



ADAPTATION FUND

AFB/B.22/5/Add.2  
23 October 2013

---

Adaptation Fund Board  
Twenty-second meeting  
Bonn, Germany, 31 October – 1 November 2013

Agenda item 8 b)

**ENVIRONMENTAL AND SOCIAL POLICY  
OPERATIONALIZATION: OPTIONS FOR THE  
ACCREDITATION PROCESS**

## **Background**

1. The Board at its twenty-first meeting requested the secretariat to prepare “a proposal on how to operationalize the environmental and social policy, including any necessary changes to the relevant Adaptation Fund policies and procedures. In developing this proposal the secretariat will also present options on how the accreditation process could be modified to ensure that implementing entities have the ability to implement the policy” (Decision B.21/23).
2. Following this mandate, the secretariat has prepared the following document presenting options for how the accreditation process, if the environmental and social policy is approved by the Board, could be modified to ensure that implementing entities have the ability to implement the policy.
3. The secretariat would like to point out to the Board that the application of the policy may require a transitional period to build capacity in entities that have already been accredited and that may encounter difficulties in complying with the proposed policy. Therefore, if the Board were to approve the environmental and social policy, its operationalization should go hand in hand with readiness support available for applicants for accreditation and already accredited implementing entities (IEs). A proposal for a readiness program is presented in document AFB/B.22/6.
4. This document presents three options for modification of the accreditation process and outlines the necessary changes that the accreditation process may require for the Accreditation Panel experts to assess the ability of the applicants to comply with the proposed policy.

### **Options for an approach to include the environmental and social policy in the Fund’s operations and accreditation process**

5. *Option 1: Once (if) policy becomes effective, require all implementing entities to provide evidence of capacities to comply with the environmental and social policy.* This option would change the condition of already accredited implementing entities retroactively. It would also require the development of a new process overlaid on the accreditation process to review the standards of currently accredited IEs. In addition, all applicants currently under review would be asked to provide evidence of their ability to comply with the policy.
6. Requiring proof of capacity to comply with the policy upon approval would retroactively change the condition of IEs by requiring them to be submitted to a new accreditation process in order to meet the new standards. Moreover, it should be noted that even without a formal policy at the project/programme review stage IEs must outline any environmental and social risks associated for any project/programme funded by the AF. For all the above, the disadvantages of implementing this option becomes evident.
7. *Option 2: Keep accreditation application as is and rely on project/programme review for compliance with environmental and social policy.* While this approach would be operationally simple, it will place the AF at a disadvantage with other climate funds that are working toward direct access. The Global Environment Facility (GEF) has put in place a review of their implementing agencies’ environmental and social safeguards and the Green Climate Fund

(GCF) has embedded in its instrument the need for social and environmental safeguards to be part of any accreditation process. As a first mover, the Adaptation Fund was able to pioneer direct access. The Fund must however, continue to evolve to ensure international best practices are integrated into its processes and procedures. In addition, by examining the capabilities of implementing entities to comply with an environmental and social policy, the Fund will further mitigate its risk of funding projects that may do environmental or social harm.

8. To find middle ground between a draconian blanket request from all entities to immediately comply with the proposed policy and a status quo approach, the secretariat recommends the Board to phase in the policy through a tiered approach.

9. *Option 3: Undertake a tiered approach to rolling out the environmental and social policy.* Under option three, if the policy is approved, the operationalization of the environmental and social policy would follow a tiered approach depending on the stage an entity is in. The following categories of entities may need to be considered:

- Accredited implementing entities implementing approved projects/programmes or with projects/programmes in the pipeline;
- Accredited implementing entities without approved projects/programmes;
- Entities under review by the Accreditation Panel;
- New applicants for accreditation; and
- Accredited implementing entities applying for reaccreditation.<sup>1</sup>

10. The secretariat has identified one option to deal with each category of entities listed above, which are presented below for consideration by the Board.

