

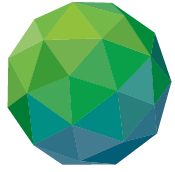
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Rabat, Kingdom of Morocco
24–28 June 2024





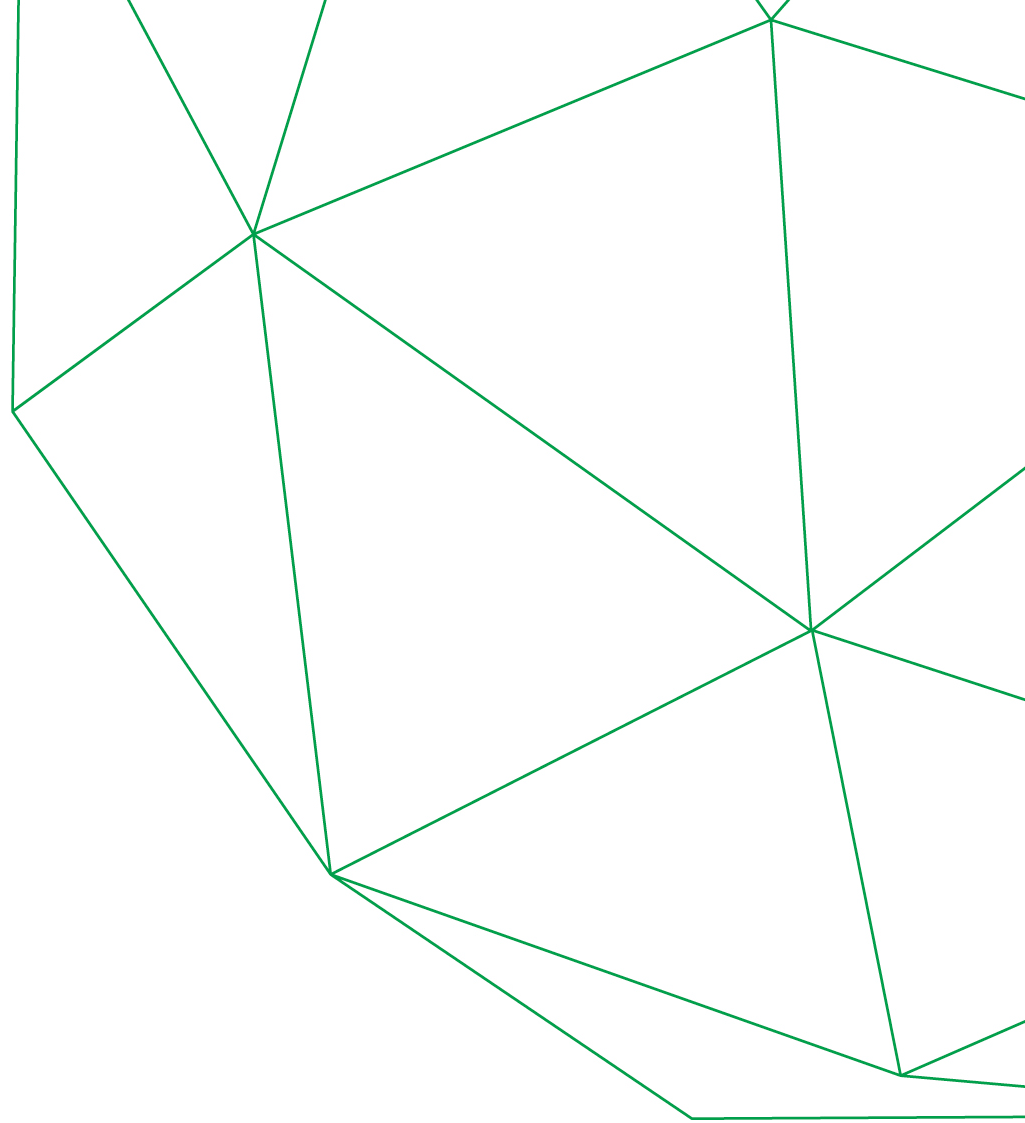
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Managing AML/CFT risk, including in countries facing conflict and fragility

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Rabat, Kingdom of Morocco
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Introducing GCF's Office of Risk Management and Compliance (ORMC)

The **mission** of the **Office of Risk Management and Compliance (ORMC)** is to:

- a) Develop, manage and update comprehensive **risk and compliance frameworks, policies and processes**;
- b) Identify, prioritize, monitor and manage **actual and potential risks affecting the GCF**; and
- c) Review **proposed and actual GCF investments** to ensure that they are within the Fund's risk tolerances and comply with the Fund's compliance policies



