



**GREEN  
CLIMATE  
FUND**

**Meeting of the Board**  
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Provisional Agenda Item 10\*

**GCF/B.11/05**

11 October 2015

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# Initial monitoring and accountability framework for accredited entities

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## **Summary**

Following Board decision B.10/07, this paper contains proposals for the initial monitoring and accountability framework of the Green Climate Fund (GCF), taking into account comments received following the call for public input. It also proposes a policy on fees to be paid by the GCF to the accredited entities for the functions they will fulfil on behalf of the GCF.

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\* The agenda item number will be determined when the final sequence of items in the provisional agenda is confirmed by the Co-Chairs.

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## I. Introduction

1. The Board, at its tenth meeting in decision B.10/07, paragraph (d), following related decisions B.08/02 and B.09/08, decided that the initial monitoring and accountability framework will focus on compliance with the Green Climate Fund (GCF) fiduciary standards, environmental and social safeguards (ESS), and gender policy. In the same decision, the Board requested the Secretariat to further develop the initial monitoring and accountability framework for consideration by the Board at its eleventh meeting.<sup>1</sup>
2. The Board, in decision B.10/07, paragraph (f), also requested the Secretariat, when further developing the initial monitoring and accountability framework, to do so in consultation with the Accreditation Committee and entities accredited by the GCF, and by engaging a wide group of stakeholders, including women through a call for public input.
3. This paper contains proposals for the initial monitoring and accountability framework of the GCF, taking into account comments received following the call for public input.
4. It also proposes a policy on fees to be paid by the GCF to the accredited entities (AEs) for the functions they will fulfil on behalf of the GCF.

## II. Recommended action by the Board

5. It is recommended that the Board:
  - (a) Take note of the information presented in document GCF/B.11/05 Initial monitoring and accountability framework for accredited entities; and
  - (b) Adopt the draft decision presented in Annex I to this document.

## III. Linkages with other documents

6. This document focuses on the mechanism that the GCF will establish for monitoring the performance of AEs and their compliance with the terms and conditions of their accreditation. As such, it is related to the overall framework of policies that the GCF has (and will have) concerning results management and monitoring. In addition, it will be linked to the future development of the ESS monitoring system. Concerning existing documents and policies, it has linkages with the following:
  - (a) Document GCF/B.07/02 titled “Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the GCF’s fiduciary principles and standards and environmental and social safeguards”;
  - (b) Document GCF/B.07/04 titled “Initial results management framework of the GCF”;
  - (c) Document GCF/B.07/06 titled “Investment framework”;
  - (d) Document GCF/B.08/02 titled “Guidelines for the operationalization of the fit-for-purpose accreditation approach”;
  - (e) Document GCF/B.08/03 titled “Assessment of institutions accredited by other relevant funds and their potential for fast-track accreditation”;
  - (f) Document GCF/B.08/06 titled “Application documents for submissions of applications for accreditation”;

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<sup>1</sup> Decision B.10/07, paragraph (e).

- (g) Document GCF/B.08/07 titled “Further development of the initial results management framework”;
- (h) Document GCF/B.09/03 titled “Legal and formal arrangements with accredited entities”;
- (i) Document GCF/B.09/04 titled “Consideration of accreditation proposals”;
- (j) Document GCF/B.09/10 titled “Gender policy and action plan”;
- (k) Document GCF/B.10/03 titled “Consideration of accreditation proposals”;
- (l) Document GCF/B.10/Inf.11 titled “Initial monitoring and accountability framework for accredited entities (progress report)”;
- (m) Document GCF/B.10/Inf.12 titled “Recommendations for further accrediting national, regional and private sector entities”.<sup>2</sup>

7. The initial monitoring and accountability framework will have to be consistent with and make good use of the GCF accountability mechanisms. In that respect, information provided by the GCF independent Evaluation Unit, independent Integrity Unit and independent Redress Mechanism will be used appropriately in the monitoring of entities during the implementation of GCF-supported projects/programmes, as well as the provision of timely information on open cases regarding a given AE.

#### IV. Stakeholder inputs

8. The GCF has received a wide range of inputs, both informal and formal, on the proposed initial monitoring and accountability framework for accredited entities, including the following:
- (a) The GCF discussed monitoring and accountability in considerable detail with each of the accredited entities, firstly during the accreditation process and again, later, during negotiation of their accreditation master agreements (AMAs). The monitoring and accountability framework will be incorporated into each AMA;
  - (b) In August 2015, in response to a public call for inputs published on 30 July 2015, the GCF received formal written analysis, comments and suggestions from a wide range of stakeholders. These stakeholders included national designated authorities (NDAs) and focal points, members of the Accreditation Panel, accredited entities, civil society organizations (CSOs), and other multilateral funds. The full list of respondents and all written submissions are published on the GCF website.<sup>3</sup>
9. Key takeaways from these two exercises are as follows:
- (a) CSOs focused primarily on the public disclosure of – and public participation in – all steps from the initial accreditation of an entity to the review of the entity’s reporting, both for individual projects and for the entity as a whole; to the eventual re-accreditation of the entity after five years. Within this context, CSOs emphasized the need for clear GCF-wide guidelines on consultation processes, local monitoring and the participation of women. CSOs also requested a third-party verification option in cases where accredited entities self-report certain categories of information. Most CSOs want to ensure that the Secretariat retains enough in-house capacity to execute the monitoring and evaluation responsibilities of the GCF without undue contracting out;

<sup>2</sup> To be considered by the Board at its eleventh meeting.

