



ADAPTATION FUND

AFB/EFC.19/7/Rev.1
18 September 2016

Adaptation Fund Board
Nineteenth Meeting
Bonn, Germany, 4-5 October 2016

Agenda item 6

**EFFECTIVENESS AND EFFICIENCY OF THE ACCREDITATION
PROCESS: ASSESSMENT, INCLUDING A GAP ANALYSIS, OF
THE GREEN CLIMATE FUND'S (GCF) FIDUCIARY AND
ENVIRONMENTAL AND SOCIAL STANDARDS**

Background

1. The Adaptation Fund Board (Board) by its intersessional decision AFB/B.25-26/12 decided to request the secretariat to carry out an assessment, including a gap analysis, of the Green Climate Fund's (GCF) fiduciary and environmental and social standards with recommendations on fast-tracking re-accreditation and potential accreditation applicants to the Adaptation Fund.

2. As specified in paragraph 47 of the Report of the nineteenth meeting of the Accreditation Panel the reasons behind the above mentioned decision is that: *"in relation to the re-accreditation applications, some thought was given to the fact that the Green Climate Fund (GCF) has fast-tracked several of the Fund's implementing entities and that the Fund might try to reciprocate through its own fast-track process. This could help increase the efficiency of the Panel and reduce duplication of work between the funds"*. This reasoning is in line with the current effort by the Board to identifying areas to foster complementarity with the GCF, including accreditation, as well as with the effectiveness and efficiency of the accreditation process.

Scope and methodology of the review

3. Pursuant to the Board decision AFB/B.25-26/12 the assessment is completed by the secretariat with the support of a former Accreditation Panel member. The scope of the assessment includes a review of the GCF's accreditation procedures and compared these with the procedures in place at the Fund as at 1 September 2016. The full assessment is attached in Annex 1. As specified in the Annex 1 the scope of the desk review was based on:

- *Reviewing the GCF accreditation application and the review questionnaire to be done by the Secretariat of GCF in Stage I and the Accreditation Panel in Stage II to determine if all the areas of the Fiduciary Standards and the Environmental and Social Policy including the requirement to have a complaints mechanism for social and environmental harm are covered;*
- *Reviewing the Environmental and Social Policies of the Fund and Environmental and Social Safeguards of the GCF and the references thereto in their respective accreditation applications to determine how they covered the ability of applicants to apply the Environmental and Social Principles of the Fund and whether there were any material gaps between the policies of the Fund and the GCF;*
- *Reviewing the Gender Policy of both Funds and the references thereto in their respective accreditation applications to determine how they covered the assessment of the ability of applicants to apply the Gender Policy of the Funds and whether there were any material gaps between the two policies;*
- *Review the Terms of Reference of the respective Accreditation Panel of the Fund and the GCF.*

4. The review finalized by the expert did not involve discussions with the Staff of the respective secretariat the Panel Members of the Fund and GCF. Neither did it involve a review of any of the accreditation reports or the related working documents.

Reasons for fast-tracking re-accreditation and potential implications

5. The assessment concluded that: *“The GCF accreditation procedures are consistent with those of the Fund and that they can be relied upon subject to the following conditions and extra review to be done by the Accreditation Panel of the Fund:*

- *The GCF accreditation Stage II (GCF Board decision on accreditation) of the applicant should have been completed within four years prior to the date of submission of the re-accreditation application to the Fund;*
- *The Fiduciary Standard related to the legal status needs to be reviewed by the Fund;*
- *Applicants that were not assessed against the GCF’s Environmental and Social Safeguards would be reviewed for compliance with the Fund’s Environmental and Social Policy;*
- *Applicants would have to provide a commitment statement to abide by the Environmental and Social Policy of the Fund;*
- *Applicants would have to demonstrate that they have a mechanism to deal with complaints on environmental and social harms caused by projects/programs;*
- *Applicants that were not assessed against the GCF’s gender policy would be reviewed for compliance with the Fund’s Gender Policy;*
- *Applicants would have to provide a commitment statement to abide by the Gender Policy of the Fund; and*
- *Applicants would have to demonstrate that they have a mechanism to deal with complaints on Gender harms caused by projects/programs.*

Recommendation

6. The Ethics and Finance Committee (EFC) may want to consider recommending the Adaptation Fund Board that the Board consider fast-tracking re-accreditation of implementing entities accredited with the Green Climate Fund within a period of four years prior to the submission of the re-accreditation application to the Adaptation Fund.

