



ADAPTATION FUND

24 February 2021

Adaptation Fund Board

Accreditation Panel Recommendation on the Accreditation (under the streamlined approach) of the Comisión Acción Social Menonita (CASM) of Honduras as a National Implementing Entity (NIE) of the Adaptation Fund.

Having reviewed the accreditation application under the streamlined approach of the Comisión Acción Social Menonita (CASM) of Honduras, the Accreditation Panel recommended that:

- a) CASM be accredited as a National Implementing Entity (NIE) of the Adaptation Fund; and
- b) CASM is eligible to submit project and programme proposals to the Adaptation Fund for up to US\$ 4 million.

A summary of the review is presented in Annex I below.

Accreditation Decision:

Having considered the recommendation of the Accreditation Panel, the Adaptation Fund Board decided:

- a) To accredit the *Comisión Acción Social Menonita (CASM)* of Honduras as a National Implementing Entity (NIE) of the Adaptation Fund under the streamlined accreditation process for a period of five years. The accreditation expiration date is 23/02/2026; and
- b) To entitle CASM to submit project and programme proposals to the Adaptation Fund for up to US\$ 4 million.

Decision B.35-36/19

ANNEX I: REPORT OF THE ACCREDITATION PANEL ON AN ASSESSMENT OF THE MENNONITE SOCIAL ACTION COMMISSION FOR ACCREDITATION AS NATIONAL IMPLEMENTING ENTITY OF THE ADAPTATION FUND FOR HONDURAS UNDER THE STREAMLINED APPROACH.

BACKGROUND

Honduras' economy is primarily based on small scale agriculture, making it especially vulnerable to climate-related natural disasters including the particularly damaging Hurricane Mitch in 1998 and Hurricanes Eta and Iota in 2020 . The Germanwatch 2018 Global Climate Risk Index reported at the COP24 in December 2018 that “between 1997 and 2016, Honduras was the country ‘most affected by extreme weather events’ in the world. Honduras has a Human Development Index of 0.625, classifying it as a nation with medium development. However, when the Index is adjusted for income inequality, it is 0.443. The poor are primarily agriculturally based while wealth is concentrated in the country's urban centers. The recent waves of migration emanating from Honduras have been claimed by some observers as being underpinned by climate change-induced poverty and the precursor of future climate migrations on a larger scale if climate change is not adequately addressed.

THE APPLICANT – CASM

The Mennonite Social Action Commission (In Spanish – Comisión Acción Social Menonita or CASM) is an apolitical non-profit civil association of mutual benefit established by the Evangelical Mennonite Church of Honduras under the laws of Honduras in 1997. It seeks to promote comprehensive development programs within the country at the level of rural communities and neighborhoods affected by natural phenomena and wars at the national level. CASM is a member of the ACT Alliance, a coalition of 150 churches and church-related organisations working together in over 125 countries to create positive and sustainable change in the lives of poor and marginalised people regardless of their religion, politics, gender, sexual orientation, race or nationality in keeping with the highest international codes and standards.

CASM is headquartered in San Pedro Sula, the second city of Honduras, and has 7 regional offices and 2 sub-regional offices within the country. It is governed by a 26 member General Assembly, a Board of Directors (comprising a Chairman, Secretary, Treasurer, Attorney and two other members); and a management team comprising an Executive Director, a Management and Advisory Team of 4 Area Managers and 7 regional managers.

Since it was established, CASM has developed a large portfolio of projects, mostly under USD500,000 and some between USD500,000 and USD1 million in budget, with a focus on community security and economic development, natural disaster risk reduction, and emergency assistance. At September 2020, CASM's active project portfolio comprised 28 projects with a total budget amount of about USD 10 million. The Panel noted that CASM is currently managing a budget well over USD 1m in one awarded project in which it is part of a consortium of implementing entities. CASM has also built up a large donor base including the Honduras Government, bilateral and multilateral development donors, as well as variety

of international non-governmental humanitarian agencies. As of the end of 2019, CASM had 109 staff nationwide, of which about 30 people would be involved in the operational and administrative activities of projects, less than 25 at professional level, including the management teams mentioned above as well as administrative assistants in each regional and sub-regional office.

ASSESSMENT FOR ACCREDITATION

The Panel's review is structured according to the revised application form at Annex 2 of AFB/EFC.23/4, adopted by the Board as part of Decision B.32/36. The Panel noted that CASM has significantly strengthened its policies, procedures and capacity in many of the areas subject to review, in preparation for and over the course of the application.

