



**GREEN  
CLIMATE  
FUND**

**Meeting of the Board**  
2–5 November 2015  
Livingstone, Republic of Zambia  
Provisional Agenda Item 22\*

**GCF/B.11/18**

18 October 2015

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## Policies addressing fraud, corruption and other prohibited practices, and policies addressing anti-money laundering and countering the financing of terrorism (status update)

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### Summary

At its tenth meeting, the Board of the Green Climate Fund (GCF), by its decision B.10/06,

- a) Requested the Secretariat to present relevant policies addressing fraud, corruption and other prohibited practices, and policies addressing anti-money laundering and countering the financing of terrorism; and
- b) Further it requested the Secretariat to create these policies while taking into account relevant Board decisions, international best practices, standards for inclusion in the GCF's fiduciary principles, and standards adopted in decision B.07/02.

This document contains an overview of the GCF's current policies addressing fraud, corruption and prohibited practices, along with a summary of international best practices and a recommendation for how to proceed with next steps.

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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.

## I. Introduction

1. The Board of the Green Climate Fund (GCF), in decision B.10/06, paragraph (n), requested the Secretariat to present relevant policies addressing fraud, corruption and other prohibited practices, and policies addressing anti-money laundering and countering the financing of terrorism (AML/CFT) issues, taking into account relevant Board decisions, international best practices, standards for inclusion in the GCF's fiduciary principles, and standards adopted in decision B.07/02.
2. The GCF's initial fiduciary principles and standards adopted in annex II to decision B.07/02, do not contain specific AML/CFT criteria against which an entity applying for accreditation with the Fund has to be assessed.
3. This document contains an overview of the current policies and interim practices applied by the GCF to address fraud, corruption and other prohibited practices as well as AML/CFT.
4. The document further describes international best practices and standards for addressing these issues and proposes an international standard on which to base the Fund's own policy.

## II. Recommended action by the Board

5. It is recommended that the Board:
  - (a) Take note of the information presented in document GCF/B.11/18 titled "Policies addressing fraud, corruption and other prohibited practices, and policies addressing anti-money laundering and countering the financing of terrorism (status update)"; and
  - (b) Adopt the draft decision presented in Annex I to this document.

## III. Overview current policies and practices

6. The Board has adopted various policies addressing fraud, corruption and other prohibited practices:
  - (a) The Administrative Guidelines on Human Resources (decision B.08/17), refers to violations of the Fund's Anticorruption Policy (including Fraudulent Practices, Corrupt Practices or Conflicts of Interest). However, the Fund has not yet adopted an anticorruption policy, other than in specific policies and guidelines as further set out below;
  - (b) The Corporate Procurement Guidelines on the Use of Consultants and the Corporate Procurement Guidelines for Goods and Services (decision B.08/21), which contains provisions to prevent corrupt, fraudulent, coercive and collusive practices, which are defined therein or referred to collectively as Integrity Violations. In addition, the Corporate Procurement Guidelines on the Use of Consultants provides that the Fund will not contract services from any country, organization or individual specifically referred to in any current resolutions of the United Nations Security Council or appearing on the List of Debarred Firms of the World Bank;
  - (c) The Policy on Ethics and Conflicts of Interest for the Board of the Green Climate Fund (decision B.09/03), containing provisions to prevent Prohibited Practices, as defined therein. Prohibited Practices encompass corrupt, fraudulent, coercive, collusive and obstructive practices, as well as harassment;

- (d) The Policy on Ethics and Conflicts of Interest for External Members of the Green Climate Fund Panels and Groups (decision B.10/13), containing similar provisions on Prohibited Practices; and
  - (e) The Policy on Ethics and Conflicts of Interest for the Executive Director of the Green Climate Fund (decision B.10/13), containing a general provision that the Executive Director shall maintain the highest standards of integrity in his/her personal and professional conduct and observe principles of good governance.
7. In addition to the policies adopted by the Board, the Secretariat has developed certain interim practices to address fraud, corruption and other prohibited practices, including AML/CFT, in its day to day operations:
- (a) The Fund's template readiness grant agreement refers to General Principles to Prevent Prohibited Practices, attached as Annex II to this document and is also made publically available on the Fund's website. The template has specific provisions aimed at preventing AML;
  - (b) The draft accreditation master agreement (AMA) has an exhibit on the general principles on prohibited practices (General Principles). The AMA is proposed to impose the obligation on the accredited entity to comply with its own relevant standards in order to be able to comply with the General Principles. The General Principles, attached as Annex III, are an extended version of the General Principles to Prevent Prohibited Practices used for the readiness program; and
  - (c) The Secretariat is further performing customarily "know your customer (KYC)" due diligence on its counterparties, such as readiness support delivery partners and beneficiaries, NDAs, accredited entities and beneficiaries of the Fund's funding (which funding is subject to a Board approved funding proposal).