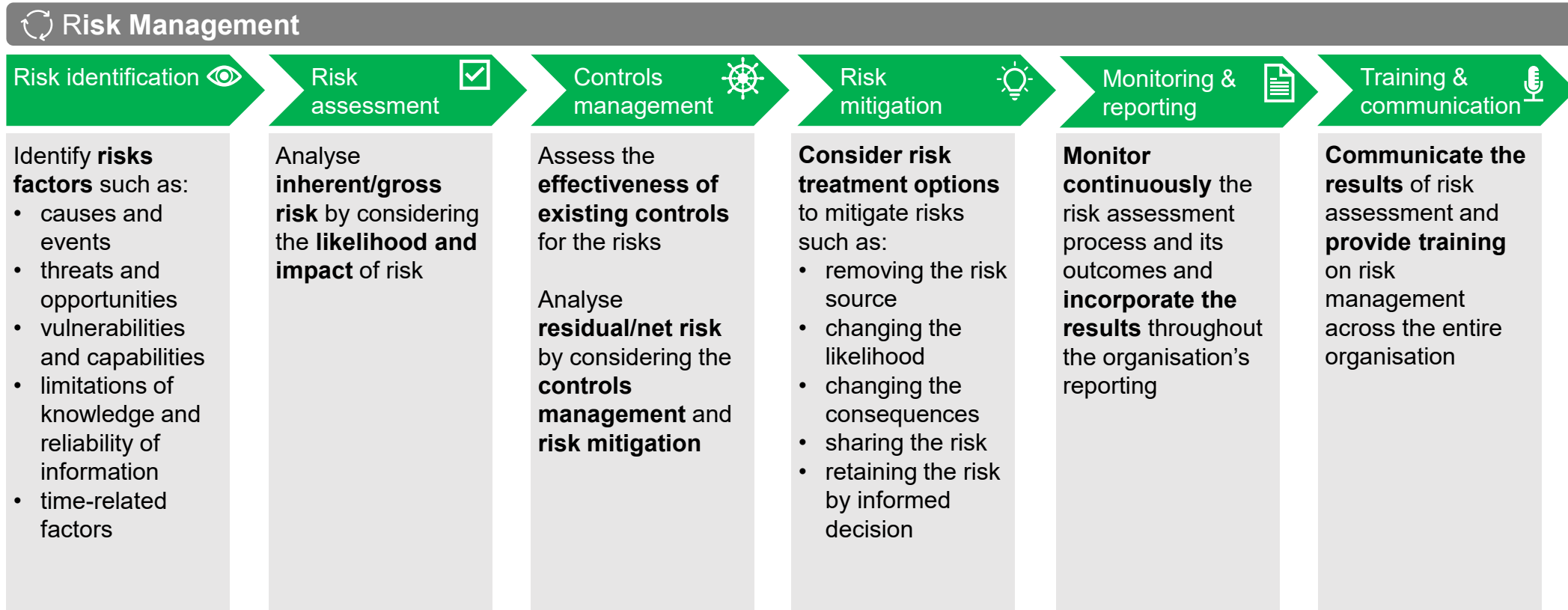
In the context of its overriding objective to provide **support to developing countries** for the achievement of the goals of the UNFCCC, and with due regard to its **fiduciary responsibilities**, GCF shall ensure that its funds are not used to finance **any illegal acts** related to **Money Laundering (ML)** or **Terrorist Financing (TF)**

Components of an effective Risk Management Framework


- ✓ A robust risk management framework and internal controls environment comprises **identifying, assessing, and managing risk** at both the institutional and project implementation/operational-levels, covering financial and non-financial risks.
- ✓ It should be tailored and adapted to an institution's **risk appetite**, and in the case of GCF funded activity, **specific to the proposed project or programme**.
- ✓ Risk assessment should be an **ongoing process** and **adaptive measures** should be implemented in **response to real-time updates** on the ground during project/programme implementation.



Components of an effective Risk Management Framework (cont'd.)



Risk typologies to assess

External factors			Project/programme-specific factors			
Political Risk	Macro-economic Risk	Regulatory Risk	Financial Risk	Integrity & Fiduciary Risk	Operational Risk	Legal Risk
Change in government	Interest rate volatility	Changes in regulations	Financial loss	Misconduct or other violations of integrity policies	Lack of capacity or expertise	Breaches of contractual obligations
Change in key personnel	Inflation	Sector-specific regulations	Targeted co-financing not materialising	Breaches of fiduciary obligations	Inadequate project management processes or systems	Litigation
Change in policies or high-level priorities	FX fluctuation			Money laundering of terrorist financing 		Fines or regulatory censure

Note: The above list is not exhaustive.