ANNEX 1: THE ASSESSMENT, INCLUDING A GAP ANALYSIS, OF THE GREEN CLIMATE FUND'S (GCF) FIDUCIARY AND ENVIRONMENTAL AND SOCIAL STANDARDS

I. Introduction

The Accreditation of the Adaptation Fund

1. The accreditation process of the Adaptation Fund (the Fund) aims to ensure that an entity follows fiduciary and safeguard standards while accessing financial resources of the Fund. The assessment of an applicant is done by an Accreditation Panel of highly experienced individuals. They review whether the applicant adheres to the Fund's Accreditation Standards and can implement effectively Social and Environmental Safeguards and Gender Policy of the Fund. More details can be found at: <https://www.adaptation-fund.org/apply-funding/accreditation/>

The Accreditation of the Green Climate Fund

2. The accreditation process of the GCF has similar objectives as those of the Fund and is described on the GCF's website. It is similarly designed to assess whether applicant entities have the ability to manage GCF's resources in line with the GCF's fiduciary standards for the scale and type of funding sought, as well as the ability to manage environmental and social risks that may arise at the project level. Entities seeking accreditation to access GCF resources will also be assessed against the GCF's Gender Policy.

3. The GCF has a fast-track accreditation process for entities accredited by the GEF, the AF and DG DEVCO. Provided that pre-requisites for this process are met, the GCF's accreditation focuses on the GCF's accreditation requirements (gaps), if any, that were not assessed in the other accreditation processes.

More details can be found at:

<http://www.greenclimate.fund/partners/accredited-entities/accreditation>

II. Criteria for reliance by the Fund on the GCF accreditation process

4. The following criteria should be met by the GCF for the Fund to rely upon GCF's accreditation process:

- The positive accreditation review by the GCF should establish that the applicant meets and demonstrates the equivalent of the requirements of the Fiduciary Standards, the Environmental and Social Policy, and of the Gender Policy, thus:
 - The applicant should meet the substance of the Fiduciary Standards of the Fund,
 - The applicant should have ability to implement the Fund's Environmental and Social Principles, and
 - The applicant should have ability to implement the Fund's Gender policy;
- The criteria for accreditation to the GCF should be comparable to those of the Fund;

- The adequacy and competence of the Accreditation Panel and those doing the detailed review should be sufficient to reach an professional and reasoned conclusion; and
- The above points should equally apply to the applicants going through the fast track accreditation process.

III. Review of the Fiduciary Standards and other requirements:

5. The substance of the Fund's accreditation application and its Fiduciary Standards was compared to those of the GCF to determine if there were any parts not covered by the GCF compared to the relevant documents of the Fund. Any gaps that were identified were analysed to see if that would have a material impact on re-accreditation decision of the Fund. A summary of the detailed comparison is in **annex A**. On the basis of the review it can be concluded that:

Reliance Conclusions		
Area	Reliance possible	Explanation
Legal status	No	Too important for reliance
Financial reporting and auditing	Yes	
Internal Control Framework	Yes	
Business planning and budgeting	Yes	
Procurement	Yes	
Project preparation and appraisal	Yes	
Risk assessment	Yes	
Project planning and Quality	Yes	
Project monitoring and evaluation	Yes	
Project closure and final evaluation	Yes	
Financial mismanagement & fraud	Yes	
Environmental and social	Mostly	Except for commitment and grievance
Gender	Mostly	Except for commitment and grievance

The quality of the GCF application and review guides

6. The application of the GCF is extensive and is supplemented by a Checklist for Stage I to be used by the Secretariat and for Stage II to be used by the members of the Accreditation Panel. These documents demonstrate that the review process is extensive and detailed. This gives confidence that the accreditation review by of an application by the GCF has at least the comparable rigour as the re-accreditation review done by the Fund.

