



ADAPTATION FUND

AFB/B.12/4  
December 10, 2010

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Adaptation Fund Board  
Twelfth Meeting  
Cancun, December 13, 2010

Agenda item 4

## **REPORT OF THE FOURTH MEETING OF THE ACCREDITATION PANEL**

## **I. WORK OF THE PANEL**

1. The Accreditation Panel (Panel) continued its work using all three previously established modalities of work: email communication, teleconferencing and a face-to-face meeting. Email communication was used to consult on and exchange information and views on the applications under review. On November 8 and 9, 2010, the Panel held its fourth face-to-face meeting in the secretariat's premises in Washington, D.C.

2. The Panel received five new NIE applications and one new MIE for accreditation. The Panel also reviewed two entities that had been previously reviewed but required additional information for the Panel to make its recommendations.

3. As outlined in the operational policies and guidelines, these applications were screened by the secretariat. The list of all applications for accreditation under review by the Panel before the twelfth Board meeting includes five applications from potential NIEs, additional information from one NIE application previously reviewed at the third Panel meeting, one application from a potential MIE, and additional information from a previously reviewed MIE. By the time of the finalization of the present report, the Panel concluded the review of the following applications:

- 1) National Implementing Entity 1; and
- 2) The World Meteorological Organization (WMO); MIE application

4. Six further applications, five for potential NIEs and one for a potential MIE, are still under review by the Panel. For purposes of confidentiality, a numbering system has been used to report on the status of each Implementing Entity's application.

- 1) National Implementing Entity 2
- 2) National Implementing Entity 3
- 3) National Implementing Entity 4
- 4) National Implementing Entity 5
- 5) National Implementing Entity 6
- 6) Multilateral Implementing Entity

### *National Implementing Entity 1*

5. The application of a national ministry was received by the AFB secretariat on February 8, 2010. The AFB secretariat requested additional documents from NIE 1 to supplement the information on March 1, 2010 and received the documentation on May 21, 2010.

6. The AFB secretariat submitted NIE 1's application along with the supporting documents to the Panel on July 6, 2010. After an initial assessment, the Panel requested additional information through the AFB secretariat to be able to conclude on application of the national ministry.

7. During its third meeting, on August 8 and 9, the Panel held a teleconference with the applicant to request further explanation on how fiduciary standards were being met and to explain what further information was needed. Specifically, an organization needs to be clear who or which unit has the responsibility and accountability for the implementation of AF projects or programmes and that person or unit needs to demonstrate how it adheres to the fiduciary standards. This was missing for NIE 1 and as a result the ministry did not demonstrate such things as who or what unit was responsible for the complete lifecycle of a project/programme.

8. After discussions with the Panel and an email outlining additional documentation needed for the Panel to make a decision, NIE 1 provided the additional documents to the AF secretariat on October 20, 2010. The secretariat forwarded the additional documentation to the Panel on October 27, 2010.

9. During the fourth Panel meeting, the additional documentation received was reviewed and the Panel concluded that it could not establish sufficient evidence that the Adaptation Fund's fiduciary standards are met by the applicant. Annex 1 provides a detailed analysis of the Panel's conclusion. At this stage, the Panel is not in a position to recommend NIE for accreditation.

#### *National Implementing Entity 2*

10. The application with supporting documentation was received by the secretariat on June 8, 2010 for the accreditation of a government ministry. After screening the original application, the secretariat found that further supporting documentation was needed and sent a letter to the NIE detailing the missing documentation on August 3, 2010. The additional documentation was submitted to the secretariat on October 19, 2010 and forwarded to the Panel on October 22, 2010.

11. During the fourth AP meeting, the secretariat was asked by the Panel to inform the applicant that further documentation was necessary and the secretariat did so on November 8, 2010 and to coordinate a teleconference with one of the expert Panel members. An expert Panel member discussed via teleconference, the additional documentation required for accreditation with the entity on November 9, 2010. NIE 2 responded to that request with additional documentation on November 24, 2010.

12. The new documents have helped to clarify the position on some of the points raised by the Panel. However, several of the points still need further clarification.

