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Comments and Analysis:

GCFs Accreditation framework and Environmental and Social Standards

**Review Note for the 8th meeting of the Green Climate Fund
(GCF)**

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Introduction

This note analyses the GCF Paper on ‘Accreditation and Fund’s Environmental and Social Standards’ based on lessons from IIEDs research within the Climate Change Group. In the backdrop of the upcoming meeting, the note emphasizes Board’s attention towards some key areas for consideration, primarily emphasizing-

- Further elaboration on readiness support for Direct Access for LDCs and SIDs is important.
- Bespoke readiness support is vital for accreditation.
- The Adaptation Fund’s readiness activities offer learnings and lessons both from the process and challenges.
- National entities should be prioritised in the fast track process.
- Transparency and accountability should take account of oversight capacity of IE/intermediary in accreditation criteria.
- Guidelines for the operationalization of the ‘fit-for-purpose accreditation approach’ need elaboration.
- Concerns around the IFC Performance Standards.
- Gap analysis and how the ESS (and fiduciary standards) be considered when fast tracking institutions for accreditation.
- Ambiguity around the application of ESS to private sector organisations.
- Gender consideration

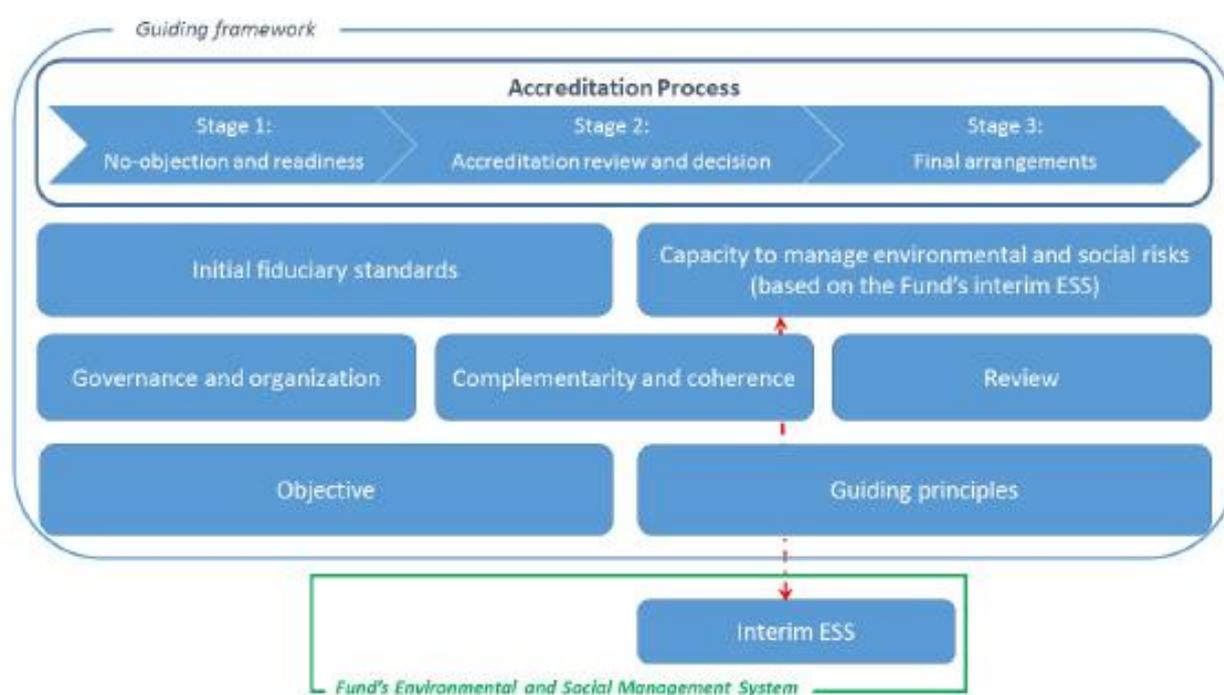
The note further elaborates these key suggestions in section 1.2 and 2.2 and provides an update on key decisions made in the last Board meeting.