Adequacy and competence of the GCF Accreditation Panel:

7. To assess the adequacy and competence of the GFC Accreditation Panel the terms of reference of the Accreditation Panel of GCF was compared to those of the Fund, and this

comparison is contained in the working paper prepared for this review. The conclusion is that the structure and competence of the Accreditation Panel and its Members of the GCF are sufficient to reach a professional and reasoned accreditation conclusion that can be relied upon by the Fund.

GCF Accreditation done through the fast-track:

8. The GCF has accepted a fast-track accreditation process for accredited entities of the Global Environment Facility (GEF), the Adaptation Fund (AF) and the Directorate-General for Development Co-operation – Europe Aid of the European Commission (DEVCO). According to an information PowerPoint presentation on the GCF's website, the fast-track process allows eligible entities to focus their application on the GCF's accreditation requirements (gaps) that have not been assessed in the other accreditation processes. A gap analysis was done for the AF and presumably also for the others.

Re-accreditation:

9. There is no re-accreditation case within the GCF yet, hence any GCF accreditation that is more than five years old would have to go through a full accreditation process by the Fund. For practical reasons, given the time lags in the accreditation process, it would be reasonable to require an applicant to have completed Stage II of its accreditation within the last four years.

IV. Review results related to Fiduciary Standards, Environment and Social Policy and Gender policy.

Legal Status

10. This first Fiduciary Standard of the Adaptation Fund concerns the legal status to contract with the Adaptation Fund Board. This is a basis for the Fund to conclude legal arrangements with the applicant after the accreditation decision is made. The legal contracting is not considered part of the accreditation.

11. A proper accreditation review is done by GCF to determine the legal status of an applicant. However, the legal status and subsequent contracting with an implementing entity is of such importance for the Fund that it needs to be reviewed without exception by the Fund itself. Thus, while the information gathered by the GCF relating to the legal status can be of significant assistance, this fiduciary standard cannot be fully relied upon.

Financial Statements including Project Account Statements and the provisions for Internal and External Audits

12. These fiduciary standards deal with audited financial statements prepared in accordance with internationally recognized accounting standards, the use of accounting packages, and

internal audit. These areas are covered in the fiduciary standards of the GCF. A guide of the Fund suggests that an audit committee also cover the adequacy of the project management cycle and that provision is not seen in the GCF. However, that suggestion is a guidance of the Fund and not it is mandatory. The Fund specifies that accounting packages should be recognized and familiar in developing countries. That provision has not proved to be a practical requirement in the Fund accreditation process and does not exist with the GCF. It is concluded that the Fiduciary Standard and accreditation requirements of the Fund are met.

Internal Control Framework with particular reference to control over disbursements and payments

13. The Fund requirement for the fiduciary standard relating to the internal control framework is elaborated in a guide of the AF. In summary, it considers that an internal control framework exists if the requirements of the accreditation application are met. This is a practical and correct approach given that the application form is comprehensive. The GCF Fiduciary Standards make reference to COSO which is the best known internal control framework and meets the full requirements. The key aspects of the Internal Control Framework are referred to in the application. Thus the internal control aspect of the Fund is fully met by the GCF. The Fund requirements of the payment and disbursement systems, which is considered as part of the internal control framework, are also fully met.

Preparation of Business Plans and Budgets and ability to monitor expenditure in line with budgets

14. This Fiduciary Standard of the Fund deals with the preparation of long term business plans and annual budgets and using that to control and report on actual expenditures. The GCF Fiduciary Standards cover the same grounds and applicants are asked to demonstrate that in the application. The Fund can fully rely on this area as the GCF fully meets these requirements.

Procurement

15. The Fiduciary Standard of the Fund relating to procurement requires transparent and fair procurement policies and procedures for the applicant and its projects / programmes and for the entities it works with. The same approach is followed by the GCF in its Fiduciary Standards and it is extensively covered in the application form. The Fund can fully rely on the accreditation review of procurement done by the applicants.

