

Comments 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 GCF/B.06/09

Review Note for the 7th meeting of the Green Climate Fund (GCF)

Date: May 2014

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Introduction

The Board has been mandated with developing, managing and overseeing an accreditation process for all implementing entities based on specific accreditation criteria that is reflective the Fund's fiduciary principles and standards and environmental and social safeguards¹. As such the Board has been working on developing a guiding framework for the accreditation of institutions within developing countries that will funnel and implement the money that flows from the GCF. The Progress Report offers an update on a few different elements with a view to the final elaboration of the guiding framework for the Fund's accreditation process. Particular points for finalisation at the 6th Board meeting are²;

- i. General objectives of the guiding framework;
- ii. Guiding principles for the accreditation process;
- iii. Initial fiduciary standards:
 - a. Basic fiduciary standards;
 - b. Specialized fiduciary standards for project and programme management.
- iv. Initial environmental and social safeguards.

The following comments and analysis will be focussing on points i) – iii) only. Whilst environmental and social safeguards are undoubtedly critical, these have been discussed at length elsewhere.

Encouragingly, the fiduciary standards for the GCF have evolved from those of the Adaptation Fund. The Progress Report specifies a number of elements in greater detail, such as institutional functions and competence, specific description of evidence requirement, and even guidelines to deliver certain performance. The GCF standard take account of the interrelated relationship between the general institutional capacity (administrative) and the specific financial capacity, and the mutual supportive roles between these two is a lesson clearly learned from previous direct access NIE experience, and duly incorporated.

1.0 General objective and guiding principles

1.1 Overview

The general objective of the guiding framework refers to the need to put all the necessary elements relating to the Fund's accreditation process within a logical and coherent operational context. The objective is therefore the foundation for the definition of all the other elements of the guiding framework, and will accordingly guide any future revisions or updates.

The guiding principles are intended to provide the strategic perspective for elaborating all the other elements of the guiding framework for the Fund's accreditation process. The guiding principles are expanded upon in Annex 1 of the Progress Report:

- i. **Best practices and continuous update:** the fiduciary principles and standards and environmental and social safeguards will be consistently in line with international best practices and standards, and systematically endeavor to reflect the best of the experience and lessons learned by relevant

¹ Para. 49, Governing Instrument for the GCF, page 12

² The Board's work is also to be aided by four experts:

- i. Mr. Peter Richard Carter (United Kingdom);
- ii. Mr. Gonzalo Castro de la Mata (Peru);
- iii. Mr. Wolfgang Diernhofer (Austria); and
- iv. Ms. Isna Marifa (Indonesia)

institutions, as well as lessons learned from its own experiences with fiduciary principles and standards and environmental and social safeguards;

- ii. **Accountability, transparency, fairness and professionalism:** governance system, procedures and organizational approach will ensure accountability, transparency, fairness and adequate professionalism in the accreditation process and across all operational procedures, allowing for reasonable levels of assurance and comparability about the presence and performance of the required institutional capacities;
- iii. **Ensuring reliability and credibility while retaining flexibility:** Its modalities will pursue rigorous, independent, objective and systematic assessment and review processes, while giving due attention to special circumstances of applicant entities;
- iv. **Striking a balance between robustness and institutional capacity:** a dynamic accreditation process will aim at enabling potential entities to increase their scope of activities as their capacity increases over time; and
- v. **Readiness and effectiveness:** the accreditation process will take into account additional criteria to enhance effectiveness, which may also allow for readiness and preparatory support in the context of different capacities and capabilities of countries and institutions.

1.2 Comments / Considerations:

- **Inclusion of gender safeguards** – notable by its absence from the guiding principles is gender safeguards. The Board could consider amending the text of **‘Best practices and continuous update’** in particular to include gender safeguards in addition to environmental and social safeguards.
- **Accreditation should include a broad range of stakeholders when taking into account ‘readiness and effectiveness’** – the GCF should make more provision for consultation and participation with a range of stakeholders (including the ultimate beneficiaries) in readiness and preparatory support. Additionally, there should be more detailed provision in this guiding principle for **country-specific accreditation support**. This would be tailored support based firmly on the precise needs of that country.

2.0 Fiduciary Standards

2.1 Overview

In order to enhance direct access to the GCF, the funding modalities will be underpinned by a differentiated approach to minimum fiduciary standards, making a distinction 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 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 below.)

The Fund’s fiduciary principles and standards are to be applied to intermediaries and implementing entities (IEs) that will need to comply with them to obtain accreditation with the Fund, and maintain them properly thereafter for as long as the entity intends to retain its accreditation status and commitments with the Fund.

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 malpractices ▪ Investigation function
Specialized Fiduciary Criteria	Project/programme management	<ul style="list-style-type: none"> ▪ Project/programme 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
	Grant award 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)
	Financial structuring, including through blending, on-lending and financial engineering	<ul style="list-style-type: none"> ▪ Financial resources management ▪ Public access to information on beneficiaries and results ▪ Investment management, policies and systems, including in relation to portfolio management ▪ Financial risk management, including asset liability management

The Progress report then goes on to significantly elaborate the each of the points in the ‘Scope’ column in Annex II of the Progress Report. The main considerations are discussed in the following section.

2.2 Comments / Considerations

- **Further elaboration of the actual accreditation process** – the Progress Report is threadbare on practical details/steps of the actual accreditation process that will need to be followed. This will require substantial elaboration by the Secretariat.
- **Best practice can come from a diverse range of institutions** - the GCF may wish to consider best

practices from different institutions and not just focused on the IFC and the Adaptation Fund¹⁰. For example, the fiduciary standards employed by a number of the multilateral development banks (e.g. the World Bank, Asian Development Bank etc.) could be examined, and there could be the opportunity to ‘cherry pick’ the elements of best practice that are evident in a number of different models.

- **Explicit provision stating that the safeguards also apply to IEs and intermediaries**– the report states that ‘Fund’s fiduciary principles and standards will apply to intermediaries and implementing entities’, but there is no express provision that the environmental and social (and indeed gender safeguards) will also be applied. This would help ensure that the fiduciary standards, and the various safeguards are given equal credence in the accreditation process.
- **It is unclear if the GCF will recognize the accredited (National Implementing Agencies (NIEs) under the Adaptations Fund** - the accredited NIEs under the Adaptation Fund have already demonstrated relevant capacities and competence, and as such have been granted direct access to resources under the Adaptation Fund. It should therefore reasonably follow that their qualification be recognized and accepted by the GCF.
- **Fiduciary standards should not represent an insurmountable obstacle to accreditation** - the full set of IFC performance standards would most likely probably impose an impossibly stringent conditions for a number of the least developed countries to meet. Fiduciary standards should therefore incorporate a degree of flexibility based on a number of factors including, risk category and country capabilities.
- **Transparency and accountability should take account of oversight capacity of IE/intermediary** – this will extend to environmental and social safeguards, and 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 in the Progress Report is rather opaque (Annex II, Para.1.2.1)
- **Commitment beyond accreditation should be factored in**- the capacity and commitment of any entity that seeks accreditation should thoroughly assessed to determine it’s 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. Conversely, there could be the option that disincentives could be integrated into the standards for under/ non-performance.

¹⁰ CIVIL SOCIETY SUBMISSION TO THE GREEN CLIMATE FUND ON ACCREDITATION, SAFEGUARDS AND FIDUCIARY STANDARDS, 17th March 2014