Overview of Accreditation Process

The Board has been working on developing a guiding framework for the accreditation of institutions within developing countries that will funnel and implement the finance money that flows from the GCF. It is the role of these implementing entities (IEs) to manage and

oversee project implementation, including initiating and preparing funding proposals, as well as managing the necessary stages of the implementation process until its conclusion (project management) on behalf of the Fund, and ensuring all reporting obligations are met. An IE can therefore be understood as a legal entity, public or private in nature, duly accredited to the Fund, whose accredited institutional capacities enable it to submit funding proposals in relation to specific projects to be funded by the Fund, with the explicit role of managing the approved project cycle from preparation to conclusion¹. This means that an IE must demonstrate that it can meet certain fiduciary standards in order to become accredited. The fiduciary standards are compulsory and thorough requirements that accredited entities must adhere to when implementing projects and programs funded by the GCF. These can essentially be understood as an assurance of the capability of accredited entities to handle and channel the Fund's finance effectively.

IEs will include multilateral development banks (MDBs), as well as national and subnational institutions from developing countries seeking financial support from the Green Climate Fund (GCF). Intermediaries can also be accredited to handle GCF finance. An intermediary has a broader role than an IE owing to its capacities for the intermediation or administration of grants and/or loans². The IEs and intermediaries will then transfer GCF funds to the executing entities (EEs) that are then responsible for the operational aspects of particular projects³. An overview of the accreditation process is outlined in Fig. 1 below⁴:



¹ GCF's Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards, Meeting of the Board, 18 – 21 May 2014, Songdo, Republic of Korea, GCF B.07/02, Para 10, page 2

² Ibid, Para. 15-16, page 3

³ Ibid, Para. 11, page 2

⁴ Ibid, For a more in-depth discussion of the General objectives of the guiding framework and the Guiding principles for the accreditation process please see RaComments and Analysis: GCF's Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards – available at <http://pubs.iied.org/pdfs/10097IIED.pdf?>

The Board has been developing an accreditation process that includes both flexibility and ease of access for national entities on one hand, but adheres to strict fiduciary standards on the other. The challenge for the Board has been to devise a guiding framework and procedures for accreditation that enhances country ownership, whilst simultaneously accommodates the different capacities and capabilities of countries, as well as accrediting entities in a transparent, objective and credible manner, in line with the Fund's objectives, results and guiding principles⁵.

In essence the procedure must weigh up broad and easy access to range of actors, against sound fiduciary standards i.e. ability to implement GCF funded projects in a transparent manner that follows national and international agreements, and at the same time does not marginalise local communities through the application of social and environmental safeguards. This has proven a rather precarious balance to strike.

At the 7th Board Meeting in Songdo, Republic of Korea in May 2014 a number of decisions on the essential requirements were taken to establish the Fund's business model. These essential requirements were needed so that the resource mobilisation process could commence. One of these decisions was on the process of accreditation, which will largely determine which national and sub-national bodies in developing countries will be entrusted to disburse monies received from the GCF. This Report offers an overview of the various design elements that have been decided upon for accreditation.

The remainder of the paper will be presented under the following headings:

- i. **The Fund's Initial Fiduciary Standards**
- ii. **The Fund's Interim Environmental & Social Safeguards**

Under each of these headings an overview of the main issues and decisions taken at the 7th Board meeting will be offered, followed by a discussion of the key aspects that remain contentious, and possible considerations for the LDCs going forward.