Project preparation and appraisal

16. The Fund Fiduciary Standards relating to project cycle are referred to as "Requisite Institutional Capacity". The GCF refers to the equivalent standards as "Specialized Fiduciary Standards". Both cover the ability and experience related to project management including doing the role of an executing entity. The Fund Standard relating to project preparation and appraisal deals with the capability and experience in identification and design of projects as well as a track

record in conducting appraisals and incorporating the likely impact of technical, financial, economic, environmental, social and legal aspects into projects. The same areas are covered by the GCF Specialized Fiduciary Standard. However, the GCF does not cover the demonstration of availability of/ access to resources that is requested by the Fund but evidence of a track record is requested. Given the comprehensiveness of how project identification, preparation and appraisal is covered in the application of the GCF and the examples requested is acceptable. The Fund can rely on the GCF accreditation procedures relating to project preparation and appraisal.

Risk assessment

17. The Fund Fiduciary Standard relating to risk assessment asks for a demonstration of capability or access to resources to undertake project/ programme risk assessments, take mitigating actions and monitor these risk during the execution and completion phases. Special attention is given to the environmental and social risks. The GCF has similar provision in its Specialized Fiduciary Standards and its application. There is an extensive emphasis on the environmental and social risks which is covered later in the GCF application under the relevant heading. The Fund can fully rely on the accreditation procedures of the GCF for risk management.

Project Implementation Planning and Quality-at-entry Review

18. This Fiduciary Standard of the Fund is concerned with planning of a project and the preparation of project budgets including an analysis of project expenditures related to the budgeted. This is covered in the GCF Specialized Fiduciary Standards although the wording “quality-at-entry”, which was a wording not well understood by the Fund’s accreditation applicants, is only used in the application and not in the Specialized Fiduciary Standards. The analysis of the project versus budget is covered but the preparation itself is not mentioned by the GCF. However, that would be understood and part of any appraisal and would therefore not affect the reliance by the Fund on the GCF accreditation. The application requests the needed information to do a full assessment of these areas. Thus the Fiduciary Standard of the Fund and its requirements are met.

Project Monitoring and Evaluation during implementation

19. This Fiduciary Standard of the Fund deals with the execution phase of a project or programme. It is concerned with identifying projects at risk and taking the corrective needed when needed during the execution. All the requirements are met by the GCF Specialized Fiduciary Standards and the application form although the requirements for project audits appears in a later section that relates to grants and in another section that relates to environmental and social aspects. These are both areas where there are greater risks.

Project closure and final evaluation

20. This Fiduciary Standard of the Fund relates to the capacity for undertaking project closures and independent final evaluations. It involves demonstrating an impact of the technical, financial,

economic, environmental, social, and legal aspects of projects. The project closure reports and evaluations demonstrate the competence to execute or oversee projects and programmes. The details of the project closure provisions are not as extensively covered by the GCF as with the Fund but the important aspects are fully covered. Thus the Fund can rely on the accreditation of the GCF for this area.

Policies and Framework to deal with financial mismanagement and other forms of malpractices

21. This Fiduciary Standard of the Fund deals with prevention of wrongdoings and fraudulent behavior and the ability to investigate all allegations. It is a crucial area given the devastating impact that fraud and corruption have on development results. The tone at the top, a code of ethics and having a whistleblower protection mechanism in place are key components to evaluate. The Basic Fiduciary Standards of the GCF and its application cover the same areas as done by the Fund and its accreditation results can be fully relied on.

Environmental and Social Policy

22. The Fund approved its Environmental and Social Policy (ESP) in November 2013 and integrated the requirements into its accreditation application. The GCF approved its Environmental and Social Safeguards (ESS) in May 2014 and added a section to the accreditation application to reflect its requirements. The Interim Environmental and Social Safeguards of the GCF are those of the International Finance Corporation and consist of eight Performance standards.

23. The substance of the Fund's application and its Environmental and Social Principles was compared to those of the GCF to determine if there were any parts not covered by the GCF compared to the documents of the Fund, and this is contained in the working paper produced for this review. The gaps that were identified were not considered to have a material impact on accreditation decision of the Fund. The reason is that the focus of the GCF is on the environmental and social management system (ESMS) which would also be able to handle a different set of principles such as those of the Fund. It is also the ESMS that is reviewed by the AF accreditation Panel.