#### **IV. International Best Practices**

8. As the international community has become increasingly concerned about the growing problem of money laundering, the Asian Development Bank (ADB) became one of the first multilateral development banks to address the money laundering problem, directly and indirectly, through policies and regional country assistance programs.
9. Since the September 11 attacks, however, the international community, including the ADB, the International Monetary Fund (IMF), the World Bank, and others, have joined together and been led in its efforts to combat money laundering and terrorism by the United Nations and the Financial Action Task Force on Money Laundering (FATF).
10. The FATF was established in 1989 as an inter-governmental body by the Group of Seven (G-7) Summit held in Paris. The FATF currently comprises 34 member jurisdictions and two regional organizations, representing most major financial centers in all parts of the globe. The FATF works to develop and promote policies to protect the global financial system against money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction. Multilateral development banks and others generally recognize the FATF's recommendations, best practices and guidance as the international standard for AML and CFT practices.
11. The Secretariat wishes to further analyze the various international standards bearing in mind the multilateral character of the Fund and the purpose of the accreditation process, for which the relevant policies are meant to serve as a benchmark against which the applicant entity can be assessed.

## V. Next steps

12. Although progress has been made by the Secretariat in analyzing best practices, further work needs to be done. In decision B.10/06, the Board authorized the Executive Director to recruit a fiduciary compliance specialist with AML/CFT skills. Efforts have been made and continue to be made to hire this specialist but for reasons explained in document GCF/B.11/19 "Updated Administrative Guidelines on Human Resources", attracting staff has proven to be challenging.

13. If the Board so decides, the Secretariat shall continue its work on developing policies addressing fraud, corruption and other prohibited practices, and policies addressing AML/CFT issues, taking into account relevant Board decisions, international best practices, standards for inclusion in the Fund's fiduciary principles, and standards adopted in decision B.07/02.

## Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.11/18 titled “Policies addressing fraud, corruption and other prohibited practices, and policies addressing anti-money laundering and countering the financing of terrorism (status update)”:

- (a) Takes note of the progress made by the Secretariat to prepare relevant policies addressing fraud, corruption and other prohibited practices, policies addressing anti-money laundering and countering the financing of terrorism (AML/CFT), taking into account relevant Board decisions, international best practices, standards for inclusion in the GCF’s fiduciary principles, and standards adopted in decision B.07/02; and
- (b) Requests the Secretariat to continue its work on these policies and to present a draft to the Board at its second meeting in 2016.

## Annex II: General Principles to Prevent Prohibited Practices (March 2015)

1. **Purpose:** The Green Climate Fund (“Fund”) has a fiduciary responsibility to ensure that its grants, loans and other forms of financing or support are used only for the purposes for which they were granted, in accordance with the Governing Instrument for the Green Climate Fund (“Governing Instrument”). To uphold that obligation, pending adoption of a formal policy on the prevention of fraud, corruption and other prohibited practices, these general principles are provided by the Fund to prevent or mitigate fraud, corruption, and other prohibited practices in Fund-related Activities (as defined herein).
2. **General Requirements:** The Fund requires all parties executing, implementing, bidding for, or in any way participating in, Fund-related Activities, to:
  - (a) adhere to the highest ethical standards;
  - (b) take all appropriate measures to prevent or mitigate fraud, corruption, and other Prohibited Practices, as defined herein; and
  - (c) refrain from engaging in Prohibited Practices in connection with Fund-related Activities.
3. **“Fund-related Activities”** means any activity which is financed, administered or supported by the Fund, either with its own resources or with the funds of others, or any activity that materially affects or may affect or otherwise be relevant to the Fund. **“Recipient”** means any person or entity that receives, or is a beneficiary of, a grant, loan or other forms of financing or support from the Fund.
4. **Prohibited Practices:** The practices defined in this paragraph are prohibited (“Prohibited Practices”):
  - (a) A “corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
  - (b) A “fraudulent practice” is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit, or to avoid an obligation.
  - (c) A “coercive practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.
  - (d) A “collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including to improperly influence the actions of another party.
  - (e) An “obstructive practice” includes deliberately destroying, falsifying, altering, or concealing evidence material to an investigation; making false statements to investigators in order to materially impede an investigation; threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or materially impeding the Fund’s contractual rights of audit or access to information.
  - (f) An “abuse” is theft, misappropriation, waste or improper use of property or assets related to Fund-related Activity, either committed intentionally or through reckless disregard.
  - (g) A “conflict of interest” is any situation in which a Recipient or any of its staff involved in the relevant decision making process has interests that could, or could be deemed to,

