



ADAPTATION FUND

AFB/EFC.23/4  
9 September 2018

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Adaptation Fund Board  
Ethics and Finance Committee  
Twenty-third meeting  
Bonn, Germany, 9-10 October 2018

Agenda item 6

**ACCREDITATION STANDARDS RELATED TO ANTI-  
MONEY-LAUNDERING / COUNTERING THE FINANCING  
OF TERRORISM**

## Background

1. The Adaptation Fund Board (the Board) has considered issues related to Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT) since 2012<sup>1</sup>.
2. Having considered the comments and recommendations of the Ethics and Finance Committee (EFC), the Adaptation Fund Board decided to:

*Request the secretariat to present to the EFC at its 11th meeting a document prepared by the World Bank legal counsel to the secretariat that includes the following:*

- (a) Proposals for "effective mechanisms" the Board can implement to, as the letter states, "ensure that the follow-on use of funds does not contravene any Resolution issued by the United Nations Security Council or other sanctions regimes which may apply to your entity";*
- (b) A risk analysis, that is both legal and practical, of the Fund's current project portfolio and measures that can be taken to mitigate any risks uncovered by the analysis; and*
- (c) A review of how the Fund's fiduciary standards and accreditation process may be part of the due diligence undertaken by the Fund.*

*(Decision B.19/28)*

In relation to that decision a document was prepared by the World Bank legal counsel advising the secretariat to include language in the Adaptation Fund legal agreements with implementing entities.

3. At its twentieth meeting, the Board, following the comments and recommendations of the EFC, decided to<sup>2</sup>:

*Request the secretariat to present a proposal on general principles and guidelines for investigation, based on the International Financial Institutions Principles and Guidelines for Investigation contained in the Uniform Framework for Preventing and Combating Fraud and Corruption as part of the Adaptation Fund's Operational Policies and Guidelines, for consideration at the twenty-first Board meeting*

*(Decision B.20/8).*

4. At the twenty-first meeting of the Board, when presenting the report of the EFC, the Chair of the EFC recalled that the Committee had considered proposals prepared by the secretariat to amend the standard legal agreement between the Board and implementing entities to take into

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<sup>1</sup> <https://www.adaptation-fund.org/wp-content/uploads/2015/01/AFB%2019%20Rev.1%20report.pdf>.

<sup>2</sup> <https://www.adaptation-fund.org/document/report-of-the-twentieth-meeting-of-afb-april-2-5-2013/>.

account issues related to anti-terrorist financing and anti-corruption. The Adaptation Fund Board decided to<sup>3</sup>:

(...)

*approve the amendments to paragraphs 3.02 and 3.03 (Annex 1) of the standard legal agreement between the Board and implementing entities and to request the secretariat to communicate to the implementing entities that the revised legal agreement would apply to all new project/programme approved in the future.*

*(Decision B.21/15).*

5. The Board, at its thirty-first meeting, decided to:

(...)

*(iii) request the Accreditation Panel to consider whether there is a need to introduce accreditation standards related to anti-money-laundering / countering the financing of terrorism, and if it determines that there is, to identify which capacities should exist within the implementing entity applicant and which capacities of other institutions could be relied on, and to present a proposal on the matter to the Ethics and Finance Committee (EFC) at its twenty-third meeting*

*(Decision B.31/26).*

6. The Accreditation Panel in its twenty-eighth and twenty-ninth meetings had a discussion on a need to introduce the accreditation standards related to AML/CFT. The issue was also discussed by the Accreditation Panel in its twenty-second and twenty-seventh meetings. The Panel considered and discussed two options: (1) adding distinct accreditation criteria related to AML/CFT; and (2) expanding the illustrative means of assessing for existing accreditation criteria without modifying the criteria.

7. Accreditation application form was revised to incorporate the environmental and social policy of the Fund into the accreditation process in November 2013 (Decision B.22/23).<sup>4</sup> Upon the Board's approval of the Fund's Gender Policy and Action Plan, the accreditation application form was updated in October 2016.<sup>5</sup> Following the discussion on ALM/CFT, the Panel concluded the option (2) is a preferred option and proposed to reflect this into the accreditation form.

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<sup>3</sup> [https://www.adaptation-fund.org/wp-content/uploads/2015/01/AFB21%20Report\\_final\\_Rev1\\_101113.pdf](https://www.adaptation-fund.org/wp-content/uploads/2015/01/AFB21%20Report_final_Rev1_101113.pdf).