24. The conclusion is that the Interim Environmental and Social Safeguards of the GCF partially meet the requirements of the Fund's grievance mechanism but not fully. There are two requirements of the GCF that are either not strong enough or are missing in relation to the environmental and social policy requirement of the Fund. They relate to the applicant giving a commitment to observe the Environmental and Social Policy of the Fund and the need to have a grievance system. These two areas are covered in the next two headings.

Commitment by the entity to apply the Fund’s environmental and social policy

25. The Environmental and Social Principles (ESP) of the Fund requires a statement from top management communicating the applicant’s commitment to abide by the Environmental and Social Policy of the Fund on projects and programmes funded by the Fund. It ensures that the Fund Environmental and Social Principles are adhered to on its projects. The GCF does not have such for requirement for a commitment statement from top management. It is recommended that all applicants for a Fund’s fast track accreditation process be required to provide the commitment to abide by the Fund’s Environmental and Social Principles.

Mechanism to deal with complaints on environmental and social harms caused by projects/programs

26. The Environmental and Social Policy of the Fund (ESP) also requires a grievance mechanism to deal with complaints on environmental and social harms caused by projects/programs. It requires a demonstration of capability 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. The supporting documents required include 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. A Fund’s guide provides further information.

27. The GFC Environmental and Social Safeguards (ESS) and application cover the requirement of the Fund, but is has a much lighter treatment compared to the level of demonstration required by the Fund’s Environmental and Social Policies and its guidance. It is recommended that the Fund reviews the commitment and grievance mechanism components of applicants to ensure full compliance with the Fund requirements before accrediting an entity that has been accredited by the GCF.

Accreditation requirements related to the Fund’s Gender Policy

28. The GCF Gender Policy was approved in March 2015 while the Fund’s Gender Policy was approved in March 2016. Both are guided by the United Nations Framework Convention on Climate Change (UNFCCC) and are congruent with international agreements and in particular with the Universal Declaration of Human Rights. The GCF’s Gender Policy and the Gender Action Plan were considered by the Fund when the Fund formulated its Gender policy. They have the similar set of definitions and similar objectives. The working paper produced for this report compares the two gender policies. The result of comparison concludes that the two policies are sufficiently similar and that the Fund can rely on the accreditation of the GCF except for the same two differences seen for the Environmental and Social Policy:

- The Fund under the accountability principle states that “Applicant IEs [implementing entities] are required to document an institutional capacity and commitment to apply the Fund’s gender policy and to demonstrate its ability to implement it.” Presumably this will entail a statement from top management communicating entity’s commitment to abide by

the Fund's gender policy. If so, that is a requirement unique to the Fund and would still need to be requested.

- The Fund requires in its accountability section that an implementing entity identifies a grievance mechanism while the GCF in its accountability section has the provision that: gender-related complaints and grievances that may occur in projects and programmes are processed through the GCF's Fund's redress mechanism. Thus an applicant's grievance mechanism would not be assessed through the GCF accreditation review and this would need to be covered by the Fund.

29. Thus, the Fund can rely on the gender aspect of the accreditation done by the GCF except for the two points above. It is recommended that the Fund reviews the commitment and grievance mechanism components of applicants to ensure full compliance with the Fund's requirements before re-accrediting an entity that has been accredited by the GCF.



ADAPTATION FUND

Fast-track re-accreditation of Green Climate Fund accredited entities

Fast-track summary		
Eligible if:	In AFB accreditation decision	B.xx
	Re-accreditation application submission date	within four years from date of completing Stage II of the GCF accreditation (GCF Board decision on accreditation)
Elements to be addressed	Fiduciary Standards	legal status
	Environmental and Social Policy	commitment statement to abide by the Environmental and Social Policy of the AF
		grievance mechanism
	full ESP review if not reviewed by the GCF	
	Gender policy	commitment statement to abide by the Gender policy of the AF
		grievance mechanism
full Gender review if not reviewed by the GCF		