

Initial fiduciary principles and standards

This document is as adopted by the Board and contained in annex II to decision B.07/02.



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. 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.);
 - (a) Existence of adequate internal oversight bodies and transparent rules regarding the appointment, termination and remuneration of members of such committees;
 - (b) 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;
 - (c) A consistent and formal process to set objectives and to ensure that the chosen objectives support and align with the mission of the entity.
 - (d) Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve; and
 - (e) A general management plan that also includes processes to monitor and report on the achievement of set objectives.

1.1.2 Financial management and accounting

- (a) Financial statements follow 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 other equivalent standards;
- (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 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 other equivalent standards;
- (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 equivalent standards;
- (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.

- (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.

1.2.5 Anti-money laundering and anti-terrorist financing

II. Initial specialized fiduciary standards

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

2.1 Initial specialized fiduciary standards relating to project management

13. The underlying principles are:
- (a) Ability to identify, formulate and appraise projects or programmes
 - (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;

2.1.1 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.

2.1.2 Project 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.

2.1.3 Monitoring and evaluation

- 14. The monitoring function detects, assesses, and provides management information about risks relating to projects, particularly those deemed to be at risk.
- 15. The evaluation function assesses the extent to which projects, programmes, strategies, policies, sectors or other activities achieve their objectives and contribute to the initial results areas of the Fund. The goal of evaluation is to provide an objective basis for assessing results, to provide accountability in the achievement of objectives, and to learn from experience (and to 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;

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;
- (b) The evaluation function follows impartial, widely recognized, documented and professional standards and methods;
- (c) 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;

- (d) 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.

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

- (a) A process or system, such as a project-at-risk system, is in place to 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 implementation stages; and
 - (ii) 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.

2.2 Grant award mechanisms

2.2.1 **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.

2.2.2 **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;

2.2.3 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.

2.2.4 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.

2.2.5 Good standing with regard to multilateral funding

2.3 On-lending and/or 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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