<sup>3</sup> See <<http://www.gcfund.org/documents/calls-for-public-input.html>>.

- (b) Accredited entities generally sought clarity on their contractual rights and obligations, starting from signature of their AMA and then signature of each funded activity agreement after Board approval of an individual project or programme;
- (c) Several respondents emphasized the need for a two-step approach to remedy under-performance of accredited entities. As a first step, the GCF would provide proactive support during a 'cure period' to bring the accredited entity (AE) back to full performance and compliance. As a second step, if the AE fails to return to full performance/compliance by the end of the cure period, remedial measures would be applied. In general, the remedial measures recommended by respondents follow the same hierarchy as those applied in most international financial institutions; and
- (d) Most respondents emphasized the importance of transparent public disclosure of as much information as possible through an interactive web-based portal.

## V. Principles for monitoring and accountability

### 5.1 Accountability and participation

10. The NDA, or focal point, is responsible for giving its no objection to each funding proposal before it is processed for submission to the Board for approval. The funding proposal will specify project monitoring arrangements which should include local monitoring.
11. In addition, it is recommended that the NDA hold an annual event for local stakeholders, that is, project-affected people and communities, including women, in order to review the portfolios of projects in their countries. The GCF, in coordination with the NDA, may offer support from the Readiness Programme for such events.
12. The policy of the GCF is to communicate in English. In cases where stakeholder consultations require materials in local languages in order for the consultation to be effective and meaningful, the AE, in cooperation with the NDA, shall provide such materials in a timely manner in advance of the consultations. The monitoring and accountability framework is specified in this document and is incorporated by reference into AMA that each newly accredited entity signs with the GCF.
13. Each AMA will include provisions that require the AE to comply with the general principles to prevent prohibited practices, including those on corruption, fraud, coercion, collusion, obstruction, abuse, conflict of interest, retaliation against whistle-blowers or witnesses, and anti-money laundering/countering the financing of terrorism.
14. After Board approval of a specific funding proposal, the AE will enter into a project-specific funded activity agreement. This agreement will incorporate all obligations specified in the funding proposal submitted to the Board, as well as any conditions that the Board attaches to its decision.
15. The AE will comply with its own environmental, social and gender rules, policies and procedures, that is, those that were assessed by the GCF during accreditation. In cases where the Board attached conditions to the accreditation decision, the AE will first have to meet these conditions.
16. Grievances and complaints should be addressed in the first instance to the grievance mechanism of the AE. In cases where the grievance or complaint is then escalated to the GCF's independent Redress Mechanism, the AE will cooperate fully with the independent Redress Mechanism.

17. The Secretariat is responsible for implementing the monitoring and accountability framework. The three independent accountability units of the GCF (redress, integrity and evaluation) will contribute to the accountability processes according to their respective mandates.

## 5.2 Transparency

18. The transparency of the accreditation process is covered by a separate Board document on strategy for accreditation (GCF/B.11/Inf.08). Disclosure by the GCF is guided by its interim information disclosure practice.<sup>4</sup> This document focuses on the transparency of the monitoring process.

19. The Secretariat should develop a knowledge management platform designed to publish all documents that are disclosable under the interim information disclosure practice to all stakeholders and the public at large.

20. The Secretariat will share with the stakeholders at large best practices on consultation processes, local monitoring and the participation of women.

21. In cases where project-affected people or communities request a third-party verification, the request will be referred to the Secretariat and/or to the independent Redress Mechanism.

## 5.3 Risk-based approach

22. The Secretariat is developing an early warning system based on risk flags and will assign a risk flag to projects whose analysis using the GCF risk categories (as defined in the risk dashboard approved in decision B.10/08) determines that there is an overall high risk level. These flags will reflect the Secretariat's assessment of:

- (a) Risks related to an individual project (size of exposure of the GCF, the risk category assessed at the time of Board approval and subsequent changes to project circumstances);
- (b) Risks related to the overall performance of the AE; and
- (c) Risks related to the overall economic and political environment of the country (or countries, in the case of multi-country projects or programmes).

23. A risk flag may be updated by the Secretariat at any time, based on the latest information from all possible sources. Risk flags will feed into the overall risk management framework of the GCF.

24. In cases where the Secretariat assigns or revises a project risk flag, the Secretariat should also estimate the value of commitments at risk under the project. This reflects the fact that only some parts/components of the project may be affected by delays or poor/improper execution.

25. The Board has decided that there will be an annual review of a risk-based sample of accredited entities, including projects and programmes. The Secretariat will use the internal risk management framework of the GCF to select the projects and programmes for spot checks and to select the sample of accredited entities and individual projects that will be included in this annual review. In cases where the annual review identifies a specific problem, the Secretariat may undertake an ad hoc compliance review of the AE.