Controls to manage AML/CFT risk



AML/CFT risk: Controls after risk assessment

- ✓ **Counterparty Due Diligence (CDD):** Identify and verify the Counterparties involved, including beneficial owners
- ✓ **Screening:** Check whether Counterparties are associated with any politically-exposed persons (PEPs) or state-owned companies, are listed on any watchlists or subject to sanctions or other restrictive measures, or linked to any negative news
- ✓ **Transaction monitoring:** Review the financial institution and transaction details prior to fund disbursement
- ✓ **Reporting:** Report suspicious information relating to money laundering/terrorist financing
- ✓ **Training:** Develop and implement AML/CFT trainings

Additional guidance on AML/CFT **international best practices** includes the **Financial Action Task Force (FATF) recommendations** in its *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*

Source: [GCF AML/CFT Policy](#); [GCF AML/CFT Standards](#); [FATF](#)

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Note: The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing.

UNSC sanctions

The GCF was established as an operating entity of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) and, therefore, the Fund **complies with United Nations Security Council Resolutions** (UNSCRs).

- As such, and pursuant to its Anti-Money Laundering and Countering the Financing of Terrorism Policy: The GCF will not engage with, and will terminate the existing Counterparty relationship if any, with [...] **Counterparties who are currently under any financial sanctions imposed by United Nations.**
- In order to comply with the UNSCRs, the GCF Secretariat conducts **sanctions screening** against the United Nations Security Council Consolidated List and individual UNSCRs.
- For projects and programmes involving other types of UNSCR sanctions, such as arms embargoes or technology restrictions, the Secretariat conducts **due diligence to determine the level of risks and identify mitigating factors.**

Source: [GCF AML/CFT Policy](#)

Challenges facing Fragile & Conflict-Affected Situations

Common risks & potential mitigation measures/ways to manage risk



Money Laundering/ Terrorist Financing Risk

Risk: As fragile & conflict-affected states can be relatively cash-based economies, the risk of misuse of project/programme funds, equipment, or other commodities is often heightened.

Mitigation measures: Training of project/programme implementation staff to equip them with information on how to identify and flag potential issues; regular monitoring and reporting/robust oversight.



Conflict & Security Risk

Risk: Domestic, inter-state, or inter-regional conflict can have significant impacts on project/programme implementation. Risks to consider and mitigate include conflict affecting project/programme partners on-the-ground, as well as local communities and stakeholders.

Mitigation measures: Conduct conflict and security assessments; proactive engagement with stakeholders; and monitoring on-the-ground in implementation areas.









Other Contextual Risk

Risk: In addition to conflict & security risk, other types of contextual risk include external factors that are generally beyond the control of the project/programme, and which can potentially have material impacts on a project/programme's ability to achieve its intended climate impact. Examples include political instability and macro-economic factors.

Mitigation measures: Comprehensive assessment of the risk landscape, including contingency plans should any of the potential risks materialise (e.g. Alternate project implementation arrangements if the target project areas are affected by instability).

GCF Assessment

Criteria	Description
 AML/CFT regime	<ul style="list-style-type: none"> The AML/CFT regime, including policies & procedures, of the GCF Counterparty
 Controls management	<ul style="list-style-type: none"> The internal controls to be used in the specific project/programme to identify, prevent, mitigate, and report any risks, indications, or allegations of money laundering or terrorist financing, or other misuse of funds or commodities, including diversion for illicit purposes
 Risk assessment	<ul style="list-style-type: none"> Risk assessment of potential risks for money laundering or terrorist financing among the activities, counterparties, or beneficiaries of the project/programme Measures to be taken to identify, monitor, mitigate, and remedy the risks and any incidents that may arise
 Counterparty Due Diligence (CDD)	<ul style="list-style-type: none"> Due diligence of counterparties involved in the project/programme
 UNSC sanctions	<ul style="list-style-type: none"> Identification whether any of the project activities will be undertaken in any jurisdiction which is affected by UNSCRs Confirmation that no individual or entity is listed on any UNSC sanctions list
 Transaction monitoring	<ul style="list-style-type: none"> Distribution, either directly or indirectly, of cash, vouchers, etc.
 Reporting	<ul style="list-style-type: none"> Reporting mechanism for complaints and allegations of impropriety, wrongdoing, or other related issues in the project/programme and its implementation



Thank you