*Accredited implementing entities with projects/programmes approved or in the pipeline*

11. At the time of issuance of this document the Board had approved 29 projects/programmes, namely 25 implemented by multilateral implementing entities (MIEs) and four implemented by national implementing entities (NIE). These projects are at different stages of implementation, with the programme in Senegal being the closest to completion.<sup>2</sup> Other projects/programmes with a duration estimated at over four years are reaching the time of mid-term evaluation. In addition, seven projects/programmes recommended for approval by the Project and Programme Review Committee (PPRC) have been placed in a pipeline awaiting availability of resources for being submitted to the Board for approval. Besides these, there are three fully developed proposals for consideration by the Board at the twenty-second meeting.

---

<sup>1</sup> Accreditation is valid for a period of five years. The secretariat and Accreditation Panel are currently working on a draft of reaccreditation process. The *Centre de Suivi Ecologique (CSE)* of Senegal, the *Agencia Nacional de Cooperación e Innovación* of Uruguay, the Planning Institute of Jamaica, UNDP, and the World Bank will have to be reaccredited in 2015 in order to maintain accredited status.

<sup>2</sup> Adaptation to coastal erosion in vulnerable areas of Senegal implemented by CSE. The programme is scheduled to be completed in February 2014 after an extension of one additional year was granted by the Board.

12. The secretariat proposes that implementing entities already implementing projects/programmes be notified of the approval of the policy, once the Board so decides. The Board may also want to note that the policy will apply to any future projects/programmes approved. Further, the Board may want to consider that the reporting requirements in the proposal of Project Performance Report (PPR) contained in document AFB/B.22/5 also apply to projects under implementation. The implementing entities may provide information on any additional risks that it may identify in the future following the environmental and social policy, if approved. In order that implementing entities can identify environmental and social risks identified in line with the environmental and social policy, and communicate these to the Board during project/programme implementation, a box has been incorporated in the PPR template to capture this information.

*Accredited implementing entities without approved projects/programmes*

13. Among the accredited implementing entities some have not received funding for a project/programme yet. The ability of these entities to comply with the policy has not been assessed at the accreditation stage. However, if any proposal submitted by these implementing entities is approved for funding, the policy once approved will be part of the agreement signed with the Board and will thus be legally binding. Therefore, accredited implementing entities will have to use the amended project/programme submission template that will include information relevant for compliance with the environmental and social policy, if approved, and the modified PPR.

*Entities under review by the Accreditation Panel or screening by the secretariat*

14. As of the date of this Board meeting, a number of entities have submitted an accreditation application. Therefore, they are currently under review by the Accreditation Panel or being screened by the secretariat. Entities that are close to being recommended for accreditation may be treated as the already accredited entities that have not yet received funding for project/programme implementation above. Depending on how advanced they are in the process leading to a positive recommendation by the Accreditation Panel, these entities may receive guidance or support through the accreditation process for compliance with the environmental and social policy, if approved.

*New applicants for accreditation and accredited implementing entities applying for reaccreditation*

15. If the proposed environmental and social policy is approved by the Board, the future accreditation and reaccreditation of implementing entities will need to reflect the capacity and commitment of entities to assess and manage environmental and social risks. Currently, implementing entities are responsible for risk management associated with the projects/programmes, but the risk has not been explicitly delineated to include environmental and social risks presented in the proposed projects/programmes.

16. As part of an approved environmental and social policy, all implementing entities shall (i) have an environmental and social management system that ensures environmental and

social risks are identified and assessed at the earliest possible stage of project/programme design, (ii) adopt measures to avoid or where avoidance is impossible to minimize or mitigate those risks during implementation, and (iii) monitor and report on the status of those measures during and at the end of implementation. The above requirements fall broadly into four categories:

- *Screening of Environmental and Social Risks*
- *Developing Environmental and Social Management Plan(s)*
- *Monitoring, Reporting, and Evaluation*
- *Mechanism to address complaints about environmental or social harms*