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<sup>4</sup> See <[http://gcfund.net/fileadmin/00\\_customer/documents/pdf/Interim\\_Information\\_Disclosure\\_Practice.pdf](http://gcfund.net/fileadmin/00_customer/documents/pdf/Interim_Information_Disclosure_Practice.pdf)>.

## 5.4 Incentive-driven performance and compliance

26. The GCF will respond to AE performance issues, firstly by providing Secretariat support for immediate remedial measures during a cure period. In parallel and separately, the GCF Readiness and Preparatory Support Programme, in coordination with the NDA, may also provide support for capacity-building of the AE in order to avoid the recurrence of similar issues over the medium term.

27. The GCF will inform the AE of the remedial measures that will be applied in the event that performance problems remain unresolved at the end of the cure period. The length of the cure period and the nature of the remedial measures will also depend on the nature of the issues and risks and the degree to which the reputation and funding of the GCF are at risk.

28. The remedial measures that may be applied will be selected from the measures that are typically applied by most financial institutions. These may be applied to a specific project (e.g. no new commitments or disbursements) or to an AE as a whole (e.g. suspension of disbursements on the entire portfolio of GCF-funded projects of the AE).

## 5.5 Cost-effectiveness

29. The first element of cost-effectiveness in the monitoring and accountability framework is the delegation of detailed project or programme supervision to the AE, whereas the GCF retains responsibility for the overall portfolio monitoring and evaluation. The second element of cost-effectiveness is the use of risk-weighted samples by the GCF (see above) and spot checks for its own quality assurance purposes.

30. At the level of each AE, the GCF requires:

- (a) An annual self-assessment of its compliance with GCF fiduciary standards, ESS and gender policy;
- (b) A mid-term light-touch review executed by the Secretariat midway through the accreditation period; and
- (c) A final self-assessment at the end of the accreditation period, as a basis for the decision on re-accrediting the entity for a further five years.

31. Reports to be provided to the GCF may include quarterly financial management reports; semi-annual progress reports; and interim and final evaluations for each funded activity (including performance against the investment framework criteria as well as gender).

32. Semi-annual progress reports should cover:

- (a) A narrative on implementation (including performance against the results and indicators of the results management framework); and
- (b) A report on ESS.

33. Based on all possible sources of information, the Secretariat may decide to make spot checks on any documentation submitted by accredited entities. These spot checks may include site visits and will be arranged in coordination with the NDA/focal point.

## 5.6 Online tools

34. The GCF will be likely receiving large volumes of information from project-level and AE-level reporting; therefore it important that appropriate business intelligence tools that

automate and efficiently manage information are developed. An integrated online platform should be developed to include the below functions:

- (a) A portfolio management system to allow the Secretariat to capture all documents in the cycle from accreditation of an AE right through to the most recent project reports and interim/final evaluations, including a real-time database of risk flags, searchable by AE and by project/programme. This system will integrate the monitoring and reporting toolkits that allow the AEs to report time-based reports online (such as semi-annual progress reports (SAPRs) and project/programme indicators as reported in the funding proposal) and any event-based report;
- (b) An interactive portal designed to facilitate:
  - (i) Communications between NDAs, AEs, project-affected people and communities in a structured manner, and
  - (ii) Organization of NDA annual participatory reviews and the dissemination of their findings; and
- (c) A knowledge management platform designed to organize, validate and publish all documents that are disclosable under GCF interim information disclosure practice to all stakeholders and the public at large.

## **VI. Principles for a policy on fees for accredited entities**

### **6.1 Introduction**

35. This section proposes principles for setting up an initial policy on fees applicable to grants and loans extended by the GCF. Fees are payable to AEs. This fees structure will be revisited annually. Further refinement will be based on feedback received from the GCF engagement with accredited entities following the reviews of the first and second set of funding proposals and also based on a more detailed market survey.

36. This section also provides information on current market practices and notes the policies of other comparable organizations.

37. In order to arrive at the proposed fees structure the practices of other comparable funds were surveyed and then adjusted by giving consideration to some key principles and characteristics of the GCF. These two steps are combined to propose an initial fee structure.

38. The policies/practice on fees of comparable organizations provide some information on the structure of fees policy and market practice, however, they do not provide an exact benchmark for the policies of the GCF. This is because of differences in the structure of those organizations, the services covered under fees, the scale of operation and the unique nature of the GCF which supports projects through a broad range of accredited entities.

### **6.2 Key principles determining the initial fees policy**

39. The main components in determining the fees are as follows:

- (a) Budget of programme/project – expenses incurred to monitor a programme/project do not increase in proportion to the size of the programme/project budget. Monitoring expenditures as a percentage of total expenditures decrease as the overall programme/project budget increases. Thus a smaller percentage will generally apply in larger scale projects;

- (b) Entity type – for the purpose of this exercise, entities are divided into the private and public sectors;
- (c) Type of instrument – In case of grant instruments, it is expected that implementation costs would be covered by the GCF, which is not always the case for the non-grant instruments; and
- (d) Services covered under the fees – the scope of services covered under the fees will play a large part in determining the magnitude of the fees. If additional services are expected to be covered under the fees, then the level of the fees must be sufficient to cover the cost of those additional services. The initial survey of organizations similar to the GCF indicates variation on the types of costs to be covered by the fee paid to the entity carrying out the projects.

