisions and mechanisms protecting whistleblowers and individuals reporting such violations;
- (d) 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 periodic reports for information and follow-up by the ethics function; and
- (e) General management policies promote an organizational culture that is conducive to fairness, accountability and full transparency across the organization's activities and operations.

**1.2.4 Investigation function**

11. The investigation function provides for the independent and 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 as well as allegations of possible entity staff misconduct.

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- (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 another appropriate 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, case trend reports and other information are made available to senior management and relevant business functions to the extent possible.

### 1.3 Initial basic fiduciary standards relating to project management

- 12. The underlying principles are:
  - (a) Ability to identify, formulate and appraise projects or programmes, including the identification and assessment of environmental and social risks through 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 sponsors and to support project 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 the monitoring of measures for the management of environmental and social risks.

#### 1.3.1 Project preparation and appraisal

- (a) Track record of capability and experience (including appropriate tendering procedures for project proposals) in the identification and design of projects or programmes within the respective jurisdiction (subnational, national, regional or international, as applicable);
- (b) Capacity to clearly state project objectives and outcomes in preparing funding proposals and to incorporate key performance indicators with baselines and targets into the project 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.

**1.3.2 Project implementation, oversight and control**

- (a) Operational systems, procedures and overall capacity to consistently prepare project implementation plans, including project budgets, reporting guidelines and templates to be used by executing entities or project sponsors;
- (b) Operational capacity and organizational arrangements to continuously oversee the implementation of the approved funding proposal in order to regularly assess project expenditure against project budget as well as to monitor and identify opportunities for improving project 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 closure, including due reporting on results achieved, lessons learned and recommendations for improvement, as well as capacity to disseminate results and make key findings publicly available.

**1.3.3 Monitoring and evaluation**

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

14. 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 detect any deviation from project planning in the early stages).

**A. Monitoring**

- (a) Operational and organizational resources are available to implement 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 and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project origination and supervision functions;
- (c) Tools for reporting on project monitoring 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 policies;
- (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, at a minimum to all parties directly or indirectly involved in the project or programme. To enhance transparency, reports are available publicly to the extent possible.

#### **1.3.4 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 flag early on when a project 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 the assessment of financial, economic, political and regulatory risks during the preparation, appraisal as well as implementation stages;
  - (ii) Demonstrated ability to undertake the assessment of environmental and social risks, in accordance with the Fund's environmental and social safeguards and on scaled risk-based approach during 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 during the implementation stage.

## **II. Initial specialized fiduciary standards**

15. 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 Grant award mechanisms**

#### **2.1.1. Transparent eligibility criteria and evaluation**

- (a) The grant award mechanism is organized in a fully transparent manner that guarantees impartiality and equal treatment to all applicants;
- (b) The evaluation process is based solely on the criteria for exclusion, eligibility, selection and award pre-announced in the call for proposals;
- (c) Eligibility evaluation performed on the basis of the criteria stated in the call for proposals;
- (d) All stages are formally documented through standardized checklists and forms;
- (e) There is an evaluation committee that:
- (i) Evaluates the applications to make a recommendation for award and rejections in accordance with the pre-announced criteria; and
  - (ii) Works in accordance with the formal rules of procedure.

**2.1.2 Grant award decision and procedures**

- (a) The grant award decision is taken by the person or body who is legally authorized to sign grant agreements on behalf of the awarding body;
- (b) The grant award decision is based on the grant award proposal prepared by the evaluation committee;
- (c) If the grant award does not follow evaluation committee's recommendation, the departing decision is adequately justified and documented;
- (d) The grant decision states the following:
  - (i) Subject and overall amount of decision;
  - (ii) Name of beneficiaries, title of granted activity, grant amount awarded, and the reason(s) for this choice; and
  - (iii) Name(s) of application(s) rejected and reason for their rejection(s).
- (e) Checks have been undertaken to guarantee that one and the same activity only results in the award of one grant to any one beneficiary;
- (f) No grant is awarded retrospectively for activities already started or completed at the time of the application;
- (g) All applicants are notified in writing of grant award outcome; and
- (h) Rejected applications result in rejected applicants receiving reason(s) for rejection with reference to the pre-announced criteria;

**2.1.3 Public access to information on beneficiaries and results**

- (a) Grant-awarding entity makes the grant award results public;
- (b) Results made public within a reasonable timeframe following the grant award decision;
- (c) The following information should be included (at a minimum):
  - (i) Name, address and nationality of the beneficiary;
  - (ii) Purpose of the grant; and
  - (iii) Grant amount awarded and, where applicable, the maximum co-financing rate of the cost.