<sup>4</sup> See Document AFB/B.22/5/Add.2.

<sup>5</sup> See Document AFB/B.28/Add.1.

**Recommendation**

8. The Ethics and Finance Committee may want to consider document *Accreditation standards related to anti-money-laundering/countering the financing of the terrorism* (document AFB/EFC.23/4 and document AFB/EFC.23/4/Add.1) and recommend that the Board:
- a) Approve the following revised 'examples of supporting documentation' related to the criteria of internal control framework, procurement, and policies and framework to deal with financial mismanagement in the accreditation application form, as highlighted in annex 2 to document AFB/EFC.23/4:
    - i) Policies and procedure related to AML/CFT;
    - ii) Screening system which documents all individuals and/or entities before the agency transfers money to them; and
    - iii) Decision-making process that the agency follows when it identifies risks related to any individuals and/or entities.
  - b) Approved the revised accreditation form, as contained in annex 2 to document AFB/EFC.23/4; and
  - c) Request the secretariat to update to reflect the approved changes in subparagraph a):
    - i) Re-accreditation application form;
    - ii) Fast-track re-accreditation form;
    - iii) Fast-track accreditation form subject to the decision of the Board on the Fund's fast-track accreditation process as proposed in document AFB/B.32/5; and
    - iv) Fiduciary Risk Management Standards (Annex 2 to OPG).

**ANNEX 1: SECTIONS IN THE LEGAL AGREEMENT**

**3.02. The Implementing Entity shall carry out all its obligations under this Agreement in accordance with:**

- (i) the AF Operational Policies and Guidelines effective July 2013; and**
- (ii) the Implementing Entity's standard practices and procedures.**

**3.03. The Implementing entity:**

- (i) undertakes to use reasonable efforts, consistent with its standard practices and procedures, including those pertaining to combating financing for terrorists, to ensure that the Grant funds provided to the Implementing Entity by the Trustee are used for their intended purposes and are not diverted to terrorists;**
- (ii) shall not use the Grant funds for the purpose of any payment to persons or entities, or for the import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, including under United Nations Security Council Resolution 1373 and related resolutions;**
- (iii) shall immediately inform the Board in the event the Grant funds are not being used or have not been used for the implementation of the Project or of any illegal or corrupt practice. The Implementing Entity consistent with its standard practices and procedures and integrity of the investigative process shall keep the Board informed of the progress of any formal investigation concerning the misuse of Grant funds and provide a final report to the Board on the findings of such investigation upon its conclusion.**
- (iv) shall include provisions corresponding to subparagraphs (i) – (ii) above in any agreements that the Implementing Entity enters into with executing entities to which the Implementing Entity makes Grant funds available.**

**ANNEX 2: REVISED ACCREDITATION APPLICATION FORM****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.

**SECTION I: Background/Contact**

Nominated Entity (if NIE):
Invited Entity (if MIE):
Address:
Country: Postal Code:
Telephone:
Fax:
Web Address:
Contact Person:
Telephone:
Email:
<b>Useful Background:</b> If there is other relevant information that provides recent background of the applicant please upload (e.g. recent donor reviews of the Entity):

## 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

	Required competency	Specific capability required	Example of supporting documentation to be provided (please highlight the relevant section/s)
1	<b>Legal Status</b>	a) Demonstration of necessary legal personality	Documentation of legal status and mandate (e.g., a copy of articles of incorporation, by-laws, Act, Regulation, and/or Law or any other relevant document, law establishing the government entity or ministry).
		b) Demonstration of legal capacity/authority and the ability to directly receive funds	<ul style="list-style-type: none"> <li>i. Highlight or provide reference to documents provided under 1 above which indicates point 1.b);</li> <li>ii. List of foreign loan/donor funds handled over the last 2 years.</li> </ul>
		c) Demonstration of legal authority to enter into contracts or agreement with international organizations	<ul style="list-style-type: none"> <li>i. Highlight or provide reference to documents provided under 1 above which indicates point 1.c);</li> <li>ii. A copy of agreements or contracts with international organizations signed by the head or the person of authority of the entity.</li> </ul>
		d) Demonstration of legal capacity to serve as a plaintiff or defendant in a Court of law	Highlight or provide reference to documents provided under 1 above which indicates point 1.d).
2	<b>Financial statements including Project Accounts statement and the provisions for Internal and External Audits</b>	a) Production of reliable audited financial statements that are prepared in accordance with internationally recognized accounting and auditing standards	<ul style="list-style-type: none"> <li>i. Recent Audited Annual Financial Statements (AFS) including the external audit opinion thereon;</li> <li>ii. Management Letter by the external auditors on matters of internal control together with response from Management- related to the AFS audits provided in (i) above.</li> </ul>