### 6.3 Current market practice

40. An initial market survey was performed to examine the practices followed by other organizations. A summary of the practices undertaken by other organizations is provided below.

### 6.4 Global Environment Facility

41. In November 2011, the Global Environment Facility Council established a working group to review the fees for project management costs. As a result, a new fee structure was put in place in June 2012.

**Table 1. Global Environment Facility**

	Projects		Programmes	
	Up to USD 10 million	Over USD 10 million	Regular	Small grants
<b>Agency fees</b>	9.5%	9%	8–9%	4%

42. Cost components covered by the Global Environment Facility fee are as follows:
- (a) Project identification and preparation of proposal;
  - (b) Agency project approval;
  - (c) Project implementation/supervision;
  - (d) Project completion/evaluation;
  - (e) Portfolio management;
  - (f) Reporting;
  - (g) Policy support; and
  - (h) Support to the Evaluation Office.

### 6.5 Adaptation Fund

43. Implementing entity fees are set by the Adaptation Fund Board on a case-by-case basis, but capped at 8.5 per cent. There is also a separate cap for execution (9.5 per cent) which covers activities directly related to the project.

44. In practice, project data indicate that implementing entity fees amount effectively to 8.3 per cent. Execution costs are included in the project cost and not separated.

**Table 2. Adaptation Fund**

	<b>Implementing entity fees</b>	<b>Execution costs</b>
Project and programme operational costs	8.5% cap <sup>5</sup>	9.5% cap <sup>6</sup>
Inclusion	Corporate activities fees; and project cycle management fees	Staffing costs; and project-related activity expenditures

45. A flat amount of up to USD 30,000 is provided by the Adaptation Fund to national implementing entities as a project formulation grant, inclusive of the management fee, which cannot exceed 8.5 per cent of the grant total.<sup>7</sup>

## 6.6 Climate Investment Funds

46. Under the Climate Investment Funds, the cost of programme delivery falls into two broad categories:

- (a) Programme-related costs– administrative budget; and
- (b) Project-related costs: multilateral development bank project implementation services (MPIS).

47. Multilateral development banks (MDBs) recover programme-related costs via the administrative budget, and project-related costs through MPIS.

48. MDBs recover project related costs through payments for MPIS which are determined on a case-by-case basis for Strategic Climate Fund projects, as well as project grant funding and private sector projects from the Clean Technology Fund.

49. Payment structure of the multilateral development bank project implementation services

**Table 3. Clean Technology Fund**

	<b>Loans and guarantees</b>	<b>Grants</b>
Multilateral development bank project implementation services funding as a percentage of project funding	0.18% paid semi-annually 0.45% paid up-front <sup>8</sup>	Cannot exceed 5% of the total grant <sup>9</sup>
Function	Reimburse the multilateral development bank for its incremental staff, consultants, travel and related costs of project development, appraisal, implementation support, supervision and reporting	

<sup>5</sup> Adaptation Fund Board decision B.11/16. Available at <<https://www.adaptation-fund.org/documents-publications/>>.

<sup>6</sup> Adaptation Fund Board decision B.13/17.

<sup>7</sup> Adaptation Fund Board decision B.12/28.

<sup>8</sup> ICF International. 2013. *Independent Evaluation of the Climate Investment Funds. Final Interim Report*. pp. Pp.127--137. Available at <[http://www.cifevaluation.org/cif\\_interim\\_report.pdf](http://www.cifevaluation.org/cif_interim_report.pdf)>.

<sup>9</sup> As footnote 9 above.

**Table 4. Strategic Climate Fund**

Multilateral development bank project implementation services funding as a percentage of project funding	3.4% on averages <sup>10</sup>
Function	Reimburse the multilateral development bank for its incremental staff, consultants, travel and related costs of project development, appraisal, implementation support, supervision and reporting

## 6.7 Multilateral Fund for the Implementation of the Montreal Protocol

50. The Multilateral Fund for the Implementation of the Montreal Protocol provides financial and technical assistance in the form of grants and concessional loans through four implementing agencies: the United Nations Environment Programme, the United Nations Development Programme, the United Nations Industrial Development Organization and the World Bank. Up to 20 per cent of the financial resources can be delivered through bilateral agencies.

### 6.7.1 Administrative costs

51. At its 67<sup>th</sup> meeting, the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol decided to apply the existing administrative cost regime to the United Nations Environment Programme and the bilateral agencies, and to apply a new administrative cost regime to the United Nations Development Programme, the United Nations Industrial Development Organization and the World Bank during the 2012–2014 triennium. Details are given in the table below.

**Table 5. Multilateral Fund**

United Nations Environment Programme	United Nations Development Programme	United Nations Industrial Development Organization	World Bank	Bilateral agencies
13% for projects below USD 500,000; 11% for projects below USD 5 million and negotiated above USD 5 million <sup>11</sup>	7% for projects above USD 250,000; 9% for projects below USD 250,000; and An agency fee no greater than 6.5%, to be determined on a case-by-case basis for projects in the production sector <sup>12</sup>			13% for projects below USD 500,000; and 7.5% for projects above that amount <sup>13</sup>

<sup>10</sup> As footnote 9 above.

