

# Project risk management



GREEN  
CLIMATE  
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## Project risk management

### Background

The mandate of GCF is to promote a paradigm shift towards low-emission and climate-resilient development pathways in developing countries. GCF helps countries design, finance and implement innovative climate initiatives that can be replicated, scaled up and sustained after project completion to achieve transformational change.

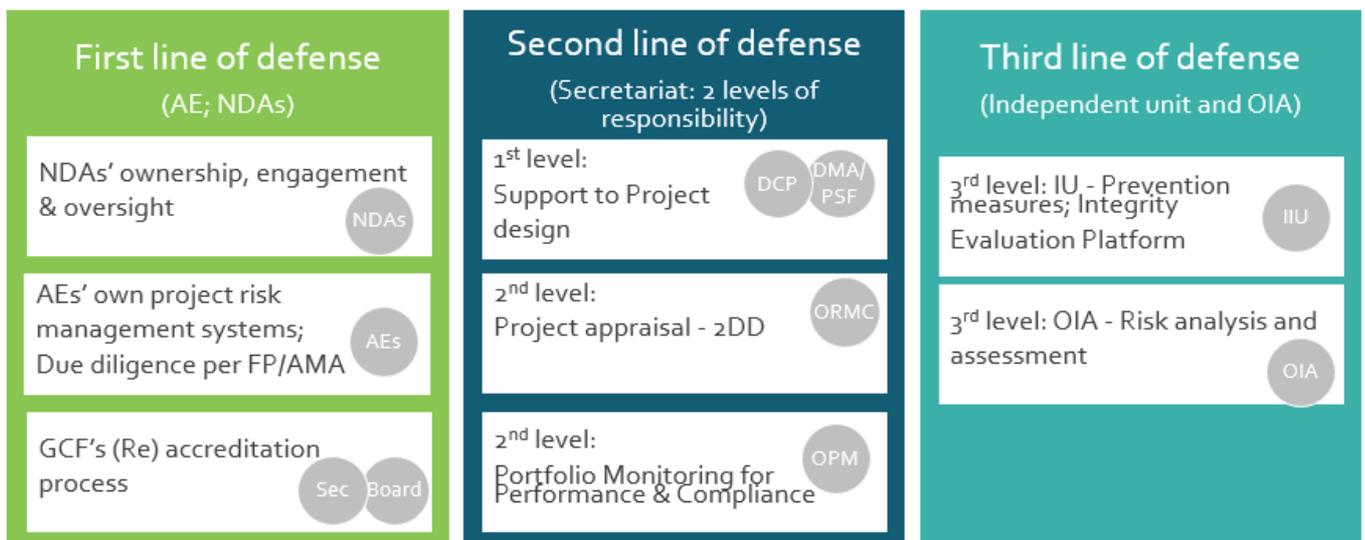
GCF is a partnership institution. It operates through a network of accredited entities (AEs), who work directly with developing countries represented through GCF national designated authorities or focal points, which are appointed by the government of the country, to propose projects for GCF funding and implement them once approved. These entities span a wide range of bodies, including multilateral and national development finance institutions, international and national commercial banks, United Nations agencies, equity funds, government agencies and regional institutions.

The GCF follows an established project cycle approach over 10 stages from project origination to closure. More details on the GCF’s project cycle for full size projects can be found in its [Programming Manual](#).

### Overview of GCF’s project risk management

The GFC’s Project Risk Management System (PRMS) is anchored in its Risk Management Framework (RMF), approved by the Board. The RMF sets the risk appetite of GCF and comprises a series of policies and guidelines, including the risk guidelines for funding proposals, the investment risk policy, the compliance risk policy, and a risk register and risk dashboard. The RMF and complementary GCF policies define three levels of responsibilities within three lines of defense for managing project risks (Figure 1)

**Figure 1: Overview of GCF’s project risk management system**



- (i) **National designated authorities (NDAs) & Accredited Entities (AEs)** provide a first level line of defense. AEs have a have prime responsibility in preventing and managing project risks. Entities’ policies, procedures, capacities and track record in applying those systems are assessed against the GCF fiduciary standards, environmental and social safeguards and gender policy during a comprehensive GCF accreditation process.

- (ii) **GCF Secretariat** discharges a second-level risk management function, providing second-level due diligence during both its support to and review of funding proposals, as well as during project implementation.
- (iii) **GCF Independent Integrity Unit (IIU) and Office of internal audit (OIA)**: provide a third level project risk management function. IIU takes a preventative and proactive approach to addressing project risks. IIU Head is appointed by the GCF Board and directly reports to it.

More detail on the GCF's role across these three levels is provided below.