**2.1.4 Transparent allocation and implementation of financial resources**

- (a) There is a system in place to provide assurance on the reality and eligibility of activities to be carried out with the grant award as well as the legality of the underlying operations;
- (b) There is a system in place to recover funds unduly paid;
- (c) There is a system in place to prevent irregularities and fraud;
- (d) The grant-awarding entity monitors the implementation of funded programme activities and supports beneficiaries through counselling and advice;
- (e) There are sufficient possibilities for the beneficiary to contact the grant-awarding entity;
- (f) The grant-awarding entity carries out on-site visits to monitor the implementation of individual projects;

- (g) Those on-site visits are used to support the beneficiary, gather and disseminate best practices and establish/maintain good relations between the awarding entity and the beneficiary entity;
- (h) There are clear procedures about procurement rules the grant beneficiary is required to apply, if any;
- (i) The amount of the grant is finalized only after the grant-accepting entity has accepted the final report and accounts;
- (j) There are procedures in place for the suspension, reduction, or termination of the grant if the beneficiary fails to comply with its obligations.

### 2.1.5 Good standing with regard to multilateral funding

## 2.2 On-lending and blending

16. Additional specialized criteria for on-lending and blending will apply for intermediaries and IEs that wish to use those financial instruments with the Fund's resources. The following list suggests possible on-lending and blending capacities for consideration during the accreditation process:

- (a) Appropriate registration and/or license from a financial oversight body or regulator in the country and/or internationally, as applicable;
- (b) Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;
- (c) The creditworthiness of the institution making on-lending or blending arrangements;
- (d) Due diligence policies, processes and procedures in place;
- (e) Financial resources management, including analysis of lending portfolio of the intermediary;
- (f) Public access to information on beneficiaries and results;
- (g) Investment management, policies and systems, including in relation to portfolio management;
- (h) Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;
- (i) Financial risk management, including asset liability management;
- (j) Governance and organizational arrangements, including relationships between the entity's treasury function and the operational side;
- (k) For intermediaries or IEs that blend grant awards:
  - (l) There are clear procedures about the grant award rules that the implementing partner is required to apply; or
  - (m) If the intermediary or IE uses its own rules, the minimum requirements are satisfactory.

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## **Annex IV: Draft interim environmental and social safeguards of the Fund**

### **I. Overview of the International Finance Corporation Performance Standards**

1. The eight Performance Standards (PS) and the objectives of each are as follows:

#### **1.1 PS1: Assessment and management of environmental and social risks and impacts**

- (a) Identify funding proposal's environmental and social risks and impacts;
- (b) Adopt mitigation hierarchy: anticipate, avoid; minimize; compensate or offset;
- (c) Improve performance through an environmental and social management system;
- (d) Engagement with affected communities or other stakeholders throughout funding proposal cycle. This includes communications and grievance mechanisms.

#### **1.2 PS2: Labour and working conditions**

- (a) Fair treatment, non-discrimination, equal opportunity;
- (b) Good worker–management relationship;
- (c) Comply with national employment and labour laws;
- (d) Protect workers, in particular those in vulnerable categories;
- (e) Promote safety and health;
- (f) Avoid use of forced labour or child labour.

#### **1.3 PS3: Resource efficiency and pollution prevention**

- (a) Avoid, minimize or reduce project-related pollution;
- (b) More sustainable use of resources, including energy and water;
- (c) Reduced project-related greenhouse gas emissions.

#### **1.4 PS4: Community health, safety and security**

- (a) To anticipate and avoid adverse impacts on the health and safety of the affected community;
- (b) To safeguard personnel and property in accordance with relevant human rights principles.

## 1.5 PS5: Land acquisition and involuntary resettlement

- (a) Avoid/minimize adverse social and economic impacts from land acquisition or restrictions on land use:
  - (i) Avoid/minimize displacement;
  - (ii) Provide alternative project designs;
  - (iii) Avoid forced eviction.
- (b) Improve or restore livelihoods and standards of living;
- (c) Improve living conditions among displaced persons by providing:
  - (i) Adequate housing;
  - (ii) Security of tenure.