<sup>11</sup> Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol decision 26/41. Available at <<http://www.multilateralfund.org/MeetingsandDocuments/default.aspx>>.

<sup>12</sup> Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol decision 67/15.

<sup>13</sup> Adaptation Fund Board document AFB/EFC.4/7/Rev.1.

6.7.2 **Project preparation costs<sup>14</sup>**

52. Most of the preparation grants are around USD 100,000 but they could reach up to USD 1.5 million for larger countries.

6.8 **The Global Fund**

6.8.1 **Administrative fees**

53. Administration fees are paid to local fund agents or principal recipients who act as ‘implementing entities’, with which The Global Fund signs a legal grant agreement. Principal recipients are responsible for preparing and submitting a grant proposal, with a budget, including their ‘overhead costs’. Management fees are usually included in such overhead costs, and the budget is negotiated between the principal recipients and the Secretariat for each grant.

54. Overhead costs differ depending on who the principal recipient is.

**Table 6. The Global Fund**

	<b>International NGOs</b>	<b>Local NGOs</b>
Indirect cost recovery as a percentage of Direct costs incurred by PR <sup>15</sup>	Up to 7%	Up to 5%

Abbreviations: INGO = international non-governmental organization, NGO = non-governmental organization, PR = principal recipient.

6.9 **GAVI Alliance**

6.9.1 **Background**

55. The types of support that the GAVI Alliance offers include immunization services support, new and underused vaccines support, injection safety support, health system strengthening and civil society organization support.

6.9.2 **Support for project management**

56. The GAVI Alliance encourages countries to align the implementation arrangements for its support with existing country mechanisms. Therefore, applicants are strongly discouraged from establishing a project management unit for GAVI Alliance supported initiatives.<sup>16</sup> The support for any project management unit is generally examined under exceptional conditions only, and on the basis of strong justification.

<sup>14</sup> Adaptation Fund Board document AFB/EFC.3/5.

<sup>15</sup> The Global Fund. 2015. *Operational Policy Manual*. Available at <[http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCQQFjAA&url=http%3A%2F%2Fwww.theglobalfund.org%2Fdocuments%2Fcore%2Fmanuals%2FCore\\_OperationalPolicy\\_Manual\\_en%2F&ei=p4o3VdSgI8Lp8AWa\\_oHADw&usg=AFQjCNGHsQ7BHhOb1KFz2BIP3oAWSNjabQ&sig2=66JPgDgXh3qPplBR\\_7NroQ&bvm=bv.91071109,d.dGc](http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCQQFjAA&url=http%3A%2F%2Fwww.theglobalfund.org%2Fdocuments%2Fcore%2Fmanuals%2FCore_OperationalPolicy_Manual_en%2F&ei=p4o3VdSgI8Lp8AWa_oHADw&usg=AFQjCNGHsQ7BHhOb1KFz2BIP3oAWSNjabQ&sig2=66JPgDgXh3qPplBR_7NroQ&bvm=bv.91071109,d.dGc)>.

<sup>16</sup> As footnote 18 above.

### 6.9.3 Project preparation costs

57. Countries can request up to USD 50,000 to prepare proposals on health system strengthening support. Also, technical support to prepare proposals is provided by the World Health Organization, the United Nations Children’s Fund or bilateral agencies.<sup>17</sup>

## 6.10 European Commission

58. Indirect costs may be either funded on a flat-rate basis or on a real-cost basis. These two options are mutually exclusive. The use of flat-rate funding is encouraged, since no supporting documents are required for these costs once agreed in the contract. In the case of flat-rate reimbursement, the maximum allowed indirect cost is 7 per cent.<sup>18</sup> This 7 per cent is the maximum but if it is not justified then a smaller percentage will be envisaged.

## 6.11 Initial proposed fees structure for the Green Climate Fund

59. The table below shows the proposed initial fees structure of the GCF.

**Table 7. Initial fee structure**

GCF funding	Fees cap % (on grant)	
	Mitigation projects	Cross-cutting and adaptation projects
<= USD 50 million	[6.0%]	[7.0%]
>USD 50 million	[5.0%]	[6.0%]

60. The schedule of the cap on fees applicable to public sector projects/programmes public sector projects/programmes:<sup>19</sup>

- (a) The present value of the fees paid over the life of a loan (disbursement and repayment periods) will be equivalent to the total amount of fees paid for a similar grant-funded project; and
- (b) In the case where the GCF loan is blended by the AE, the level of fees will be defined on a case-by-case basis. However, where an AE is the final recipient of the loan then no fee is payable.

61. The fees cap on a readiness grant, which is generally from USD 150,000 to 500,000 per proposal, will be 8 per cent. The following services will be covered by GCF fees:

- (a) Proposal preparation;
- (b) Project or programme implementation programme implementation and supervision;
- (c) Project or programme completion programme completion and evaluations; and
- (d) Reporting.

<sup>17</sup> As footnote 19 above.