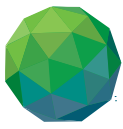
improperly influence its performance of official duties or responsibilities, contractual obligations, or compliance with applicable laws and regulations.

5. **Action to be taken by the Recipient in relation to Fund-related Activities:** Unless otherwise agreed in writing by the Fund and the Recipient, the Recipient shall take timely and appropriate measures to:

- (a) Ensure that the Fund-related Activity is carried out in accordance with these general principles;
- (b) Disclose and address conflicts of interest in the Fund-related Activity. If a conflict of interest or deemed conflict of interest arises, the Recipient shall promptly inform the Fund thereof and shall follow the instructions by the Fund on how to address such conflict or deemed conflict;
- (c) Prevent Prohibited Practices from occurring in relation to the Fund-related Activity, including adopting, implementing, and enforcing appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the grant, loan or other forms of financing or support are used only for the purposes for which such financing or support was granted;
- (d) Promptly inform the Fund of allegations of Prohibited Practices found or alleged in connection with a Fund-related Activity;
- (e) Investigate allegations of Prohibited Practices and report preliminary and final findings of investigations to the Fund;
- (f) Respond to, mitigate, and remedy Prohibited Practices that are found to have occurred in a Fund-related Activity and prevent its occurrence;
- (g) Cooperate fully with the Fund in any Fund investigation into allegations of Prohibited Practices related to a Fund-related Activity, and take all appropriate measures to ensure the full cooperation of relevant persons and entities subject to such investigation, including, in each case, allowing the Fund to meet with relevant persons and to inspect all of their relevant accounts, records and other documents and have them audited by or on behalf of the Fund; and
- (h) Ensure that persons or entities sanctioned by the Fund do not participate in Fund-related Activities in violation of their sanction.

6. **Actions to be taken by the Fund to prevent Prohibited Practices in relation to Fund-related Activities:** Unless otherwise agreed in writing by the Fund and the Recipient, the Fund shall:

- (a) Inform the Recipient of credible and material allegations or other indications of Prohibited Practices related to a Fund-related Activity;
- (b) Have the right to investigate allegations independently or in collaboration with the Recipient;
- (c) Inform the Recipient of the outcome of any investigation;
- (d) Have the right to reject or disqualify a proposal for an award of a contract, or terminate a contract, in connection with a Fund-related Activity if it determines that an individual or entity recommended for the award, or a party to the contract, has directly or indirectly, engaged in any Prohibited Practices defined above;
- (e) Have the right to sanction any individual or entity for engaging in Prohibited Practices defined above in accordance with the Fund's policies and procedures, as may be adopted and amended from time to time; sanctions may result in that party's exclusion from participating in a Fund-related Activity indefinitely or for a stated period of time; and



- (f) Have the right to:
  - (i) Share information on sanctions imposed pursuant to paragraph (d) with other multilateral institutions; and
  - (ii) Recognize sanctions determined by other multilateral institutions, both in accordance with agreements for the mutual enforcement of debarment that may be entered into.



## Annex III: General Principles on Prohibited Practices

### I. Introduction

1. The Green Climate Fund ("Fund") is strongly committed to preventing and combating fraud, corruption, Money laundering, Terrorist financing and other Prohibited Practices (as defined below), in accordance with international standards. In that regard, it expects all individuals and entities involved in Fund-related Activities (as defined below) to observe the highest standards of ethics and to take appropriate measures to prevent and combat such Prohibited Practices.