	Required competency	Specific capability required	Example of supporting documentation to be provided <i>(please highlight the relevant section/s)</i>
		b) Demonstration of existence of accounting procedures (including the use of accounting packages).	<ul style="list-style-type: none"> <li>i. Name and brief description of accounting software package used;</li> <li>ii. A description of accounting procedures, if available, to produce the periodic financial statements.</li> </ul>
		c) Demonstration of functionally independent internal auditing in accordance with internationally recognized standards	<ul style="list-style-type: none"> <li>i. Charter/Terms of Reference and other relevant documents that outline the entity's internal auditing function;</li> <li>ii. Internal audit policies and procedures (e.g. audit manual); Copies of audit plans for last 2 years and the current year;</li> <li>iii. List of internal audit reports of last 2 years and sample reports and status of implementation of audit recommendations.</li> </ul>
		d) Demonstration of a functioning oversight body (e.g. Audit Committee) that properly oversees the assurance functions of the Entity (i.e. external and internal audit, and internal control)	<ul style="list-style-type: none"> <li>i. Terms of reference for oversight body (e.g. audit committee);</li> <li>ii. Copies of minutes of recent meetings of the committee.</li> </ul>
3	<b>Internal Control Framework with particular reference to control over disbursements and payments</b>	a) Demonstration of use of a control framework that is documented with clearly defined roles for management, internal auditors, and the governing body	Policy or other published document that outlines the entity's control framework.



		<p>b) Demonstration of proven payment/disbursement systems</p>	<ul style="list-style-type: none"> <li>i. Procedures describing the payment/disbursement system with particular reference to project payments/disbursements;</li> <li>ii. Policies and procedures related to AML/CFT;</li> <li>iii. Screening system which documents all individuals and/or entities before the agency transfers money to them; and</li> <li>iv. Decision-making process that the agency follows when it identifies risks related to any individuals and/or entities.</li> <li>v. Recent audits or independent assessments done by either Internal Audit or the External Audit on this topic.</li> </ul>
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	<b>Required competency</b>	<b>Specific capability required</b>	<b>Example of supporting documentation to be provided</b> <i>(please highlight the relevant section/s)</i>
4	<b>Preparation of Business Plans and Budgets and ability to monitor expenditure in line with budgets</b>	a) Production of long term business plans/ financial projections demonstrating financial solvency	Long Term Business plans or Financial Projections for the next 3 to 5 years.
		b) Evidence of preparation of corporate, departmental/ ministry budgets and demonstration of ability to spend against budgets	<ul style="list-style-type: none"> <li>i. Annual budgets for the organization and entities within it;</li> <li>ii. Reports that indicate budget versus expenditure is being monitored.</li> </ul>

## 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, develop and appraise projects
- 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

	Required competency	Specific capability required	Example of supporting documentation to be provided (please highlight the relevant section/s)
5	Procurement	a) Evidence of transparent and fair procurement policies and procedures at the national level/organizational 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. Procedures or guidelines including composition and role of key evaluation and 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> <li>v. Reports of recent audits done by either Internal Audit or the External Audit on this topic.</li> <li>vi. Policies and procedures related to AML/CFT;</li> </ul>