## 1.6 PS6: Biodiversity conservation and sustainable management of living natural resources

- (a) Protection and conservation of biodiversity;
- (b) Maintenance of benefits from ecosystem services;
- (c) Promotion of sustainable management of living natural resources;
- (d) Integration of conservation needs and development priorities.

## 1.7 PS7: Indigenous peoples

- (a) Ensure full respect for indigenous peoples
  - (i) Human rights, dignity, aspirations;
  - (ii) Livelihoods;
  - (iii) Culture, knowledge, practices;
- (b) Avoid/minimize adverse impacts;
- (c) Sustainable and culturally appropriate development benefits and opportunities;
- (d) Free, prior and informed consent in certain circumstances.

## 1.8 PS8: Cultural heritage

- (a) Protection and preservation of cultural heritage;
- (b) Promotion of equitable sharing of cultural heritage benefits.

2. The International Finance Corporation (IFC) PS can be viewed at:

[http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC\\_Performance\\_Standards.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC_Performance_Standards.pdf?MOD=AJPERES).

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## II. Performance Standard Guidance Notes

3. A set of eight Guidance Notes, corresponding to each PS, offers guidance on the requirements contained in the PS. In addition, the World Bank Group Environmental, Health and Safety (EHS) Guidelines are technical reference documents with general and industry-specific examples of good international practice and are linked to the PS through PS2 and PS3.

4. The Guidance Notes and EHS Guidelines can be found at:

[http://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/.](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/)

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## **Annex V: Draft terms of reference of the Fund's Accreditation Panel**

### **I. Role and mandate**

1. The Accreditation Panel (the Panel) will be an independent senior expert advisory body of the Fund on matters relating to:
  - (a) Independent technical advice to the Board on the results of the in-depth assessment and review of individual applications for accreditation;
  - (b) Expertise in good-practice fiduciary principles and standards, financial intermediation functions, intermediation regulations and oversight;
  - (c) Expertise in environmental and social safeguards, as well as in evaluating environmental and social management systems in order to ensure that applicant entities have the capacity to implement and oversee the Fund's interim and subsequent ESS;
  - (d) Expertise in international and recognized good practices in accreditation procedures and systems;
  - (e) Expert policy advice on developing countries' special circumstances, including sustainability and climate-related issues;
  - (f) Members of the Panel will have a three-year term, with the possibility of renewal for a maximum of another consecutive term.

### **II. Composition and quorum**

2. The Panel will be composed of four Board members or alternates, two of each will serve as Chair and Vice-Chair respectively, and at least five senior expert members.
3. The Panel may also invite expert observer members, on an ad-hoc or regular basis, to participate at sessions where no confidential information will be discussed.
4. The Secretariat will participate ex-officio.
5. Quorum will consist of participation by at least three Board members or alternates and three senior expert members.

#### **2.1 Chair and Vice-Chair**

6. The Board will appoint the Chair and Vice-Chair of the Panel. In the event of absence or inability to participate in meetings of the Panel by the Chair, the Vice-Chair will automatically chair the meetings.
7. The mandate of the Chair and Vice-Chair will extend for one year.

#### **2.2 Senior expert members**

8. The senior expert members of the Panel will be selected and appointed through a nomination by the Board members and alternates of the Panel and endorsement by the Board. The composition of the senior expert members should ensure availability in the Panel of the following core areas of competency:
  - (a) Governance systems, financial management, audit and control framework;

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- (b) Project management cycle and activity oversight;
  - (c) Transparency, investigation and anti-fraud provisions;
  - (d) Environmental and social safeguards and environmental and social management systems;
  - (e) Financial intermediation and/or financial sector supervision and oversight;
  - (f) Experience in working in/with developing countries.
9. Senior expert members will therefore demonstrate recognized capacity and expertise in their fields of competency, supported by a successful career track at senior and executive level. In addition to this, each senior expert member will be able to demonstrate unquestionable personal reputation, integrity and ethical behaviour throughout her or his professional trajectory.
10. Senior expert members may be appointed for a consecutive term.

### 2.3 Expert observer members

11. Expert observer members from specialized entities may be invited to participate in the non-confidential meetings or sessions of the Panel as deemed necessary in order to enhance the capacity of its work.
12. The Panel will issue an invitation to the expert observer member, or the institution s/he represents.
13. The Panel will agree, in consultation with the Secretariat, on the modalities for participation by expert observers. These modalities may be revised at any time to reflect the evolving needs of the Panel.