<sup>18</sup> See <<http://ec.europa.eu/europeaid/companion/document.do?nodeNumber=19.3.1.5>>.

<sup>19</sup> If a grant/loan falls under the higher GCF funding category the fees should not be lower than the highest fees payable under the preceding lower funding category. For example, the fees payable for a USD 51 million mitigation grant should be USD 3 million (i.e. USD 50 million × 6 per cent) and not USD 2.55 million (i.e. USD 51 million × 5 per cent).

## 6.12 Justification for the proposed fee structure:

62. Services required by the GCF have a more limited scope than some of the other comparable organizations. For instance, the GCF does not expect accredited entities to carry out policy support for the Board or the Secretariat, as well as part of the portfolio management services, etc. Due to the lack of granularity of the information available from other institutions, it has been difficult to break down precisely the costs as currently practised.

63. The fee proposed by the GCF is higher than the CIFs MPIS fee so as to reflect the fact that the programme-related cost of Climate Investment Funds is recovered by MDBs through the administrative budget of Climate Investment Funds. On the other hand, the proposed fee is lower than those of the GEF and the Adaptation Fund. The proposed fee is in line to a greater degree with the Multilateral Fund for the Implementation of the Montreal Protocol and the European Commission.

64. The GCF is operating at a larger scale than some of the comparable organizations in the sector, and hence the entities can use the economies of scale to their advantage.

65. The GCF fee should mainly cover the additional cost which an organization incurs due to GCF projects/programmes, for example the GCF fee is not expected to cover the cost of staff.

66. Lowering administrative cost makes more resources available for actual climate activities for which resources are already scarce.

## Annex I: Draft decision of the Board

The Board having reviewed document GCF/B.11/05 titled “Initial monitoring and accountability framework for accredited entities”:

- (a) Adopts the monitoring and accountability framework for accredited entities as contained in annex II to this document;
- (b) Requests the Secretariat to develop the appropriate tools and internal procedures to operationalize the initial monitoring and accountability framework; and
- (c) Adopts the policy on fees for accredited entities for accredited entities as detailed in annex III to this document.

## **Annex II: Monitoring and accountability framework for accredited entities**

1. The monitoring and accountability framework of the GCF is designed to ensure the compliance of accredited entities (AEs) with their accreditation standards over time and effective implementation of each of the GCF-funded projects and programmes of the AE.
2. Monitoring and accountability involve a series of actors with specific roles and responsibilities. These include AEs; the Secretariat and the Fund's accountability units; national designated authorities (NDAs) or focal points; the direct beneficiaries of the projects and programmes; project-affected people and communities; and other local actors such as local governments, civil society organizations, non-governmental organizations and the private sector. This annex outlines:
  - (a) The components of the monitoring and accountability framework, including reporting requirements for accredited entities and for individual GCF-funded activities;
  - (b) The risk-based monitoring approach to be implemented by the GCF;
  - (c) The incentives and remedial measures available in cases of non-compliance or poor performance;
  - (d) The process leading to re-accreditation of an AE; and
  - (e) Related online tools for monitoring and reporting by AEs, portfolio management by the Secretariat, communications between NDAs and AEs, and knowledge management for all stakeholders.
3. In terms of institutional responsibilities, the NDA or focal point is responsible for giving its no objection to each funding proposal before it is processed for submission to the Board for approval; the AE is responsible for implementing the project in compliance with the funded activity agreement; the Secretariat will be responsible for implementing the monitoring and accountability framework; and the accountability units of the GCF will play a role according to the mandate in their terms of reference.
4. This annex aims to provide a general framework for monitoring and accountability. Detailed operational procedures, guidelines and tools will be developed in order to implement this framework.

### **I. Monitoring and accountability framework components**

5. The framework will be built on two components, monitoring of AE compliance with the accreditation standards of the GCF; and monitoring and evaluation of individual funded activities (projects or programmes).

#### **1.1 Accredited entity compliance**

6. The accreditation of an entity to the GCF is valid for a fixed term of five years or less, depending on the terms of accreditation, in accordance with decision B.10/07.
7. During the five-year accreditation term, the GCF will monitor the compliance of the AE with the standards of the GCF and its obligations, as follows:
  - (a) On an annual basis, AEs should provide a self-assessment of their compliance with the GCF fiduciary standards, environmental and social safeguards (ESS) and gender policy. For international entities, the self-assessment, should also include a report on the

support provided to direct access entities for accreditation or to build their capacity, as requested by the Board (decision B.10/06, paragraph (i)). The most recent available financial report/statements at the level of the AE's overall operations should also be submitted to the Secretariat along with the self-assessment. The Secretariat will develop a standard template for such reports;

- (b) At the midpoint of the accreditation period, the Secretariat will undertake a light-touch mid-term review of the compliance performance of the AE. The Secretariat will develop standard terms of reference for the mid-term reviews; and
  - (c) In exceptional cases, the GCF may initiate additional ad hoc compliance reviews.<sup>1</sup>
8. The Secretariat will be responsible for programming mid-term reviews and any ad hoc reviews, in coordination with the AE, and producing the relevant reports.
9. Once a year, the Secretariat will report to the Board on the consolidated results of the self-assessments, mid-term reviews and ad hoc reviews.