13. The Panel concluded that NIE 2 may be a reasonable candidate for accreditation. The Panel expressed their opinion that a field visit to the applicant by one Panel member expert and one person from the secretariat could be useful to collect the required information, examine in detail various project documents and conduct face to face discussions. The visit could compensate for the absence of written policies and guidelines, allow the team to observe actual practices of the NIE and report back to the full Panel to make a decision on the application. The budgetary implications of the field visit are estimated at USD 22,000.

#### *National Implementing Entity 3*

14. The application with supporting documentation was received from a newly established government fund that was created to mobilize resources for the environment by the secretariat on October 8, 2010 by hard copy. The secretariat forwarded the application to the Panel on October 26, 2010. Following the fourth Panel meeting, the secretariat on behalf of the Panel requested further documentation on November 18, 2010

15. Although some of the requested documents have been received, the documentation will need to be reviewed and discussed by the entire Panel and a decision made during the next Panel meeting in 2011.

#### *National Implementing Entity 4*

16. The secretariat initially received an application from this NIE on September 28, 2010 in hard copy. After requesting further documentation, the secretariat received it, electronically, on October 25, 2010. The secretariat then notified the Panel that NIE's application was ready for review.

17. The AP reviewed the application of NIE 4, which is an autonomous body set up by the government in 1999 through a specific legislative act. The objectives of the entity are to oversee environmental concerns within the country, be a think tank and advisory body regarding environmental policy issues and undertake environmental audit of infrastructure projects. While the application refers extensively to legislation and government wide practices there are major gaps in the demonstration of capability to adhere to the fiduciary standards relating to the procedures within the NIE. A major area requiring additional evidence/demonstration is its ability to handle the entire project management cycle. Additional evidence has been requested for and will be reviewed by the AP in due course.

### *National Implementing Entity 5*

18. On May 15, 2010 the secretariat received an application from NIE 5 who represents a ministry responsible for the environment and natural resource sector of the country. Following a request for more information it was submitted on August 12, 2010. On October 4, 2010, the secretariat sent a letter to the Panel indicating that the application was ready for review. Following the fourth AP meeting, the secretariat at the request of the Panel, sent a list of additional required documents to the applicant on November 18, 2010.

19. The additional documents requested by the secretariat on behalf of the AP were received, however, further review of these documents are needed to determine if adherence to the fiduciary standards are demonstrated by the applicant. The additional materials will be reviewed by the entire Panel during the next Panel meeting in 2011.

### *National Implementing Entity 6*

20. NIE 6 sent an application to the secretariat on June 22, 2010. After several corresponding messages between the applicant and secretariat requesting more documentation, the secretariat received the application September 30, 2010, and sent the complete application on October 15, 2010 to the AP.

21. The AP reviewed the application of a national ministry whose main function is overseeing and executing the constitutional and statutory function of financial management for the government. The application relied on government wide systems but gave no demonstration of who, or what, unit would be responsible and accountable within the ministry for implementing the AF projects. As a result more evidence and demonstration on most of the fiduciary standards is needed. One of the expert Panel Members met with representatives of the ministry who were in Washington for other reasons and explained the concerns of the Panel. The review will continue once the ministry replies to the written request for the additional evidence and demonstration.

### *World Meteorological Organization (WMO)*

22. The WMO application with supporting documentation was received by the secretariat on June 8, 2010 and forwarded to the Panel on July 8, 2010. The application was first discussed at the third Panel meeting. Since one of the expert panelists lives in the city of WMO headquarters, it was decided at the third Panel meeting that the Panel Member would meet in person with WMO and clarify questions raised by the Panel and to resolve access to certain documents.

23. At the fourth Panel meeting, the additional documents requested by the Panel were provided and reviewed. The Panel gave a positive evaluation of the application and decided to recommend accreditation

#### *Multilateral Implementing Entity*

24. On September 20, 2010, an MIE sent an application to secretariat, which then forwarded the application to the Panel indicating that it was ready for their review.

25. The Panel reviewed the application for a MIE and requested further information particularly as it relates to the progress of the projects they have under implementation. The secretariat notified the applicant that further documentation was necessary in order for the Panel to complete their review on November 18, 2010. The Panel expects the reply in time for its next meeting.