The AF policy on streamlined accreditation process (AFB/EFC.16/7/Rev.1) makes this modality available to applicants currently executing or implementing projects up to USD 1 million per project or programme, having up to 25 professional staff working on implementing or executing projects and having annual administrative expenses of up to USD 1 million. These characteristics are provided to give a general parameter and are not intended to be rigidly applied. Applicants falling outside of these ranges could be considered under the streamlined approach based on other considerations such as their characteristics or type of business. Given its usual project size and staffing numbers, and based on an initial assessment against the AF criteria, the Panel concluded that CASM was eligible to request to be considered under the streamlined process, and its application would benefit from this. On November 27, 2019 the Board Chair and Executive Director of CASM confirmed in writing, to the AF Secretariat, their acceptance of review under this approach. Notwithstanding the award to CASM of a project budget of approximately USD 3m as part of a consortium of executing agencies, this conclusion has been maintained.

Under the streamlined accreditation process all the standards must be met, but the approach takes into consideration compensating measures, controls, and practices normally found in smaller entities, without exposing the Fund to significant risk. The Accreditation Panel has completed its assessment on this basis.

Financial Management and Fiduciary Standards

Legal Status

CASM is a non-profit civil association of mutual benefit lawfully established with legal personality in Honduras. Its Statute permits direct receipt of funding including from international sources, to enter into contracts and agreements through the Chair and the Executive Director. It also empowers the Chair to represent the CASM in any legal actions. CASM provided examples of agreements it has entered into directly with national and international organizations.

Financial statements including Project Accounts statement and the provisions for Internal and External Audits

The financial statements are prepared on a semi-annual and annual basis, which the external auditor opined were in accordance with the accounting basis set out in Note 2. The most recent (2019) Note 2 in the annual audited financial statements indicates that they have been prepared according to “generally accepted accounting principles”. CASM advised that there are no specific national standards mandated for NGOs. The financial statements comprise a 12-month statement of income and expenses, a 12-month general balance sheet of assets and liabilities, comparative statements of each statement for each semester of the year, and notes to the accounts. The audited financial statements do include information on receipts, payments and fund balances for each project on a cash basis. This is considered acceptable under a streamlined approach.

When required by donors, CASM commissions specific independent audits of project accounts (statements of receipts and expenditures). Recent examples of unqualified reports on project financial statements with no adverse findings were provided.

The current arrangements for external audit of the financial statements comply with the statutes of CASM which require that its audit firm must be a recognized entity of national prestige and international recognition, with ample similar experiences in other social organizations. External Audits are up to date. The annual auditor’s reports confirm that the External Auditor has followed International Standards on Auditing and include recommendations to improve internal controls and status of implementation of prior year recommendations.

CASM uses a standardized accounting package produced and still supported by a multinational firm, tailored for small to medium enterprises. It has an established accounting staff at Headquarters and accounting procedures to complement its accounting package.

An internal audit function was established in late 2019, including Board-approved terms of reference and a Manual which adopts Institute of Internal Auditors’ international internal auditing standards and the COSO Internal Control Framework as an audit benchmark. The function has been established in the form of an Internal Audit cCmmittee comprising two Board members and one independent audit professional with a terms of reference approved by the Board. Since then, and despite of challenges in 2020 due to the COVID-10 pandemic, the function has undertaken two substantive reviews, of CASM’s control environment and administrative expenses; as well as an initial enterprise risk assessment; and governance, risk and audit awareness workshops with General Assembly, Board and management members. CASM is considered to have established a sufficient track record of implementation under a streamlined approach.

CASM's full Board fulfills the requirements for an oversight body for the purposes of the AF criterion. The Board normally meets every two months and is therefore actively engaged in oversight of the organization on behalf of the General Assembly. The Panel considers that this is acceptable under a streamlined approach, on the basis that the Board is receiving formal, written reports from the Internal Audit Committee and records in its minutes its decisions and recommendations in response to the reports. With three Board meetings having occurred during 2020 under pandemic restrictions, the Board has established a minimum track record under the streamlined approach of oversight of internal audit, risk management and control.

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

CASM has largely documented its internal control framework through its Statutes, a Project Management Policy, an Administrative Procedures Manual that includes a matrix of delegated authorities, and various other policies referenced in the latter Manual. It has finalized a risk management policy and has developed an action plan to improve Board operations.

The Administrative Procedures Manual describes the payment/disbursements system. All expenditure other than minor petty cash expenses must be paid through bank accounts which must be in the name of CASM. As an institutional rule, all projects are managed using separate bank accounts from which funds are disbursed on project specific expenses. Where funds are disbursed from regional offices, these are reimbursed by the CASM central office on an imprest basis, upon submission of progress reports, supporting documents and bank reconciliations. All disbursements from bank accounts are subject to two signatories and vouchers supporting disbursements must be retained for at least 5 years, or longer if the financial partner requires.