## 1.2 Funded activity monitoring

10. During the project implementation period, reporting requirements may include the following:
- (a) Quarterly financial management reports. Among other things, these reports will include dates and amounts disbursed for each funded activity and compliance with financial covenants;
  - (b) SAPRs to the GCF; and
  - (c) An interim evaluation report and a final evaluation report for each funded activity. These project/programme-level evaluations should also assess the performance of the funded activity against the GCF investment framework criteria, including financial/economic performances as part of the project/programme efficiency and effectiveness criterion.
11. During the post-implementation period, the submission of SAPRs might be required. In some cases, it will not be cost-effective to contract the AE to provide post-implementation monitoring. In these cases, the GCF would develop alternative arrangements.
12. Contents for SAPRs should include a narrative report (with supporting data as needed) on implementation progress based on the logical framework submitted in the funding proposal and considerations on the ongoing performance of the project/programme against the GCF investment framework criteria, including updates on the indicators and a report on ESS as well as gender. The report should align with the modalities set out in the GCF results management framework<sup>2</sup> and its performance measurement frameworks for adaptation and mitigation,<sup>3</sup> as amended and updated from time to time.
13. At the project/programme level, the AE should encourage participatory monitoring, involving communities and local stakeholders. For local monitoring of the overall portfolio of GCF-funded projects and programmes in each country, the NDA or focal point may organize an

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<sup>1</sup> If stipulated in the accreditation master agreement; or if the GCF revises its guiding framework for the accreditation process or substantially revises the GCF fiduciary standards, ESS and/or gender policy that are the requirements for accreditation; or if there is evidence of a lack of compliance by AE with the legal terms agreed with the GCF, its fiduciary standards, its ESS and/or gender policy; or if there is any emerging indication of misuse of the entrusted financial resources.

<sup>2</sup> Decision B.07/04.

<sup>3</sup> Decision B.08/07.

annual participatory review for local stakeholders, notably project-affected people and communities, including women. The review will adhere to the following:

- (a) The policy of the GCF is to communicate in English. In cases where stakeholder consultations require materials in local languages in order for the consultation to be effective and meaningful, the NDA, in cooperation with the AE, shall provide such materials in a timely manner in advance of the consultations; and
  - (b) The Readiness Programme, in coordination with the NDA, may provide support to such annual participatory reviews.
14. At its own discretion, the Secretariat may decide to undertake additional **spot checks** to follow up on the reports on compliance and performance submitted by AEs. These spot checks may include site visits and will be arranged in coordination with the NDA/focal point and the AE. The risk-based approach to select spot-checks is discussed below.

## II. Risk-based monitoring approach

15. The Secretariat will develop an early warning system based on risk flags and will use all available sources of information; moreover, it may update the flags at any time. These flags will reflect the Secretariat's assessment of the following:

- (a) Risks related to the project itself (project risk flags);
- (b) Risks related to the overall performance of the AE (AE risk flags); and
- (c) Risks related to the overall economic and political environment of the host country (country risk flags).

16. In cases where the Secretariat assigns a project risk flag, the Secretariat should also estimate the value of commitments at risk under the project. This reflects the fact that only some parts/components of the project may be affected by delays or poor/improper execution.

17. In cases where the Secretariat assigns an AE risk flag, the value of commitments at risk would typically include all components for which implementation has already taken place—across all projects in the GCF-funded portfolio of the AE. To avoid double-counting, the Secretariat would only assign an AE risk flag in cases where there are systemic risks over and above the risks already captured by the project risk flags for that AE.

18. The country risk flag is intended to reflect a significant deterioration in the economic and/or political environment in which the AE is operating. For example, in extreme cases of political upheaval, the GCF may need to temporarily suspend operations until the legitimacy of the new authorities is fully confirmed.

19. The GCF monitoring and accountability framework will use a risk-based approach to decide on the spot checks, with the Secretariat taking into account risk flags as well as other information that may be presented to the GCF in determining where to conduct the preponderance of spot checks. In addition, the Secretariat will conduct a small number of spot checks each year on a random basis.

20. An annual review will be conducted on a risk-based sample of AEs. The annual review will consist of an analysis of the information available from the overall risk management system of the GCF.

21. The selection criteria for including projects and programmes in the annual review would include the following:

- (a) Projects/programmes of AEs that have an outstanding accreditation condition;

- (b) Projects/programmes that have a risk flag assigned by the monitoring and accountability process;
- (c) Projects/programmes classified in the high environmental and social risk category A/intermediation 1; and
- (d) Any projects under special oversight.

### III. Incentives and remedial measures

22. In cases where the Secretariat identifies AE compliance or performance issues, the Secretariat will inform the AE that a risk flag has been assigned and will invite the AE to discuss and agree on the following:

- (a) An action programme of immediate remedial measures to resolve these issues, including deadlines for the completion of each step in the action programme by the end of a 'cure period'; and
- (b) If needed, capacity-building support in order for the AE to avoid the recurrence of similar issues over the medium term (with possible support, in coordination with the NDA, from the Readiness and Preparatory Support Programme for direct access entities).<sup>4</sup>

23. At the same time, the Secretariat will inform the AE of the additional measures that may be taken if the issues remain unresolved at the end of the cure period. The timing and nature of these additional measures might depend on the nature of the impacts and risks and to some extent on the possible impacts on the reputation of the GCF.