#### *Panel Consideration of work procedure*

26. The Panel discussed the need to ensure that the application review process would not continue indefinitely. The Panel concluded that applications should not be considered for more than three Panel meetings. Incomplete applications or those not meeting the fiduciary standards based on the information/documents provided to date, will be analyzed during a second meeting as standard protocol (provided additional documentation or information have been provided), and in extraordinary cases, the Panel will consider an application for a third time.

#### *Support to the accreditation of NIEs*

27. The Board in its decision B.11/3, requested the development of a more user-friendly communications tool such as web-based tool-kit to assist counties in the accreditation process for national implementing entities. The Panel experts agreed to assist the developer and provide comments and inputs on the tool-kit via teleconference and email communication. The Panel also discussed and supports the view that five countries interested in accrediting NIEs be sent the tool-kit to test it on a pilot basis, once it is complete. As requested by the Board, the tool-kit will be translated to the other five UN languages once finalized.

28. The Board also requested the Panel to clarify the approved fiduciary standards and the supporting documentation requested and to submit its findings to the Board. This may lead to a review of the application in order to make it more understandable for the applicants. The Panel has initiated this task and will submit its findings to the thirteenth Board meeting.

### *Implication of Ministries as National Implementing Entities*

29. During the fourth Panel meeting, some of the NIE applications considered were from national ministries in their home countries. These applications described their government wide systems to demonstrate the effective adherence to the fiduciary standards. These applications provided a wealth of references to their national legislation and systems and directed the accreditation process into relying on various different government authorities. At the same time they provided minimal information and demonstration of how the national systems and legislation interlink in practice to provide assurances that there will be adequate accountability for each and every Adaptation Fund project.

30. Annex II of this document provides a more detailed analysis of the implications of accrediting government ministries as NIEs and outlines proposed guidelines for Designated Authorities to select NIEs.

## **II. RECOMMENDATIONS**

### *Non-Accreditation of NIE 1*

30. The Accreditation Panel, having considered the application of the complete application of NIE 1 at the fourth Accreditation Panel meeting has concluded that is not in a position to recommend accreditation. The Panel recommends the Board to instruct the secretariat to communicate this to the applicant and offer further assistance in order to identify an institution in the country that meets the fiduciary standards.

(Recommendation AFB/AP.4/1)

### *Accreditation of the World Meteorological Organization (WMO)*

31. The Accreditation Panel, having considered the application of the WMO, recommends to the Adaptation Fund Board to accredit the WMO as a Multilateral Implementing Entity.

(Recommendation AFB/AP.4/2)

### *Accreditation of National Implementing Entity 2*

32. The Accreditation Panel, having considered its application, recommends to the Adaptation Fund Board:

- a) To authorize the Accreditation Panel to conduct a field mission to the applicant; and

- b) To consider the budgetary implications of such a field visit, estimated at USD 22,000, and to include them into the budget for the Accreditation Panel.

(Recommendation AFB/AP.4/3)

*Ministries as National Implementing Entities*

33. The Accreditation Panel, having encountered practical difficulties in accrediting government ministries recommends that the Board:
- a) to take note of the practical difficulties that the Accreditation Panel is encountering, based on experience to date, to accredit government ministries;
  - b) to take note of the responsibility and accountability of a specific identifiable unit in a ministry doing Adaptation Fund projects that the Accreditation Panel needs to identify when accrediting a government ministry as a National Implementing Agency; and
  - c) to adopt the *Guidelines for Designated Authorities to select NIEs*, outlined in Annex II and ask the secretariat to include these guidelines on the Adaptation Fund website.

(Recommendation AFB/AP.4/4)

## **Annex 1: Accreditation Panel's Observation of NIE 1**

### **Conclusion:**

On the basis of the initial application the additional information received throughout the period of the review and the telephone discussion with representatives of the various ministries, the Panel has not been able to establish sufficient evidence that the Adaptation Fund's fiduciary standards are met by NIE. The Panel is not in a position to recommend to the AFB that the NIE 1 be accredited.

### **Rationale:**

The application demonstrated and provided evidence that the applicant met most of the fiduciary standards related to financial management and integrity matters though there are some aspects that were not met. For example, NIE 1 had financial statements for the year ended 2009 which had a positive opinion from the Auditor General. However the balance sheet of the national ministry has expanded tenfold between 2007 and 2009. The implications of this on the internal control framework of NIE 1 are not clear. There is an independent internal audit function that pre-audits the departmental expenditures and does some audits of disbursements / procurements. These audits raise some control questions that need to be corrected by the applicant before accreditation can be recommended.

