



ADAPTATION FUND

1 March 2023

Adaptation Fund Board

Accreditation Panel Recommendation on the Fast-Track Re-accreditation of the Environmental Project Implementation Unit (EPIU), Armenia as a National Implementing Entity (NIE) of the Adaptation Fund

Having reviewed the fast-track re-accreditation application of the ***Environmental Project Implementation Unit (EPIU), Armenia***, the Accreditation Panel recommended that EPIU be:

- a) Re-accredited as a National Implementing Entity (NIE) of the Adaptation Fund; and
- b) Entitled to submit project and programme proposals to the Adaptation Fund for up to US\$10 million.

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

Re-accreditation Decision:

Having considered the recommendation of the Accreditation Panel and following the fast-track re-accreditation process as per Decisions B.28/38 and B.34/3, and recalling Decision B.28-29.1, the Adaptation Fund Board decided to:

- a) Re-accredit the ***Environmental Project Implementation Unit (EPIU), Armenia*** as a National Implementing Entity (NIE) of the Adaptation Fund for five years, as per paragraph 39 of the operational policies and guidelines for Parties to access resources from the Adaptation Fund. The accreditation expiration date is 29 February 2028.
- b) Entitle ***EPIU*** to submit project and programme proposals to the Adaptation Fund for up to US\$10 million.

Decision B. 39-40/9

ANNEX I: REPORT OF THE ACCREDITATION PANEL ON AN ASSESSMENT OF THE ENVIRONMENTAL PROJECT IMPLEMENTATION UNIT FOR FAST TRACK RE-ACCREDITATION AS A NATIONAL IMPLEMENTING ENTITY (NIE) OF THE ADAPTATION FUND

BACKGROUND

The Environmental Project Implementation Unit (EPIU) is a State Agency of the Republic of Armenia (RoA) under the Ministry of Environment (previously the Ministry of Nature Protection). The EPIU was established by the Government with the main objective of ensuring effective implementation of environmental projects/programs in the country.

The Adaptation Fund Board accredited the EPIU in November 2016 through the streamlined approach as a National Implementing Entity with a cap of US\$4 million.¹ Since accreditation, EPIU has completed a technical assistance grant of US\$19,500 and is currently implementing a small grants initiative project of US\$ 231,250, a pilot project for US\$ 1,435,100, and a strengthening capacity project for US\$2,506,000. The latter two are slated to be achieved by late 2023.

The EPIU was accredited with the Green Climate Fund with conditions in February 2019. It also cooperates and implements grant projects with international organizations such as the United Nations Environment Programme, the United Nations Development Programme, the UN Food and Agriculture Organization, and the Secretariat of the United Nations Convention to Combat Desertification.

The review and assessments by the Panel were based on the completed application form submitted through the on-line system and more than a hundred documents provided by EPIU as well as on their responses to follow-up questions. The Panel complemented its review with information available on EPIU's website as well as relevant documents from the websites of the Green Climate Fund and other related international institutions.

THE APPLICANT

As a State Agency the director of EPIU reports directly to the Prime Minister of RoA and the authorized body (Ministry of Environment).

Located in Yerevan, Republic of Armenia, the EPIU counts some 25 staff who work in three departments (Project Implementation and Monitoring, Cooperation with Donors, and Administrative Affairs and Procurement).

EPIU has solid experience in funding and overseeing environmental development projects and programmes, reflecting into account the member country's sustainability and social priorities. In doing so, the applicant has become an increasingly important implementer of the RoA's environmental portfolio.

¹ AF Board Decision B.28-29/1

Assessment against the fast-track re-accreditation criteria

This assessment was conducted pursuant to the Fund's Board Decision B.28/38² due to EPIU having been accredited by the Green Climate Fund in 2016; The Assessment for fast-track re-accreditation was conducted using the criteria as set out in Board Decision B.28/38 (Fast-track re-accreditation of implementing entities accredited with the Green Climate Fund) based on AFB/EFC.19.7 of December 2016; Decision B.31/1 (Focus areas of review of a fast-track re-accreditation) based on AFB/B.31 of March 2018; B.32/36 (Accreditation standards related to anti-money-laundering/countering the financing of terrorism) based on AFB/EFC.23/4; and Decision B.34/3 (Revised re-accreditation process) based on AFB/B.34/5 and its annexes.

The Panel's review, therefore, focused on the following criteria:

- The fiduciary standard related to the legal status
- Policies and procedures, screening and decision making related to anti-money laundering/countering the financing of terrorism (AML/CFT) on disbursements, procurement, and handling instances of non-compliance to policies and procedures, and laws.
- Policies, procedures, and capacity to deal with fraud, financial mismanagement and other forms of malpractice including a policy of zero tolerance and an objective investigation function for allegations of fraud and corruption
- Commitment by top management to apply the Fund's Environmental and Social Policy (ESP) and Gender Policy
- Mechanism to deal with complaints on environmental, social, and gender harms caused by projects/programs.

For fast-track re-accreditation review, the above-mentioned AF Board decisions also required an assessment of the following criteria, results of which are presented in the detailed analysis below.

- Criteria related to conditions attached to the fast-track accreditation by the GCF (Decision B.34/3 of November 2019),
- The quality at entry of projects and of project performance that are financed by the Fund (Decision B.31/1 of March 2018)
- Third-party assessments on project performance and the capacity of an implementing entity applicant as complementary information. (Decision B.31/26 of March 2018)³.