### Upstream risk assessment: the GCF accreditation process

Accredited Entities (AEs) are accredited to GCF for a 5-year period and are re-assessed against GCF accreditation standards every 5 years if they seek to continue as a GCF AE. As part of the GCF accreditation process, an independent Accreditation Panel assesses the organization's institutional capacities against:

- Basic fiduciary standards on key administrative and financial capacities (financial management and accounting systems; audit systems; control frameworks and procurement) and transparency and accountability (disclosure of conflicts of interest; code of ethics; capacity to prevent or deal with financial mismanagement and other forms of malpractice, prohibited practices, money laundering and financing of terrorism).
- Project management: project preparation and appraisal from concept to full funding proposal; project oversight and control; monitoring and evaluation; and project-at-risk systems and related project risk management capabilities.
- Grant award and/or funding allocation mechanisms: grant award procedures; transparent allocation of financial resources; public access to information on beneficiaries and results; and good standing with regard to multilateral funding.
- On-lending and/or blending for loans, equity and/or guarantees appropriate registration/licensing for such activities; creditworthiness; due diligence and investment management policies, processes and procedures; financial resource management; public access to information on beneficiaries and results; financial risk management (including asset liability management).

The independent Accreditation Panel also assesses the organization's institutional capacities against environmental and social safeguards and its structure, capacities and competencies to implement the GCF's gender policy. Based on the underlying financial, E&S and gender systems in place at the institutional level of the AE, AEs can then submit funding proposals to GCF within the scope of their accreditation.

## Upstream risk assessment: the GCF funding proposal review process

The GCF Secretariat undertakes an in-depth review of funding proposals, including an independent appraisal conducted by the GCF's Office of Risk Management and Compliance (ORMC), which includes risk assessment and compliance. Under this, the following elements are assessed:

RISK GUIDELINES: SUBTYPE	KEY POINTS TO BE CONSIDERED
<p><b>Guidelines for assessing the risk of a project/programme failing to deliver its target impact</b></p>	<ul style="list-style-type: none"> <li>• A clear description of the project/clear parameters for making delegated funding decisions (for programmes);</li> <li>• Policy and regulatory support from the country;</li> <li>• Project(s)-specific execution risks, such as construction, operations, key supplies, the legal and regulatory environment; and</li> <li>• Adequacy of the capabilities of the AE and EE to deliver the project, as well as the experience of the AE in working with the proposed EE, in the country, in executing similar projects. Assessment by the AE of the EE in terms of its capacity to implement the project, and its experience.</li> </ul>
<p><b>Risk guidelines for setting funding terms and conditions</b></p>	<p>A description of the terms on which the AE is proposing GCF financing for the project/programme. These terms should be based on the first-level due diligence performed by the AE before submitting the funding proposal to GCF and can include clauses pertaining to disbursement-related conditions, covenants, rights of GCF vis-à-vis co-financiers, and technical and financial criteria to be applied by the AE while selecting the recipients of GCF resources (mainly required for programmes). A description of the seniority/subordination of GCF vis-à-vis other co-financiers; for loans, an explanation of who is the borrower and whose credit risk GCF is requested to assume; for equity, a description of the exit opportunity for GCF; and for guarantees, what is the proposed guarantee cover, how does GCF guarantee help to the beneficiaries, etc.</p> <p>The details of pricing and AE fees may be finalized later; however, the AE can specify the proposed concessional pricing requested to make the project(s) viable.</p> <p>Are the funding terms clear and in line with GCF policies?</p> <p>Are the possible negative financial consequences and liabilities elaborated in the funding proposal?</p>
<p><b>Guidelines for assessing alignment with GCF portfolio-level risk limits</b></p>	<p>Will approval of this proposal breach GCF portfolio-level risk appetite metrics?</p>
<p><b>Guidelines for assessing compliance with GCF policies and legal requirements</b></p>	<p>Does the proposal ensure that the zero tolerance of the GCF for prohibited practices and such risks are adequately prevented and mitigated?</p>
<p>Abbreviations: AE = accredited entity, EE = executing entity.</p>	