The application did not demonstrate that the fiduciary standards relating to requisite institutional capacity was met. The application referred to legislation, systems and procedures relating to the government structures as a whole and it was not possible to allocate responsibility or accountability for these as they would relate to a specific unit or group of people within the NIE 1 who would execute Adaptation Fund projects. This means that the Panel could not give the required assurances that NIE 1 had the required control structures in place to ensure that moneys from the adaptation fund would be used properly in an efficient and effective manner and that corrective action would be take for projects at risk.

The application gave examples of development projects in the country but the implementation control mechanisms were exercised by donors, other ministries and consultants hired under the control of others. These examples provided insufficient evidence of NIE 1 ability to manage such implementation control functions. The application makes reference to a Project and Financial Analysis Unit within NIE 1 but fails to demonstrate that this Unit, which has a consulting function within the Government, has any responsibility and accountability for the aspects of Adaptation Fund projects.

The application makes reference to the government's legislative provisions to deal with fraud and mismanagement. This does not provide sufficient demonstration and evidence that NIE 1 would have a zero tolerance policy related to fraud and other mismanagement related to Adaptation Fund projects and that such policy is supported by the senior management of NIE. There is no evidence that the applicant has a mechanism to receive allegations against its own staff or third parties within a framework of whistleblower protection and ensure that each allegation related, directly or indirectly, to Adaptation Fund projects will be investigated and concluded upon and continuously monitored until a conclusion is reached on the allegation.

More detailed information of the review findings can be made available to NIE on request.

## **Annex II: Implications of Accrediting a Government Ministry as an NIE**

### **Demonstrating Adherence to the Fiduciary Standards:**

In an annex to the Accreditation Panel report for the 10<sup>th</sup> Board meeting the Panel provided a paper to the Board on the best way to support the creation of National Implementing Agencies (NIE). In the paper it listed a number of gaps and obstacles that had been encountered including:

- Fiduciary standards met jointly by more than one institution in the country but not by one single institution;
- Lack of understanding of what an appropriate NIE would be;
- Lack of a clear definition of what structure an appropriate NIE should have; and
- Potential NIEs must adapt to Adaptation Fund requirements.

It also mentioned that:

- Some countries do not have an appropriate entity to nominate and that the effort to establish a NIE from scratch would require considerable efforts and time, thus delaying the option of direct access to the resources from the Fund. In these cases, the access through an MIE would be the preferred alternative for the immediate future.

These gaps and obstacles were encountered when the Panel considered applications in its November meeting from NIEs that were national ministries in their home countries. These applications described their government wide systems to demonstrate the effective adherence to the fiduciary standards. Thus they dealt with such issues as: the financial statements of the government as a whole; the overall controls from their supreme audit authority such as an auditor general or equivalent; and the national procurement legislation and placed all of these into the context of their overall multiyear strategy and development plan or a component thereof such as sections relating to the environment.

These applications provided a wealth of references to their national legislation and systems and directed the accreditation process into relying on various different government authorities. At the same time it provided minimal information and demonstration of how the national systems and legislation interlink in practice to provide assurances that there will be adequate accountability for each and every Adaptation Fund project.

While it is appropriate under direct funding concept to use quality donor systems, including government systems, they can only be used if it is accompanied by assurances that they provide the required fiduciary assurances at the level of each Adaptation Fund project and that was normally missing. To give some examples:

- The national code of conduct and anti fraud legislation provided no assurances that the Adaptation Fund projects would be free of fraud and

- corruption and that all allegations would be immediately dealt with and those that provide information would be protected. Neither does it demonstrate a attitude from the applicant NIE that it is a zero tolerance organization particularly as it applies to third parties associated directly or indirectly with projects associated with Adaptation Fund monies.
- An application that demonstrates that a national strategy is monitored on an annual basis gives no guarantee that there will be a continuous monitoring of Adaptation Fund projects and that “projects at risk” are elevated to the right level for corrective action and receive close scrutiny until the problems are resolved.
  - A government wide policy for internal audit does not give assurances that the contracting and disbursement of individual projects are audited.
  - The existence of national accounts and audited financial statements does not provide evidence of the accounting for Adaptation Fund projects that is needed by the Adaptation Fund.