1 The Fund's Initial Fiduciary Standards

1.1 Overview of Key Decisions

It was decided by the Board that the Initial fiduciary principles and standards would be adopted. The Fund's fiduciary principles and standards are to be applied to IEs and intermediaries and that will need to comply with them to obtain accreditation with the Fund, and maintain them properly for as long as the entity intends to remain accredited by the Fund. It was decided that they will also apply to private sector entities⁶. In the initial phase of the Fund, a distinction is to be drawn between basic and specialized fiduciary standards. These are defined as:

- i. **Basic fiduciary standards:** applied to all the entities seeking accreditation, referring to fundamental institutional capacities that need to be in place and fully functional in any entity

⁵ Supra Note 1, Para. 1(b) (iii), page 1

⁶ Decisions of the Board – Seventh Meeting of the Board, 18-21 May 2014, GCF/B.07/11, 19 June 2014, Meeting of the Board, 18-21 May 2014, Songdo, Republic of Korea, Para 8 (a), page 4

- seeking accreditation with the Fund.
- ii. **Specialized fiduciary standards:** relate to specific institutional capacities and resources that are required by the Fund, according to the expected scope of responsibilities and roles to be assigned to the entity seeking accreditation.

These are further elaborated in the table below⁷:

Level	Purpose	Scope
Basic Fiduciary Criteria	Key administrative and financial capacities	<ul style="list-style-type: none"> ▪ General management and administrative capacities ▪ Financial management and accounting ▪ Internal and external audit ▪ Control frameworks ▪ Procurement
	Transparency and accountability	<ul style="list-style-type: none"> ▪ Disclosure of conflict of interest ▪ Code of ethics ▪ Capacity to prevent or deal with financial mismanagement and other forms of malpractice ▪ Investigation
	Project management	<ul style="list-style-type: none"> ▪ Project preparation and appraisal (from concept to full funding proposal) ▪ Project implementation, oversight and control ▪ Monitoring and evaluation ▪ Project-at-risk systems and related project risk management capabilities
Specialized Fiduciary Criteria	Grant award mechanisms and / or funding allocation mechanisms	<ul style="list-style-type: none"> ▪ Grant award procedures ▪ Transparent allocation of financial resources ▪ Public access to information on beneficiaries and results ▪ Good standing with regard to multilateral funding (e.g. through recognized public expenditure reviews)
	On-lending and blending	<ul style="list-style-type: none"> ▪ Appropriate registration and/or licensing by a financial oversight body or regulator in the country and/or internationally, as applicable; ▪ Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;

⁷ Ibid, Annex II: Initial guiding framework for the Fund's accreditation process, page 13

Level	Purpose	Scope
		<ul style="list-style-type: none"> ▪ Creditworthiness; ▪ Due diligence policies, processes and procedures; ▪ Financial resources management, including analysis of the lending portfolio of the intermediary; ▪ Public access to information on beneficiaries and results; ▪ Investment management, policies and systems, including in relation to portfolio management ▪ Capacity to channel funds transparently and effectively, and to transfer the Fund’s funding advantages to final beneficiaries; ▪ Financial risk management, including asset liability management ▪ Governance and organizational arrangements, including relationships between the treasury function and the operational side (front desk).

In the first stage of the accreditation process a twin-track accreditation process has been adopted with different steps⁸:

- i) **Direct Access** - for subnational, national and regional applicant entities. There two mandatory steps will apply ('no-objection' and 'institutional assessment and completeness check') and one optional step ('readiness').
- ii) **International Access** - for international entities, including United Nations agencies, MDBs, international financial institutions and regional institutions. Entities will only be required to go through the 'institutional assessment and completeness check' on this track

For the Direct Access track, there is an additional assessment of 'readiness'. If a lack of capacity is identified, bespoke readiness and preparatory support will be offered by the Secretariat⁹.

On the subject of readiness it was decided that readiness and preparatory support will be offered to enable IEs and intermediaries to meet the Fund’s fiduciary principles and standards, and environmental and social safeguards (ESS), in order to directly access the Fund. The Secretariat has been requested to consider the readiness support programme accordingly, and to prepare tools and guidance materials to enable applicants to comply with the fit-for-purpose accreditation requirements and process¹⁰.