## III. Modalities of work

14. The Panel will operate as a senior and independent technical advisory body of the Fund, and will report and be accountable to the Board. The Panel will be bound by these terms of reference as well as by relevant policies and procedures, including a code of conduct, to be developed by the Panel and endorsed by the Board. The rules and procedures of the Board, as well as any other relevant guidelines to be adopted by the Board, will apply *mutatis mutandis* to the Panel.
15. Meetings of the Panel may be held with members being either physically or electronically present. The dates and modalities of meetings will be determined by the Panel taking into account criteria of efficiency and effectiveness.
16. The Chair of the Panel will define the agenda and calendar of meetings of the Panel.
17. The Panel may also develop rules and procedures, in addition to the above, that are necessary to enhance transparency and effectively guide the conduct of its meetings. The Panel will submit to the Board the additional agreed rules and procedures for endorsement.
18. In conducting the review of applications for accreditation, the Panel may decide to make use of additional external technical experts. The Panel will clearly allocate responsibilities for the external technical expert, which will be included in their mission plan.
19. The Panel, with support from the Secretariat, will maintain a roster of external technical experts and develop standard terms of reference for their work.

#### **IV. Compensation**

20. Travel and accommodation costs, per diem payment and a daily fee will be paid to senior expert members attending a meeting of the Panel in accordance with the Fund's rules and regulations.
21. If a senior expert member of the Panel is requested to carry out a specific task between meetings, they will be compensated for the task undertaken by means of payment of daily fees, subject to the input being of good quality and delivered in good time. The daily fee will be determined in accordance with the Fund's rules and regulations. The number of days necessary to complete a task will be determined by the Chair of the Panel in consultation with the Secretariat.
22. Travel and accommodation costs, per diem payment and a daily fee will be paid to external technical experts in accordance with the Fund's rules and regulations and the external technical experts' terms of reference.
23. Expert observers will not receive any payment and will be supported in their participation in meetings entirely by the entities they represent or in their own capacity.

#### **V. Disclosure of conflict of interest**

24. All members of the Panel should disclose any actual, potential or perceived conflict of interest in relation to any of the activities, discussions and recommendations of the Panel, which will be duly recorded.
25. Furthermore, at the time of appointment, all members of the Panel will sign the oath contained in the Appendix to these terms of reference.

#### **VI. Revision and termination of the terms of reference of the Panel**

26. The Board may revise these terms of reference as necessary in order to incorporate lessons learned and to reflect the evolving needs of the accreditation process of the Fund.
27. The mandate and terms of reference of the Panel may be revised or terminated by the Board, if deemed necessary.

**Appendix: Oath to be taken by members of the Accreditation Panel**

“I solemnly declare that I shall perform my duties as a member of the Accreditation Panel (the Panel) of the Green Climate Fund (the Fund), honourably, faithfully, impartially and conscientiously.

I further solemnly declare and promise that I shall disclose any financial interest or any other real or perceived conflict of interest in: the accreditation of subnational, national, regional and/or international intermediaries and IEs of the Fund; the consideration and provision of advice on best-practice fiduciary principles and standards and environmental and social safeguards; and, in general, in any other matter in connection with the fulfilment of the mandate of the Panel.

I shall refrain from participating in the consideration of accreditation applications or policy discussions where any financial interest or any other real or perceived conflict of interest may arise, or where any personal circumstance might be incompatible with the requirements of integrity and impartiality expected of a member of the Panel.

Subject to my responsibilities to the Panel, I shall not disclose, even after the termination of my functions, any confidential or proprietary information which is transferred to the Board, the Panel or the Secretariat, or any other confidential information coming to my knowledge by reason of my duties for the Panel.”

Full name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

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## **Annex VI: Draft outline for the Fund's environmental and social management system**

### **I. Introduction**

1. As noted in GCF/B.06/09, the Green Climate Fund's environmental and social safeguards (ESS) are a piece of a larger operational framework, which will form a Green Climate Fund environmental and social management system (ESMS). An ESMS is a set of management processes and procedures that allow an organization to identify, analyse, control and reduce the adverse environmental and social impacts of its activities and maximize any potential environmental and social benefits in a consistent way and to improve the environmental and social standing of the organization and its activities over time. The Fund will continue examining policies, processes and procedures, etc., from many sources in order to derive the best ESMS for the interim and which will be further tailored to Fund activities. The Green Climate Fund ESMS should be developed to be consistent with accepted evolving international systems for quality and environmental management systems. The initial elements of the Fund's ESMS will include:

#### **1.1 Environmental and social policy**

2. The Fund's environmental and social policy will describe the Fund's commitments, roles, and responsibilities related to environmental and social sustainability. This policy will also link with other Fund policies and internal structures such as:

- (a) Fund's information disclosure practice;
- (b) Fund's gender policy;
- (c) Fund's Independent Evaluation Unit;
- (d) Fund's independent redress mechanism.