17. The revised accreditation application contained in Annex I proposes the following changes:

- a) Commitment by the entity to apply the environmental and social policy, if approved, during project/programme design, implementation, monitoring, and evaluation: New applicants for accreditation or reaccreditation shall take a commitment at the highest managerial level to abide by the environmental and social policy, if approved.
- b) Actual capacity of the entity to identify environmental and social risks; to develop and implement an environmental and social management plan; and to monitor any risks during projects/programmes implementation in compliance with the environmental and social policy, if approved: The three areas of identifying risk, developing plans to mitigate risk and monitoring the risk throughout the life of the project are all areas that the Accreditation Panel already reviews. The proposed changes therefore, explicitly request information on how environmental and social risks are addressed within: a) project appraisal process and risks assessment oversight; ii) project at risk system and capacity to oversee "...economic, social, environmental, and legal aspects of the project...", and iii) monitoring and evaluation capacity. Applicants should demonstrate existence of in-house oversight, risk-management, monitoring, and evaluation capacity related to environmental and social risks. If this specific capacity does not exist within the entity, they may also demonstrate that they are able to outsource and supervise the function. In that regard, they could stress the ability to find technical support of environmental and social safeguards experts from outside to assist for example, in the development of an environmental and social management plan<sup>3</sup>.
- c) Availability of a mechanism to address complaints about environmental or social harm caused by projects: New applicants for accreditation and accredited implementing entities applying for reaccreditation shall identify an available grievance mechanism that

---

<sup>3</sup> This would mean demonstrating that they can e.g. hire someone from a university or consulting firm to help address specific issues if necessary, while the responsibility would remain solely with the implementing entity.

provides people affected by projects/programmes supported by the Fund with access to a transparent and effective process that will receive and facilitate resolution of their complaints about environmental and/or social harms caused by any such project/programme. The mechanism can be pre-existing, national, local, or project-specific. New applicants for accreditation and accredited implementing entities applying for reaccreditation may provide a description of what mechanisms are available in their internal systems to address environmental and social complaints.

### **Recommendation**

18. Please see recommendation in document AFB/B.22/5.

**Annex I: Proposed changes to the accreditation application to integrate ability of applicant to comply with Fund’s environmental and social policy (if approved)**

# ACCREDITATION APPLICATION FORM

Please fill out all of the background and contact information contained in Section I.

For Sections II-IV, provide a description of how the organization meets the specific required capabilities and attach supporting documentation. Examples of the types of supporting documentation that would provide evidence of meeting the Fund's fiduciary and management standards are included at the end of each of these sections.

**Note:** Application and supporting documentation must be submitted in English

## SECTION I: Background/Contact

Nominated Entity (if NIE):
Invited Entity (if MIE):
Address:
Country: Postal Code:
Telephone:
Fax:
Web Address:
Contact Person:
Telephone:
Email:

## SECTION II: Financial Management and Integrity

### Specific Capability Required

- A. Legal status to contract with Adaptation Fund Board
- B. Accurately and regularly record transactions and balances in a manner that adheres to broadly accepted good practices, and are audited periodically by an independent firm or organization;
- C. Managing and disbursing funds efficiently and with safeguards to recipients on a timely basis;
- D. Produce forward-looking financial plans and budgets

	<b>Required competency</b>	<b>Specific capability required</b>	<b>Supporting documentation that should be provided</b>
	<b>Legal Status</b>	Demonstration of necessary legal personality	Documentation of legal status and mandate (please highlight the relevant paragraphs)
		Demonstration of legal capacity/authority and the ability to directly receive funds	(i) Same documentation or separate supporting documentation (ii) List of foreign loan/donor funds handled over the last 2 years
	<b>Financial Statements including Project Account Statements and the provisions for Internal and External Audits</b>	Production of reliable financial statements that are prepared in accordance with internationally recognized accounting standards	Audited Financial Statements
		Production of annual externally audited accounts that are consistent with recognized international auditing standards	(i) External Auditor Reports (ii) Audit Committee's Terms of Reference
		Demonstration of use of accounting packages that are recognised and familiar to accounting procedures in developing countries	Name and brief description of accounting package used
		Demonstration of capability for functionally independent internal auditing	(i) Policy/charter and other