With regard to anti-money laundering and countering the financing of terrorism (AML/CFT) controls, CASM operates within a national financial and legal system which is subject to Honduran AML/CFT laws. A recent (2016) Financial Action Task Force - Mutual Evaluation by GAFILAT of which Honduras is a member, noted that the main risks in Honduras related to money laundering is connected with organized crime. The evaluation concluded satisfactorily with regard to the legal framework and institutional implementation particularly relating to financial institutions in the formal banking sector. The exposure of CASM to ML risks identified in the Evaluation report are considered low. Moreover, under CASM's own internal procedures, vendors are required to be checked for their legality and national fiscal compliance at the time of ordering. In addition, CASM undertakes online checks against various international sanctions lists including AML-CFT related lists.

Preparation of long term business plans demonstrating solvency and budgets and ability to monitor expenditure in line with budgets

CASM meets the criterion under the streamlined approach. Its strategic plans are operationally but not financially focused. Annual financial budgets are submitted to and

approved by the Board. It relies on project funding and cost-recovery to ensure financial viability and its track record over recent years indicates capacity to manage this successfully with a diverse portfolio of projects of small to medium size. It has budgeting procedures in place and the system capacity to monitor. However, the Panel reviewers have recommended to CASM, and it is taking steps, to strengthen the Board oversight through financial reporting on project cost recovery and integrated revenue and expenditure budget planning and execution presentations.

Requisite Institutional Capacity

Procurement

CASM's procurement has been generally of small value, and large project-related procurement has been handled in accordance with donor requirements. However it has updated its Administrative Procedures Manual in relation to procurement, and adopted a detailed Procurement Manual to improve clarity in requirements, in particular internal controls, ethical behavior, procedures for large value procurement and sanctioning. It has established procurement committees to oversee the process in the event of significant value procurement. Bidder protests and complaints are adequately covered under the institutional complaint mechanism. While CASM does not have a specific AML-CFT policy, there are adequate AML-CFT procedures in place, commensurate with the risks.

Project Identification and Appraisal

The Drafting/Planning/Analysis phase in CASM's project management policy sets out the procedures for identification and design, noting the responsibility of regional offices for this phase. The Procedures are oriented to ensure consistency and coordination of proposals to be submitted to donors throughout the CASM organization. It provided examples showing this applied in practice and a donor country representative provided independent corroboration of staff capacity. CASM also provided example of competitive small grants programs wherein it has gained capacity for appraising project proposals.

The project management policy requires consideration of technical and financial feasibility. In addition, the program priorities of CASM and the transversal approaches outlined in the CASM Strategic Plan must be applied, regardless of any donor requirements. These include attention to economic, social and gender aspects. Examples provided of its own project preparation and design and in monitoring and evaluation indicate capacity to address the range of impacts expected. CASM advised that they are updating their 2013 project management and planning, monitoring and evaluation policies to reflect that, CASM will consider the likely impact of technical, financial, economic, social, environmental, gender and legal aspects in all Project proposals.

CASM's current Strategic Plan provides that disaster risk reduction should be a transversal feature of all CASM programs and projects. This requires that any action that is undertaken must contemplate an analysis and incorporation of practices to minimize the environmental and socioeconomic vulnerabilities of the intervention municipalities. It has begun using a

tool called Risk Assessment and Adaptation to Climate Change and Environmental Degradation, developed and provided by one of its donors, which applies a standard risk methodology and submitted an example of it being put into use.

Project Implementation Planning and Quality-at-entry Review

The project planning process outlined in the Project Management Policy refers to an internal process of review between the regional offices and central office to ensure quality. Project Monitoring and Evaluation Unit management reviews the technical approach and feeds back to the regional managers. Administrative management reviews the entire budget and ensures that all the necessary items have been incorporated and provides feedback to regional management and the technical administrator to make appropriate adjustments. Program management reviews the entire methodological approach and intervention strategies and provides feedback if necessary. CASM provided simple examples of internal review documentation to illustrate the process.

CASM's Administrative Procedures Manual sets out the general policy that project budgets should be developed with the participation of regions and central administrations, and actual budgets are governed by the amounts established in donor agreements. It provided several examples evidencing its capabilities in project budgeting

Project Monitoring and Evaluation During Implementation

The Administrative Procedures Manual provides for six monthly financial and narrative reports for each cooperation or funding agency. A recent example of a narrative report was provided. The Planning, Monitoring and Evaluation policy sets out in greater detail the aspirations and tools for ongoing planning through the life of a project, monitoring of the project implementation including periodic reporting, and eventual evaluation against indicators using information gathered during the project.