### II. Scope

2. These General Principles shall apply to all:
- (a) "**Fund-related Activities**", which means any activity which is financed, administered or supported by the Fund, either with its own resources or those of others, or any activity that materially affects or may affect or otherwise be relevant to the Fund, and
  - (b) "**Counterparties**", which means any party that contributes to, executes, implements, bids for, benefits from, or in any way participates in, Fund-related Activities, including receiving, or being a beneficiary of, a grant, loan or other form of financing or support from the Fund,
  - (c) In respect of "**Prohibited Practices**" as defined in paragraph 4 below, including attempts to commit or suspicions thereof. For the avoidance of doubt, Fund-related Activities include Funded Activities as defined in the Agreement, and Counterparties include the Accredited Entity and any Executing Entity.

### III. General Requirements of all Counterparties in relation to Fund-related Activities

3. The Fund requires all Counterparties to:
- (a) adhere to the highest ethical standards;
  - (b) take all appropriate measures to prevent or mitigate fraud, corruption, and other Prohibited Practices; and
  - (c) refrain from engaging in Prohibited Practices in connection with Fund-related Activities.
4. **Prohibited Practices.** The practices defined in this paragraph are prohibited ("Prohibited Practices")<sup>1</sup> in relation to Fund-related Activities:
- (a) "Corrupt practice" means the offering, giving, receiving, or soliciting, directly or indirectly, anything of value (including but not limited to gifts, gratuities, favors, invitations, and benefits of any kind) to influence improperly the actions of another party.

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<sup>1</sup> The definitions of corruption, fraud, coercion, and collusion are harmonized definitions adopted by multilateral development banks consisting of the Africa Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IADB), and the World Bank (WB).

- (b) “Fraudulent practice” means any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit, or to avoid an obligation.
- (c) “Coercive practice” means the impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.
- (d) “Collusive practice” means an arrangement between two or more parties designed to achieve an improper purpose, including to improperly influence the actions of another party.
- (e) “Obstructive practice” includes:
  - (i) Deliberately destroying, falsifying, altering, or concealing evidence material to an investigation;
  - (ii) Making false statements to investigators in order to materially impede an investigation;
  - (iii) Failing to comply with requests to provide information, documents or records in connection with a Fund investigation;
  - (iv) Threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or
  - (v) Materially impeding the Fund’s contractual rights of audit or access to information.
- (f) “Abuse” means theft, misappropriation, waste or improper use of property or assets related to Fund-related Activity, either committed intentionally or through reckless disregard.
- (g) A “conflict of interest” is any situation in which a party or any of its staff involved in the relevant decision making process has interests that could, or could be deemed to, improperly influence its performance of official duties or responsibilities, contractual obligations, or compliance with applicable laws and regulations.<sup>2</sup>
- (h) “Retaliation against whistleblowers or witnesses” means any detrimental act, direct or indirect, recommended, threatened or taken against a whistleblower or witness, or person associated with a whistleblower or witness, in a manner material to a complaint because of the report or cooperation with a Fund investigation by the whistleblower or witness.
- (i) “AML” has the meaning as set forth at paragraph 5 (a) below.
- (j) “Terrorist financing” has the meaning as set forth at paragraph 5 (b) below.

5. **Additional Terms and Definitions** - For the purposes of this document, the following terms have the meanings ascribed to them below:

- (a) **“Money laundering”** refers to:
  - (i) The conversion or transfer of property, knowing that such property is the proceeds of crime, for the purpose of concealing or disguising the illicit origin of the property or of helping any person who is involved in the commission of the crime to evade the legal consequences of his or her action;

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<sup>2</sup> A conflict of interest may not, in all cases, in and of itself, constitute a Prohibited Practice.

- (ii) The concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights with respect to property, knowing that such property is the proceeds of crime;<sup>3</sup> or
  - (iii) The acquisition, possession or use of property knowing at the time of its receipt that it is derived from a criminal offence.
- (b) “**Terrorist financing**” means the act of, directly or indirectly, providing or collecting funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out terrorist acts.<sup>4</sup>