		in accordance with internationally recognized standards	published documents (like manuals) that outline the entity's internal auditing function (ii) Copies of audit plans for last 2 years and the current year (iii) List of internal audit reports of last 2 years and sample reports
	<b>Internal Control Framework with particular reference to control over disbursements and payments</b>	Demonstration of use of a control framework that is documented with clearly defined roles for management, internal auditors, the governing body, and other personnel	Policy or other published document that outlines the entity's control framework
		Demonstration of proven payment/disbursement systems	Procedures describing the payment/disbursement system with particular reference to project payments/disbursements
	<b>Preparation of Business Plans and Budgets and ability to monitor expenditure in line with budgets</b>	Production of long term business plans/ financial projections demonstrating financial solvency	Long Term Business plans financial projections for the next 3 to 5 years
		Evidence of preparation of corporate, departmental/ ministry budgets and demonstration of ability to spend against budgets	(i) Annual budgets for the organization and entities within it (ii) End of calendar year/fiscal year or periodical budget report

## SECTION III: Requisite Institutional Capacity

### Specific Capability Required

- A. Ability to manage procurement procedures which provide for transparent practices, including competition
- B. Ability to identify, formulate and appraise projects, [including the identification and assessment of project/programme environmental and social risks and the adoption of measures to address those risks](#)
- C. Competency to manage or oversee the execution of projects/programmes, including ability to manage sub-recipients and to support project/programme delivery and implementation
- D. Capacity to undertake monitoring and evaluation, [including monitoring of measures for the management of environmental and social risks](#)

	<b>Required competency</b>	<b>Specific capability required</b>	<b>Supporting documentation that may be provided</b>
	<b>Procurement</b>	Evidence of transparent and fair procurement policies and procedures at the national level that are consistent with recognized international practice (including dispute resolution procedures)	<ul style="list-style-type: none"> <li>(i) Procurement Policy</li> <li>(ii) Detailed procedures or guidelines including composition and role of key decision making committees</li> <li>(iii) Provisions for oversight/audit /review of the procurement function with an actual sample of oversight/audit/review reports</li> <li>(iv) Procedures for handling/controlling procurement in Executing Agencies</li> </ul>
	<b>Project Preparation and Appraisal</b>	Demonstration of capability and experience in identification and design of projects (preferably adaptation projects)	<ul style="list-style-type: none"> <li>(i) Detailed project plan documents for 2 projects</li> <li>(ii) <a href="#">Details of entity's role in identification and design of</a></li> </ul>

			<a href="#">the sample projects provided above</a>
		Demonstration of availability of/ access to resources and track record of conducting appraisal activities	(i) Details of the project appraisal procedures (ii) 2 samples of project appraisals undertaken
		Demonstration of the ability to examine and incorporate the likely impact of technical, financial, economic, environmental, social and legal aspects into the project at the appraisal stage itself	Sample of project documents which demonstrate this capability
	<b><a href="#">Risk Assessment</a></b>	Demonstration of <a href="#">capability or access to resources</a> to: (i) undertake assessment of project/program <a href="#">risks including: (a) financial, economic, political risks), and (b) environmental and social risks, in accordance with the Adaptation Fund's Environmental and Social Safeguard Policy; and</a> (ii) integrate mitigation strategies/ <a href="#">environmental and social risk management</a> plans into the project document	(iii) Policy and/or other published document(s) that outlines the risk assessment procedures/framework (iv) Samples of completed project appraisals with identified risks and corresponding mitigation strategies, <a href="#">including environmental and social risk management plans</a>
	<b>Project Implementation Planning and Quality-at-entry Review</b>	Evidence of institutional system for planning implementation of projects with particular emphasis on quality-at-entry	Operational manual/ procedures for project review system during the design phase
		Evidence of preparation of project budgets for projects being handled by the entity or any sub-entity within it	(i) Project budgets (ii) Analysis of project expenditure vs budget
	<b>Project Monitoring and Evaluation during implementation</b>	Demonstration of capacities for <a href="#">project</a> monitoring and evaluation that are consistent with the requirements of the Adaptation Fund, <a href="#">including monitoring the status of</a>	(i) Policy or other published document that outlines monitoring and evaluation requirements