6	<b>Project preparation and appraisal. This should include impact (environment, socio-economic, political, gender etc.) assessment study with risk assessment and mitigation plans</b>	a) Demonstration of capability and experience in identification and design of projects (preferably adaptation projects)	Detailed project plan documents for 2 projects.
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	Required competency	Specific capability required	Example of supporting documentation to be provided (please highlight the relevant section/s)
		b) Demonstration of availability of/ access to resources and track record of conducting appraisal activities	<ul style="list-style-type: none"> <li>i. Details of the project appraisal process/procedure;</li> <li>ii. 2 samples of project appraisals undertaken.</li> </ul>
		c) Demonstration of the ability to examine and incorporate the likely impact of technical, financial, economic, social, environmental, gender and legal aspects into the project at the appraisal stage itself	Sample of project documents which demonstrate these capabilities.
		d) Evidence procedures/framework in place to undertake risk assessment and integrate mitigation strategies/plans into the project document	<ul style="list-style-type: none"> <li>i. Policy and/or other published document(s) that outline the risk assessment procedures/framework;</li> <li>ii. 2 samples of completed project appraisals with identified risks and corresponding mitigation strategies/plans.</li> </ul>
7	<b>Project implementation Planning and Quality-at-entry Review</b>	a) Evidence of institutional system for planning implementation of projects with particular emphasis for quality-at-entry	<ul style="list-style-type: none"> <li>i. Operational manual or written procedures for project review system during the design phase;</li> <li>ii. Sample reports that demonstrate that project implementation planning and monitoring has been considered from the start.</li> </ul>
		b) Evidence of preparation of project budgets for projects being handled by the entity or any sub-entity within it	<ul style="list-style-type: none"> <li>i. Examples of project budgets;</li> <li>ii. Analysis of project expenditure vs budget over time for these projects.</li> </ul>
8	<b>Project Monitoring and Evaluation during implementation</b>	a) Demonstration of existing capacities for monitoring and - evaluation that are consistent with the requirements of the Adaptation Fund	<ul style="list-style-type: none"> <li>i. Policies or other published document that outlines monitoring activities during implementation;</li> <li>ii. Detailed procedures and formats used for monitoring and evaluation during project implementation;</li> <li>iii. Sample of both project monitoring and evaluation reports.</li> </ul>

	Required competency	Specific capability required	Example of supporting documentation to be provided <i>(please highlight the relevant section/s)</i>
		b) 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	<ul style="list-style-type: none"> <li>i. 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;</li> <li>ii. Examples of projects where risks were flagged and addressed in a timely way.</li> </ul>
		c) Production of detailed project accounts which are externally audited	<ul style="list-style-type: none"> <li>i. Sample of recent project accounts;</li> <li>ii. Sample of recent (related to (i) above) external audits of project annual accounts.</li> </ul>
9	<b>Project closure and final evaluation</b>	a) Demonstration of an understanding of and capacity to assess impact/implications of the technical, financial, economic, social, environmental, gender and legal aspects of projects at closure	Samples of project completion/closure reports. containing assessment of the impact/implications of the technical, financial, economic, social, environmental, gender and legal aspects of projects.
		b) Demonstration of competence to execute or oversee execution of projects/programmes	Samples of project/programme closure reports.
		c) Demonstration of competence to conduct evaluations of completed projects	Samples of independent evaluations of projects containing assessment of the impact/implications of the technical, financial, economic, social, environmental, gender and legal aspects of projects.

## SECTION IV: Transparency, self-investigative powers, and anti-corruption measures

### ■ Specific Capability Required

a) Competence to deal with financial mismanagement and other forms of malpractice

	Required competency	Specific capability required	Example of supporting documentation to be provided <i>(please highlight the relevant section/s)</i>
10	<b>Policies and Framework to deal with financial mismanagement and other forms of malpractices</b>	a) 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 a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice.
		b) 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 (including, if available, web link/s) 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>

		<p>c) Evidence of an objective investigation function for allegations of fraud and corruption</p>	<p>I. Details of the structure and process/ procedures within the organization to handle cases of fraud and mismanagement, including breaches of anti-money laundering and anti-terrorism financing laws, and undertake necessary investigative activities;</p> <p>II. Policies and procedures related to non compliance of AML/CFT policies and procedures;</p> <p>III. Data on cases of violation of code of conduct/ethics, frauds and other financial malpractice reported over last 2 years be provided in terms of number of cases, types of violations and summary of status/action taken;</p> <p>IV. Periodical oversight reports of the ethics function/ committee be attached for the last 2 years.</p>
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	<b>Required competency</b>	<b>Specific capability required</b>	<b>Example of supporting documentation to be provided</b> <i>(please highlight the relevant section/s)</i>
11	<b>Commitment by the entity to apply the Fund's environmental and social and gender policy</b>	Evidence of entity's commitment to addressing environmental and social and gender risks	Statement from top management communicating entity's commitment to abide by the AF's environmental and social and gender policy.
12	<b>Mechanism to deal with complaints on environmental and social harms and gender harms caused by projects/programs</b>	Documentation 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	<ul style="list-style-type: none"> <li>i. Details of process/avenues (including, if available, web link/s) for the public to submit complaints, including name and contact information of the specific person/office responsible for receiving complaints.</li> <li>ii. Evidence on the manner in which complaints are addressed and action is taken.</li> </ul>