The Board also agreed on the on a fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the initial fiduciary

⁸ Ibid, Paras 48 – 50, page 8

⁹ Ibid, Annex II: Initial guiding framework for the Fund's accreditation process, V. Accreditation process

¹⁰ Decisions of the Board – Seventh Meeting of the Board, 18-21 May 2014, GCF/B.07/11, 19 June 2014, Meeting of the Board, 18-21 May 2014, Songdo, Republic of Korea, Para 8 (p), page 4

standards and interim ESS¹¹. A compromise was also reached on this topic, which means that the fiduciary standards are to be adjusted to suit the nature, scope and risks of the proposed activities. However, further elaboration is required on how this will actually be operationalized.

1.2 Comments / Considerations

Elaborate on readiness support for Direct Access for LDCs and SIDs – developing countries see building capacity of national and subnational entities as vital, and readiness and preparatory support is to be provided to enable IEs and intermediaries to meet the Fund’s fiduciary principles¹². The Accreditation Panel - formed to help manage the accreditation process - is also to guide the Secretariat on ensuring flexibility in the fiduciary standards based on relative country capabilities so these are not unforgivingly strict¹³. However, the actual operational details of the readiness and preparatory support that will be on offer still need further elaboration.

Bespoke readiness support is vital - It is explicitly stated that in cases where weaknesses or a lack of capacity to meet the fiduciary criteria is identified, then the applicant entity will be eligible to opt for a personalized readiness and preparatory support activity plan¹⁴. It is important to ensure that readiness support that is offered is context specific, and that lessons from this process are recorded and integrated into future readiness support for other developing country entities seeking accreditation. Furthermore, work could proactively be initiated under the Readiness and Preparatory programme so that potential IEs are better equipped when subsequently seeking accreditation.

The Adaptation Fund’s readiness activities offer learnings and lessons both from the process and challenges -the Board has previously iterated the importance of engaging with existing readiness initiatives and programmes at international, national and regional levels to enhance learning and ensure coherence¹⁵. However, the decisions taken at the 7th Board meeting make no mention of the already up and running Adaptation Fund Readiness for Climate Finance Programme. The Adaptation Fund’s Readiness Programme for Climate Finance is a two-year initiative that aims to help strengthen the capacity of national and regional entities to receive and manage climate financing as they adapt and build resilience to changing conditions in sectors ranging from agriculture and food security to coastal zones and urban areas¹⁶. There is good opportunity for the GCF to ‘piggyback’ on these activities. It is also important to recognise the challenges that the AF is facing and learn from them. For example, with only six full time secretariat staff, the AF is facing difficulties to initiate any support on the ground by its own. Most of AF Board support is going towards building external readiness by providing facilitators to the applicant countries.

¹¹ Decisions of the Board – Seventh Meeting of the Board, 18-21 May 2014, GCF/B.07/11, 19 June 2014, Meeting of the Board, 18-21 May 2014, Songdo, Republic of Korea, Para 8 (j), page 4

¹² Ibid, (h)

¹³ Ibid, Annex I: Draft decision of the Board (c) & (d)

¹⁴ Ibid, Para 32.

¹⁵ See Decisions of the Board –Fifth Meeting of the Board, 8-10 October 2013, GCF/B.05/23,

¹⁶ See Adaptation Fund Website – available at <https://adaptation-fund.org/node/3939>

National entities should be prioritised in the fast track process - as a consideration on complementarity and coherence there is room for specific additional provision that the fast track process should give priority to national entities over and above MDBs and the private sector to ensure increased direct access to the fund.