#### **IV. Action to be taken by Counterparties to Combat Prohibited Practices in relation to Fund-related Activities.**

6. All Counterparties shall take timely and appropriate measures to:
- (a) Ensure that Fund-related Activities are carried out in accordance with these General Principles;
  - (b) Disclose and address conflicts of interest in a Fund-related Activity. If a conflict of interest or deemed conflict of interest arises, the Counterparty will promptly inform the Fund thereof and shall follow the instructions of the Fund on how to address such conflict or deemed conflict;
  - (c) Prevent Prohibited Practices from occurring in relation to a Fund-related Activity, including adopting, implementing, and enforcing appropriate fiduciary and administrative practices and institutional arrangements to ensure that the Fund proceeds in the form of a grant, loan, contract award, or other forms of financing or support are used only for the purposes for which such financing or support was granted;
  - (d) Promptly inform the Fund of allegations of Prohibited Practices found, suspected or alleged in connection with a Fund-related Activity;
  - (e) Investigate allegations of Prohibited Practices and report preliminary and final findings of investigations to the Fund;
  - (f) Respond to, mitigate, and remedy Prohibited Practices that are found to have occurred in a Fund-related Activity and prevent their occurrence;
  - (g) Cooperate fully with the Fund in any Fund investigation into allegations of Prohibited Practices related to a Fund-related Activity, and take all appropriate measures to ensure the full cooperation of relevant persons and entities subject to such investigation, including, in each case, allowing the Fund to meet with relevant persons and to inspect all of their relevant accounts, records and other documents and have them audited by or on behalf of the Fund; and

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<sup>3</sup> Refer to Article 5 of the United Nations Convention against Transnational Organized Crime, 2000 (the Palermo Convention).

<sup>4</sup> According to Article 2 of the International Convention for the Suppression of the Financing of Terrorism, a person commits the crime of financing of terrorism if that person by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out an offense within the scope of the Convention: (a) An act which constitutes an offence within the scope of and as defined in one of the treaties listed in the annex; or (b) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.

- (h) Ensure that individuals or entities sanctioned by the Fund do not participate in Fund-related Activities in violation of their sanction.

## **V. Actions to be taken by the Fund in cases of Prohibited Practices in relation to Fund-related Activities.**

7. The Fund, through the Integrity Unit or any office of the Fund duly authorized to receive reports, investigate, and address allegations or suspicions of Prohibited Practices prior to the establishment of the Integrity Unit, shall:
- (a) Inform a Counterparty of credible and material allegations or other indications of Prohibited Practices related to a Fund-related Activity;
  - (b) Have the right to investigate allegations independently or in collaboration with competent authorities and/or the Counterparty;
  - (c) Inform the Counterparty of the outcome of any investigation;
  - (d) Have the right to reject or disqualify a proposal for a Fund-related Activity if it determines that the Counterparty has directly or indirectly engaged in any Prohibited Practices;
  - (e) Have the right to sanction any Counterparty for engaging in Prohibited Practices in accordance with the Fund's policies, guidelines and procedures, as may be adopted and amended from time to time; sanctions may result in that Counterparty's exclusion from participating in a Fund-related Activity indefinitely or for a stated period of time;
  - (f) Without limiting the generality of the foregoing, have the right to impose one or more of the following measures on a Counterparty for engaging in Prohibited Practices in connection with a Fund-related Activity:
    - (i) Reprimand – the Fund may send a formal letter of reprimand of the Counterparty's behaviour;
    - (ii) Cancellation or suspension – the Fund may cancel or suspend a portion of Fund proceeds allocated to a Counterparty but not yet disbursed under a financing agreement or contract for goods or services;
    - (iii) Debarment – the Fund may declare a Counterparty, either indefinitely or for a specified period of time, ineligible:
      - 1. To be awarded future financing from the Fund;
      - 2. To be awarded a contract financed by the Fund;
      - 3. To benefit from a contract financed by the Fund, financially or otherwise, for example as a subcontractor; and
      - 4. To otherwise participate in Fund-related Activity, in whole or in part;
    - (iv) Conditional Non-Debarment – the Fund may require the Counterparty to comply, within specified time periods, with certain remedial, preventative or other measures as a condition to avoid debarment. In the event the Counterparty fails to demonstrate its compliance with the prescribed conditions within the time periods established, a debarment may automatically become effective for a period of time; and
    - (v) Restitution of funds – the Fund may require restitution of improperly used or diverted Fund proceeds;



- (g) Have the right to:
    - (i) Share information on sanctions imposed pursuant to subparagraphs 7 (e) and 7 (f) with other international organizations, multilateral institutions and competent authorities; and
    - (ii) Recognize sanctions determined by other international organizations, multilateral institutions and competent authorities, if appropriate.
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