##### **1.1.1 Standards**

3. The Fund's interim ESS (to be customized in the future) and supporting International Finance Corporation (IFC) Guidance Notes (to be customized in the future) set out the standards required for funding proposals. Annex II further elaborates upon the ESS and Annex IV contains the Fund's interim ESS and a link to the supporting IFC Guidance Notes.

##### **1.1.2 Process and procedures**

4. A scaled risk-based approach will be applied by the accredited entities, which is elaborated upon further in Annex II.

##### **1.1.3 Environmental and social review of the institutional capacities of entities during the accreditation process**

5. The accreditation process will review entities to determine if they have the capacity to implement the Fund's interim ESS. The applicant entity also needs to be able to evaluate the executing entities' capacity and commitment to implement the Fund ESS. This process is described further in Annex II.

## 1.1.4 **Monitoring and reporting**

6. The Fund will require accredited entities to submit periodic reports of how they are classifying/categorizing and monitoring executing entity funding activities through mechanisms such as reports developed by executing entities, reports developed by independent third parties, and accredited entity site monitoring visits. This submission will include a summary evaluation from the accredited entity of how the executing entity is performing and, if they are not performing, how improved performance is being sought.

7. In all cases, the Fund will have the right to conduct site visits or audits of executing entity projects either with the accredited entity or independently.

## 1.1.5 **Organizational capacity and functions**

8. Environmental and social roles and responsibilities within the Fund and between various entities will be elaborated upon and included in the standard legal arrangements between the Fund and its IEs and intermediaries.

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## **Annex VII: Report on the activities of the Board's team on accreditation**

1. The team appointed by the Board at its October 2013 meeting was able to hold six meetings by the time of the submission of this document. An in-person meeting was undertaken at the margins of the February 2014 meeting and another in-person meeting is also expected to be held at the margins of the May 2014 Board meeting.

### **I. Selection of senior international experts**

2. 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.

3. A total of 117 applications were received; 6 individuals were interviewed based on the criteria that were 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 of Great Britain and Northern Ireland);
- (b) Mr. Gonzalo Castro de la Mata (Peru);
- (c) Mr. Wolfgang Diernhofer (Austria); and
- (d) Ms. Isna Marifa (Indonesia).

### **II. Meetings**

4. At the first virtual meeting, the Board team agreed, among other internal operational arrangements, that H.E. Mr. Jan Cedergren would serve as the Chair of the team and Mr. David Kaluba as the Vice-Chair.

5. The team discussed the drafts prepared by the Secretariat prior to the meetings of the Board in February 2014 and May 2014. Further to these discussions with the full team, the Secretariat interacted and engaged with the four senior international experts of the team on a more frequent basis between February and May 2014 for in-depth technical discussions.

6. The four Board members and alternates of the team also held in-person meetings at the margins of the February 2014 and May 2014 meetings of the Board.

### **Virtual dialogue with civil society and private sector observers**

One virtual dialogue took place on 14 March 2014 with the participation of several registered observers from civil society and the private sector.<sup>1</sup> The Secretariat requested the four active observers from the civil society and the private sector to nominate up to eight representatives from their constituencies to participate in the virtual dialogue.

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<sup>1</sup> Participants: Ms. Niranjali Amerasinghe (Center for International Environmental Law), Ms. Titi Soentoro (Aksi! – for Gender, Social and Ecological Justice), Ms. Annaka Peterson Carvalho (Oxfam America), Mr. Voltaire Alferez (Aksyon Klima), Mr. Noah Zimba (Zambia Climate Change Network), Mr. Sven Harmeling (CARE International), Ms. Stephanie Fried, Ms. Gwen Andrew (Alstom International), Ms. Katie Sullivan (IETA), Mr. Patrick Karani (BEA International).