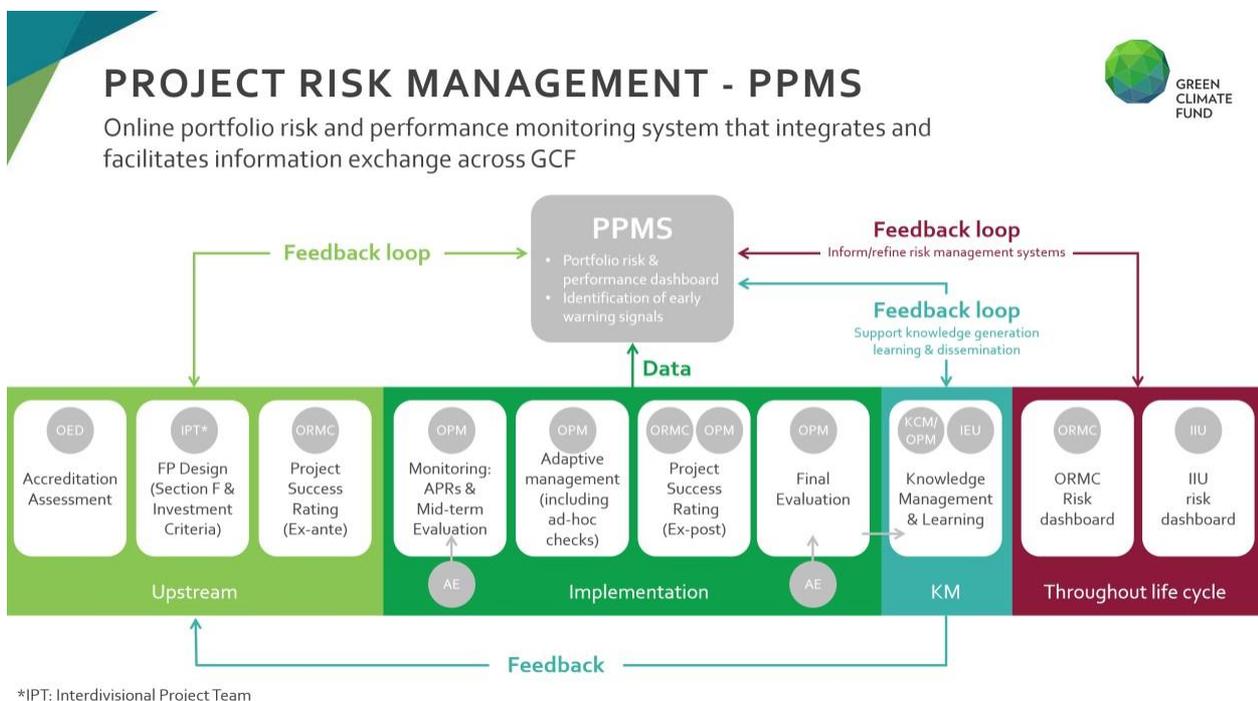
The GCF has a zero tolerance for money laundering, financing terrorism and prohibited practices. Proposals are checked to ensure that the AEs and delivery partners are applying specific Board policies on AML/FT and prohibited practices at the field project level.

The Secretariat is also in developing a Project Success Rating (PSR) scorecard, which is an ex-ante estimation of how likely it is a project will achieve the intended climate impact.

## Downstream risk assessment: project implementation

The Secretariat actively monitors project risk during the implementation phase through its Project Risk Management System (PPMS). The PPMS is designed to (i) efficiently manage project operations and climate results; and (ii) identify portfolio risks and early warning signals. The identification of risks and early warning signals also helps the Secretariat facilitate timely execution of corrective actions and assess individual project implementation performance more objectively and systemically, thereby improving the overall portfolio health.

Over time, the PPMS will integrate and facilitate information exchanges across the GCF, where upstream activities, such as accreditation and funding proposal reviews will inform the PPMS, and where PPMS data on portfolio risk and performance will feed back into the next accreditation, funding proposal, and project success rating, creating a feedback loop. Similarly, during the project implementation period, AEs will raise performance or operational risks through APRs, mid-term/final evaluation reports, and any other relevant reports as well as active communications with GCF using the PPMS. The PPMS will also support knowledge capture, generation, learning, and dissemination.



Annual progress reports from AE help the Secretariat assess risk along the following 6 parameters

OVERALL	1	2	3	4	5	6
<b>Project risk &amp; performance rating</b>	<b>Implementation risk</b>	<b>Implementation progress</b>	<b>Financial performance</b>	<b>Reporting timeliness</b>	<b>Investment criteria</b>	<b>Results delivery</b>
<ul style="list-style-type: none"> <li><span style="color: green;">●</span></li> <li><span style="color: yellow;">●</span></li> <li><span style="color: red;">●</span></li> </ul>	Project start up, legal, financial, compliance, ESS, political, procurement, institutional capacity, COVID-19 impact, etc.	Overall implementation progress, delays against key (execution & results) milestones	Deviations from expected Disbursement & expenditure rates/ repayments /valuation schedules, etc	Timeliness & quality of report submissions Inception Reports, Baseline Assessments, APRs, Evaluation Reports, Completion Reports, etc as per legal agreements	overall performance/ achieved impact results vis-a-vis GCF's six investment criteria	Extent of achieved impact/results vis-à-vis mid-term and final targets

## GCF Independent Integrity Unit (IIU) – Integrity risk assessment and mitigation

The IIU takes a proactive approach in managing integrity risks across GCF operations by developing and implementing robust Preventive measures that include:

- Conducting integrity risk assessments and subsequently proactive in-depth reviews of projects/programs to assess a project’s vulnerability to integrity violations and to detect and mitigate red flags and risks at an early stage.
- Providing guidance advisories to the GCF Secretariat and Accredited Entities regarding the implementation of GCF integrity policies on matters related to financial mismanagement, Prohibited Practices, reporting mechanisms and conflicts of interest.
- Providing technical support to Accredited Entities to enhance their capacity in addressing integrity issues in the implementation of GCF-funded projects and establishing cooperation arrangements to facilitate joint activities and effective communication.
- On a need-to-know basis, informing and consulting the Secretariat, in a timely manner, about existing or potential risks identified in relation to investigations.
- Encouraging and safeguarding whistleblowing as an early warning mechanism to enable mitigation measures prior to escalation of integrity violations and consequential damages to the Fund.