24. The main options for remedial measures may include the partial or total suspension of disbursements or commitments at project level or, if relevant, at the accredited-entity level.

25. In cases where it is decided that the accreditation of the AE will be suspended, cancelled or downgraded, the GCF will negotiate an orderly process for the winding down and closure of GCF-funded projects.

26. In some cases, the GCF may wish to preserve business continuity on existing GCF-financed projects with an AE whose accreditation has been changed. The AMA and the funded activity agreement (FAA) will include provisions giving the GCF step-in rights in these cases.

27. The Secretariat will be responsible for issuing and closing-out risk flags. All decisions on suspension, cancellation and/or changing of the accreditation status of an AE will be subject to Board approval.

### IV. Re-accreditation

28. The risk-based approach will also apply to the re-accreditation of AEs at the end of their five-year accreditation period. In the six months prior to the end of the accreditation period, the AE may submit an application either for re-accreditation in the same categories as before, or for accreditation in higher categories (i.e., upgrade).

29. For each re-accreditation application, the Secretariat and the Accreditation Panel will review reports relating to the performance of the AE over the previous five years, including reports on the GCF-funded activities of the AE. The review will pay particular attention to all risk flags incurred by the projects, AE or country over the previous five years and make a

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<sup>4</sup> Readiness support will be available for the prevention of future problems but not for the resolution of immediate issues.

recommendation to the Board if the AE wishes to extend its accreditation in the same categories as before.

30. In some cases, the Accreditation Panel may recommend to the Board that the accreditation be changed to a lower accreditation category (i.e., downgrade).

## V. Online tools

31. The GCF will be likely receiving large volumes of information from project-level and AE-level reporting, it is therefore important that appropriate business intelligence tools that automatize and manage efficiently information are developed. An integrated online platform should be develop to include the below functions:

- (a) A portfolio management system to allow the Secretariat to capture all documents in the cycle from accreditation of an AE right through to the most recent project reports and interim/final evaluations, including a real-time database of risk flags, searchable by AE and by project/programme. This system will integrate the monitoring and reporting toolkits that allow the AEs to report online time-based reports (such as the SAPRs and project/programme indicators as reported in the funding proposal) and any event-based report;
- (b) An interactive portal designed to facilitate:
  - (i) Communications between NDAs, AEs, project-affected people and communities in a structured manner, and
  - (ii) Organization of NDA annual participatory reviews and the dissemination of their findings; and
- (c) A knowledge management platform designed to organize, validate and publish all documents that are disclosable under GCF interim information disclosure practice to all stakeholders and the public at large.

## Annex III: Policy on fees for accredited entities

### I. Initial proposed fees structure for accredited entities

1. The table below shows the proposed initial fees structure for accredited entities of the Green Climate Fund.

**Table 8. Schedule of cap on fees applicable to public sector projects/programmes<sup>1</sup>**

GCF funding	Fee cap % (on grant)	
	Mitigation projects	Cross-and adaptation
<= USD 50million	[6%]	[7%]
>USD 50 million	[5%]	[6%]

2. The present value of the fees paid over the life of a loan (disbursement and repayment periods) will be equivalent to the total amount of fees paid for a similar grant-funded project.

3. In the case where the GCF loan is blended by the accredited entity (AE), the level of fees will be defined on a case-by-case basis. However, where an AE is the final recipient of the loan, no fees are payable.

4. The fees cap on readiness grants, which are generally in the range of USD 150,000 to USD 500,000 per proposal, will be 8 per cent.

5. The following services will be covered by the GCF fees:

- (a) Proposal preparation;
- (b) Project or programme implementation and supervision;
- (c) Project or programme completion and evaluations; and
- (d) Reporting.

6. Under decision B.09/04, the Board decided that “the financial terms and condition for non-grant instruments to the public sector, other than concessional loans, will be established on a case-by-case basis. It also decided that all non-grant instruments extended to the private sector shall be determined on a case-by-case basis, taking into consideration Annex III to decision B.05/07 and section III in Annex XIV to decision B.07/06.

7. In line with this, the fees for the private sector and fees for non-grant instruments other than concessional loans to the public sector should be decided on case-by-case basis.

8. Timing of fees disbursement:

- (a) Fees on grants will be proportionality disbursed along with each grant instalment; and
- (b) Fees on loans will be paid semi-annually in advance.

9. The Secretariat is authorized to disburse the fees for each funded activity approved by the Board in accordance to the *policy on fees for accredited entities*.

<sup>1</sup> If a grant/loan falls under the higher GCF Funding category the fees shouldn't be lower than the highest fees payable under preceding lower funding category. For example, the fees payable for a USD 51 million mitigation grant should be USD 3 million (i.e. USD 50 million × 6 per cent) and not USD 2.55 million (i.e. USD 51 million × 5 per cent).