In the view of the Panel it is difficult to give assurances that the government wide systems will be fully applicable for each Adaptation Fund project. Until now the only NIEs that met the fiduciary standards were those that had a core structure that takes responsibility and therefore is fully accountable for Adaptation Fund projects. Such a core structure could be a separate entity with its own corporate structure that uses some of the government governance procedures and controls but has greater freedom in how to apply these but nevertheless within a well established and defined internal control framework. Corporate entities can be effective in demonstrating how they adhere to the fiduciary standards and those that obtained a positive accreditation recommendation. They have also shown to be more capable to take required decisions and corrective actions in a timely manner that is critical for the success of projects.

Alternately, a project unit may exist in a ministry that is responsible and accountable for the tasks associated with a NIE. This would entail that a specific group of individuals take responsibility for all the aspects related to project cycle. Such a unit would be interwoven into the ministry structure and use or be consistent with the structures of the government. Nevertheless it has the coordinating task to follow through with all aspects of the project cycle and this would need to be demonstrated to the Panel. Thus a project unit within a ministry would need to be capable of and be responsible and accountable for:

- Project identification, development, appraisal and approval and in this process draw upon the government, national and other donor resources needed therefore.
- Contracting with executing agencies and monitor their progress including identifying projects at risk and ensure these are continuously followed until corrective action has resolved or mitigated the risks to the project.
- Having ready access to the necessary technical, financial, economic, environmental and legal resources to support the project and manage the project executing agencies.

- Ensuring that there are the needed contracting, disbursement and control mechanisms over the projects in compliance with national and international procurement rules and regulations.
- Ensuring that there is full accountability through complete and periodic financial and status reporting for each project.
- Having the ability to contract and guide an independent evaluation of projects on a post completion basis and effectively deal with the lessons learned.
- Demonstrating a zero tolerance policy related to fraud and other mismanagement on projects that is supported by the most senior management. Therefore the unit must have access to or establish mechanisms to receive allegations within a framework of whistleblower protection and ensure that each allegation is investigated and concluded upon and continuously monitor the progress of each complaint until a conclusion is reached.

These separate corporate entities or project units do not exist for most governments although some countries have recently created them. The newly created organizations may have initial difficulties to be accredited because they cannot demonstrate and provide evidence of successfully going through a project cycle in the initial few years.

### **Proposed guidelines for Designated Authorities to select an NIE:**

The Panel observed that there is no guidance to assist Designated Authorities to select the best NIE candidate for the country and proposes the following guidelines.

#### Guidelines to assist Designated Authorities to select the best NIE

- A conviction by the Designated Authority that the proposed NIE can demonstrate and give evidence of its fiduciary abilities and obtain the accreditation from the Adaptation Fund. This would involve a preliminary evaluation by the Designated Authority that the potential NIE meets the fiduciary standards and can demonstrate this during the accreditation process.
- A preliminary assessment by the Designated Authority that the potential NIE is the most capable within the country to take responsibility and accountability for the full project cycle elaborated upon above in an agile, efficient and effective manner.
- There is an optimal organizational structure within the potential NIE for the implementation task which in most cases would imply that the entity has a separate corporate structure and that the implementation of projects is one of its significant activities.
- A conviction by the Designated Authority that the potential NIE has a zero tolerance for fraud which is demonstrated by its top management. Thus

the potential NIE should have the ability to take on the responsibility of the full project cycle in an environment free from direct and indirect fraud and corruption from its own staff and from third parties and have the ability to resolve any allegations thereof in a transparent and complete manner involving required authorities as needed.

- A preliminary assessment by the Designated Authority that the potential NIE has the ability to work together with government entities, leveraging co-financing organizations and other stakeholders within the country in order to identify, appraise, implement and evaluate projects related to adaptation.
- A clear demonstration that the potential NIE can bring a significant value added component to Adaptation Projects over and above what existing and accredited Multilateral Implementing Agencies can bring. While the enhancement of country ownership, capacity building and strengthening of country systems are important they should not be at a great expense to the effectiveness of adaptation projects.