		<a href="#">measures for avoiding, minimizing or mitigating environmental and social risks.</a>	<ul style="list-style-type: none"> <li>(ii) Detailed procedures and formats used for monitoring and evaluation during project implementation</li> <li>(iii) Sample project monitoring and evaluation reports</li> <li>(iv) <a href="#">Copies of status reports on the implementation of the environmental and social risk management plans</a></li> </ul>
		Production of detailed project accounts which are externally audited	<ul style="list-style-type: none"> <li>(i) Sample of project accounts</li> <li>(ii) Sample of project audit reports</li> </ul>
		Evidence of a process or system, such as a project-at-risk system, that is in place to flag when a project has developed problems that may interfere with the achievement of its objectives, and to respond to redress the problems	Procedures for project-at-risk system or similar process/system to ensure speedy solutions to problems which may interfere with the achievement of the project objectives
	<b>Project closure and Final Evaluation</b>	<a href="#">Demonstration of capacity or access to resources for undertaking project closure and independent final evaluation, including final evaluation of project/program performance with respect to environmental and social risks</a>	<ul style="list-style-type: none"> <li>(i) Policies/procedures relating to closure of projects and preparation of independent end-of-project/final evaluation reports</li> <li>(ii) Independent evaluation reports of projects/programmes completed in the last 24 months</li> </ul>
		Demonstration of an understanding of and capacity to assess impact/implications of the technical, financial, economic, environmental, social, and legal aspects of projects	Project closure reports or independent evaluation reports containing assessment of the impact/implications of the technical, financial, economic, environmental, social, and legal aspects of projects
		Demonstration of competence to execute or oversee execution of	Independent evaluation reports of completed projects/programs

		projects/programmes	
--	--	---------------------	--

**SECTION IV: Transparency, self-investigative powers, anti-corruption measures and mechanism to address complaints about environmental or social harms caused by projects**

**Specific Capability Required**

- A. Competence to deal with financial mismanagement and other forms of malpractice
- B. [Capacity to address complaints on environmental and social harms caused by projects/programs](#)

	<b>Required competency</b>	<b>Specific capability required</b>	<b>Supporting documentation that may be provided</b>
	<b>Policies and Framework to deal with financial mismanagement and other forms of malpractices</b>	Evidence/tone/statement from the top emphasising a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by implementing entity staff or from any external sources associated directly or indirectly with the projects	Provide evidence of a statement communicating such a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice
		Demonstration of capacity and procedures to deal with financial mismanagement and other forms of malpractice	<ul style="list-style-type: none"> <li>(i) Provide copy of documented code of conduct/ethics applicable to the staff</li> <li>(ii) Documentation establishing avenues for reporting non-compliance/ violation/misconduct and business conduct concerns</li> <li>(iii) Details of policies and procedures relating to managing conflict of interest and whistle blower protection</li> </ul>

		Evidence of an objective investigation function for allegations of fraud and corruption	<ul style="list-style-type: none"> <li>(i) The structure and process/ procedures within the organization to handle cases of fraud and mismanagement and undertake necessary investigative activities.</li> <li>(ii) Data on cases of violation of code of conduct/ethics and frauds reported over last 2 years be provided in terms of number of cases, types of violations and summary of status/action taken.</li> <li>(iii) Periodical oversight reports of the ethics function/ committee be attached for the last 2 years</li> </ul>
	<a href="#"><u>Commitment by the entity to apply the Fund's environmental and social policy</u></a>	<a href="#"><u>Evidence of entity's commitment to addressing environmental and social risks</u></a>	<a href="#"><u>Statement from top management communicating entity's commitment to abide by the AF's environmental and social policy</u></a>
	<a href="#"><u>Mechanism to deal with complaints on environmental and social harms caused by projects/programs</u></a>	<a href="#"><u>Demonstration of an accessible, transparent, fair and effective mechanism (either within the entity itself, local, national or project-specific) for receiving complaints about environmental and social harms caused by projects/programmes</u></a>	<a href="#"><u>Details of process/avenues available to the public to submit complaints, including name and contact information of the specific person /office responsible for receiving complaints</u></a>