As set out in the Planning, Monitoring and Evaluation policy, CASM's institutional monitoring process is supported by an automated traffic light system to monitor project progress/compliance. This instrument is being used by regional office managers, project managers and program managers to monitor project implementation and establish actions to correct and reduce the risks of delay in the project and non-achievement of project objectives. The system is Excel based and generates the necessary alerts to make decisions or accelerate the execution steps. It provided an example of recent use for a project.

CASM commissions specific independent audits of project accounts (statements of receipts and expenditures). Recent examples of unqualified project external audit reports with no adverse findings were provided.

Project Closure and Final Evaluation

CASM presented two generally favorable evaluations of CASM-executed projects which collectively present technical, financial, economic, gender and legal aspects of projects at small scale.

CASM presented its record of managing the simultaneous development of more than 30 projects and its proven capability has allowed CASM consecutively develop projects with donors supporting the institution for over 20 years. More specifically it presented two generally favorable evaluations of CASM-executed projects.

CASM's project management policy has an evaluation and learning phase defined for the closure of projects. CASM advised that consultancy services are hired to perform such evaluations, the procedure being based on terms of reference agreed with the donor. A brief summary of procedure for project evaluations was provided. It provided an example of a project evaluation carried out under its own administration.

Transparency, self-investigative powers, and anti-corruption measures

Policies and Framework to deal with financial mismanagement

CASM has published policies on its public website which emphasise a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by all personnel of the organization as well as third party service providers, and provides for sanctioning measures including criminal action, in the event of violation.

CASM's Transparency and Conflicts of Interest Policy and a Complaints Policy obliges its staff to report any violation of the policy and provide channels for external stakeholders to make complaints including registering concerns about financial mismanagement and malpractice. Whistleblower protection is included in CASM's Code of Conduct.

While there is no standing internal investigation unit, the complaints policy establishes a process for "sensitive investigations" (i.e. where there are allegations of wrongdoing) for which the Executive Director and Board Chair will appoint an investigative committee to perform the investigative function. CASM has designed and incorporated into its 2020 update of the complaints policy a central register of complaints of all types, to permit recording and tracking of complaints received across its offices.

Involvement in money laundering is a prohibited behavior mentioned in the CASM Code of Conduct and CASM is subject to national anti-money laundering and countering the financing of terrorism (AML-CFT) laws and monitoring mechanisms. The 2016 FATF-GAFILAT Mutual Evaluation had positive findings including with regard to customer due diligence by financial institutions. A Financial Intelligence Unit (FIU) attached to the National Commission of

Banks and Insurance (CNBS) and a Specialized Prosecutor's Office in Organized Crime were deemed to be effective in their AML-CFT monitoring, investigation and prosecution roles.

Commitment by the Entity to apply the Fund's Environmental and Social (E&S) Policy and Gender Policy

CASM has provided and published on its website a letter of commitment from the Board Chair and Executive Director to observe the AF's environmental, social and gender policies. At a general level, CASM establishes in its Strategic Plan its commitment, by including the reduction of social and environmental vulnerability as one of its Lines of Programming. Moreover, the Strategic Plan presents as transversal approaches, influencing all programs, a human rights approach, gender equality and disaster risk reduction. The Plan supports a stakeholder approach in identifying, evaluating and monitoring related risks. CASM has experiences following donor requirements in regard to E&S and gender safeguards. It has provided some examples to illustrate its capacity as well as commitment, and the country representative of one important donor/partner also confirmed capacity.

Mechanism to Deal with complaints on Environmental and Social Harms and Gender Harms Caused by Projects/Programmes

CASM has updated its complaints policy, which sets out complaints mechanisms and process to address them, to confirm its application to environmental, social and gender related concerns. Complaint handling including registration, reporting and follow up are under the same methods as other complaint reporting. CASM advised that project initiation includes awareness raising with affected populations on the ways in which they can raise project-related concerns though this has previously not been specifically documented.

CONCLUSION

Taking into consideration the compensating measures, controls, and practices identified in CASM, the Accreditation Panel concludes that CASM meets the AF criteria under the streamlined approach, and recommends that it be accredited as the National Implementing Entity of Honduras. Taking into consideration the size of its project portfolio and length of experience in implementation, the Panel recommends that it should be eligible to submit project/program proposals to the Adaptation Fund for amounts up to US\$4 million.