Transparency and accountability should take account of oversight capacity of IE/intermediary in accreditation criteria – this is detailed as a basic fiduciary standard, but could also be extended to include the ESS as part of the accreditation criteria; not just financial mismanagement and other forms of malpractices. It would also be worthwhile to further elucidate on requirements for ‘code of ethics’, as the current provision remains rather opaque (Annex II, Para.1.2.1)

Guidelines for the operationalization of the ‘fit-for-purpose accreditation approach’ – it was agreed that tiered approach is to be used (i.e. differentiation by activity and institution type) which is a step in the right direction. This is intended to ensure a dynamic accreditation process is adopted, and not simply a ‘one size fits all’ approach. This offers different ways for different types of entity to comply with the accreditation requirements. But, there is still substantial clarification needed on how this ‘fit-for-purpose’ approach in the actual application of both the fiduciary standards and the ESS when accrediting IEs, and how the type of risk that an entity will take on will be balanced with the requirements.

Explicit provision stating that the safeguards also apply to IEs and intermediaries– the report states that Fund’s fiduciary principles and standards will need to be satisfied and complied with by intermediaries and IEs seeking accreditation, but there is no corresponding provision that the environmental and social (and indeed gender safeguards) will also be as rigorously applied. This would help ensure that the fiduciary standards, and the various safeguards are given equal credence in the accreditation process.

IE & intermediary commitment after accreditation still not considered- whilst an entity must seek reaccreditation after five years, the capacity and commitment of any entity that seeks accreditation should be thoroughly assessed to determine its ability to apply the requisite safeguards, as well as monitoring intermediaries and IEs to ensure ongoing commitment. This would necessitate the development of systems to assess commitment during this five year time period. Conversely, there could be the option that disincentives could be integrated into the standards for under- / non-performance.

Accreditation Panel – the Accreditation Panel will offer technical advice to the Board on the results of assessment and review of individual applications for accreditation, as well as provide expertise in good-practice fiduciary principles and standards, financial intermediation functions, intermediation regulations and oversight; expertise in environmental and social safeguards, and in evaluating environmental and social management systems to ensure that applicant entities have the capacity to implement and oversee the Fund’s interim and subsequent ESS. Document GCF/B.07/02 includes Terms of Reference for the engagement of the Panel members, but it is important that these members are selected judiciously and have the requisite level of experience and knowledge to ensure a credible and fair accreditation

process. At the moment it is unclear who is being considered for inclusion in this panel, and more information on applicants should be made available to ensure a transparent recruitment procedure. It may make sense to consolidate the Adaptation Panel experts from the Adaptation Fund. Given that the adaptation panel from the panel are those who have best experience in accrediting direct access entities. The independent nature of the panel will also reduce conflict of interest.

2 The Fund's Environmental and Social Safeguards

2.1 Overview of Key Decisions

One of the key decisions reached at the 7th Board meeting was that the Performance Standards (PS) of the International Finance Corporation (IFC) are to be used until such time as the GCF can develop its own ESS. The PS have been borrowed for an initial spell so that the Fund can get up and running, and then further thought will be given to developing its own set of ESS once it has had sufficient experience in order to gather lessons. At this time, a review will be undertaken against regional bank standards, the updated World Bank Safeguards, and experiences gathered from the Adaptation Fund.

The eight IFC Performance Standards¹⁷ that have been temporarily adopted are as follows:

- **Performance Standard 1:** Assessment and Management of Environmental and Social Risks and Impacts
- **Performance Standard 2:** Labor and Working Conditions
- **Performance Standard 3:** Resource Efficiency and Pollution Prevention
- **Performance Standard 4:** Community Health, Safety, and Security
- **Performance Standard 5:** Land Acquisition and Involuntary Resettlement
- **Performance Standard 6:** Biodiversity Conservation and Sustainable Management of Living Natural Resources
- **Performance Standard 7:** Indigenous Peoples
- **Performance Standard 8:** Cultural Heritage

The application of the interim ESS will follow the scaled-risk based (or fit-for-purpose) approach so that the requirements match the level of risk, and will not unduly burden low and no-risk

¹⁷ See IFC Performance Standards and Guidance Notes - 2012 Edition – available at http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/sustainability+framework/sustainability+framework+-+2012/performance+standards+and+guidance+notes+2012/performance+standards+-+2012

projects. It is also envisaged that in order to identify potential environmental and social risks, or to determine any inconsistencies with the Fund's interim ESS, accredited IEs and intermediaries will be able to screen and categorise funding proposals:

- **Category A** - Proposals that entail activities with significant adverse environmental or social risks or diverse, irreversible or unprecedented impacts
- **Category B** – activities with mild risks and fewer impacts which could be mitigated proposals
- **Category C** - minimal or no adverse risks or impacts.

2.2 Comments / Considerations

Concern around the IFC Performance Standards – One of the Guiding Principles for The Fund is to ensure that the ESS are consistently in line with international best practices and standards, and reflect the best of the experience and lessons learned by relevant institutions¹⁸. Independent auditing by the IFC Compliance Advisor Ombudsman (CAO) of IFC interaction with its financial intermediaries have reported implementation deficits in the IFC PS¹⁹. A letter sent to the Board members by more than 140 Southern civil society groups and networks, and endorsed by more than 60 Northern groups and networks last October expressed concerns and urged the development of robust environmental and social safeguard policies based on a do-no-harm approach and in compliance with international law²⁰.

Gap analysis and how the ESS (and fiduciary standards) be considered when fast tracking institutions for accreditation –The Board has been tasked with undertaking an assessment, including a gap analysis, of institutions accredited by other relevant funds and in line with the Fund's objectives against the interim ESS and initial fiduciary standards, with recommendations on their potential accreditation or fast-tracking. However, this raises a number of questions:

For example, the Adaptation Fund has recently codified its own Environmental and Social Policy²¹. But, given the decision to adopt the IFC PS standards by the GCF Board, will it now be the case that institutions accredited by other Funds that are potentially considered for GCF fast track accreditation will need to comply with the IFC PS, and what will be the required degree of overlap between the ESS mandated under these Funds, and the newly adopted IFC PS? (Will this then potentially represents an onerous burden on institutions seeking accreditation?)

How will any incongruity between the IFC PS and the ESS from other funds be reconciled once the GCF undertakes its review to develop its own set of ESS?

Ambiguity around the application of ESS to private sector organisations –The Board is yet to

¹⁸ Supra Note 1, Annex II, Para. 2(a)

¹⁹ See CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries, October 10, 2012

²⁰ Schalatek, L., Next Up: Resource Mobilization! The 7th Board Meeting of the Green Climate Fund delivers key policies meant to signal that the Fund is ready for business in 2015, Henrich Boll Foundation North America, page VIII

²¹ See Adaptation Fund Environmental and Social Policy, Adaptation Fund Board (Approved in November 2013) – available at [https://www.adaptation-fund.org/sites/default/files/Environmental%20&%20Social%20Policy%20\(approved%20Nov2013\).pdf](https://www.adaptation-fund.org/sites/default/files/Environmental%20&%20Social%20Policy%20(approved%20Nov2013).pdf)



identify potential relevant private sector international best practice fiduciary principles or standards and ESS, and carry out an assessment of gaps against the Fund's interim ESS, (and initial fiduciary standards) in collaboration with the Private Sector Advisory Group and in consultation with relevant stakeholders. This is so that private intermediaries can be included in the fast track process. There have been previous discussions around using the 'Equator Principles', but as a risk management framework they are voluntary and non-enforceable, not to mention that a number of organisations that have adopted the Equator Principles are engaged in fossil fuel financing²². This particular area will need extensive development in Barbados.

Gender equality – this remains a contentious issue, and whilst the IFC PS do include gender considerations (see PS 1, 2 & 5 in particular), it is as yet unclear how gender equality will be considered in the Environmental and Social Management System (ESMS) of the Fund that is currently under development. The Board is also currently devising the Gender Policy of the Fund, which will need further development and finalisation.

²² Supra Note 24, page Xi