SUMMARY ASSESSMENT

The EPIU demonstrated full compliance to the above-mentioned criteria and the review process for fast-track re-accreditation (FTR) of the Adaptation Fund. Since its accreditation, EPIU has introduced new policies and a framework in dealing with anti-money laundering and countering the financing of terrorism based on the applicable laws and regulations of the Republic of Armenia. Significant improvements were made regarding policies, procedures, and frameworks for dealing with fraud, financial

² Decision (Fast-track re-accreditation of implementing entities accredited with the Green Climate Fund) based on AFB/EFC.19.7 of December 2016

³ AF Board Decision B.31/26_Paragraph 64, (c), (iii)

mismanagement, and other forms of malpractice. Third Party Assessments were positive and led to additional large-scale funding for the EPIU by two major United Nations agencies. All five conditions set by the Green Climate Fund at the time of EPIU's fast-track accreditation in February 2019 had been met by 20 September 2020.

The fiduciary standard related to the legal status

Notwithstanding the change in 2019 of the name of the Ministry of Nature Protection to Ministry of Environment under which the EPIU was established, the state agency continues to have the necessary legal personality; the capacity/authority and ability to enter into contracts or agreements with national and international organizations and directly receive funds from them; and the legal capacity to serve as a plaintiff or defendant in a court of law.

Policies and procedures, screening and decision-making related to anti-money laundering/countering the financing of terrorism (AML/CFT) on disbursements, procurement, and handling instances of non-compliance to policies and procedures, and laws.

Being a member of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) of the Council of Europe, RoA was evaluated by the FATF in 2015 and demonstrated progress in implementing the recommendations of the evaluation. As a state agency, the EPIU is required to act in conformity with existing national legislation and its statutes, in particular the Law on Combating Money Laundering and Terrorism Financing as well as the National Law on Procurement. A section of EPIU's Anti-Fraud and Anti-Corruption Policy sets out specific procedures in dealing with anti-money laundering and countering the financing of terrorism (AML/CFT), including the applicable laws and regulations of the RoA. It prescribes specific procedures and officers responsible for the implementation of these policies and procedures for procurement, disbursements, and for investigations in cases of breaches.

Policies and procedures to deal with fraud, financial mismanagement and other forms of malpractice

Since accreditation, EPIU has further strengthened its policies and procedures in this area. EPIU has two very robust and comprehensive manuals that set out all the policies and procedures for dealing with fraud, financial mismanagement, and other forms of malpractice. The EPIU's Operations and Procedures Manual (OPM) articulates the internal control framework and contains a sound code of conduct and ethical standards. The June 2020 updated Anti-Fraud and Anti-Corruption Policy is available on EPIU's website and reflects EPIU's zero tolerance for fraud and corruption. It aims to safeguard the reputation and sustainability of the EPIU through better management of fraud risks. The policy is based on best practices and presents clear steps to be taken to respond to reported or suspected fraud, whistleblower protection, as well as measures which may be taken to prevent or minimize fraud risks.

Status of quality-at-entry of projects and of AF funded project implementation

The current three AF projects that are under implementation for a cumulative value of over USD 3.6 million have experienced delays due to COVID and are all expected to

be completed by late 2023. Quality-at-entry for all three projects was found to be acceptable and the latest progress reports (PPR) indicate a satisfactory rating. While the projects suffered delays, these were addressed effectively by EPIU.

Commitment by top management to apply the Fund's Environmental and Social Policy (ESP) and Gender Policy

EPIU's commitment to apply the Fund's ESP policy was confirmed in writing by the Minister of Environment who wrote a letter to the Fund indicating that the "Agency abides by the gender, environmental and social policies maintained by the Adaptation Fund." Since its accreditation, EPIU has successfully implemented and completed a readiness programme for ESP and gender and has updated its Environmental and Social Policy (ESP) by setting out the rationale for the policy, its scope and coverage, the applicable requirements; and the relevant governance structure that establishes a Technical Committee for Environmental and Social Considerations and posts of Environmental and Social Risk Officers. The ESP stipulates EPIU's general environmental and social commitment, the environmental and social principles which are very similar to the AF E & S principles, the pillars of the E & S policy, the environmental and social management system, and the environmental and social policy delivery process including the required grievance redress mechanism (GRM) that is to be included in every project.

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

EPIU has been able to strengthen this area since accreditation and has developed a project-level grievance redress mechanism (GRM) using a technical assistance grant provided by the Adaptation Fund. The GRM now allows EPIU to receive complaints caused by the project/programmes and deal with them accordingly: giving the fairest and most appropriate solutions. According to the EPIU, no complaints have been received since the set-up of the GRM. Its website contains direct access to the GRM.

Increasing the Cap for EPIU

In undertaking this assessment, the Panel noted that EPIU demonstrated its capacity to manage projects of much larger amounts and the related risks while demonstrating satisfactory performance on projects currently under implementation. Major progress since accreditation entails the introduction of new and enhancements of its existing policies, procedures, and frameworks in dealing with AML/CFT; fraud, corruption, and financial mismanagement and other malpractices; and full commitment and compliance to the environmental, social and gender policies of the Fund by integrating these in their projects.

The above-mentioned three projects (excluding the project for the small grants initiative) funded by the Adaptation Fund, one of which has been completed and the two under implementation, have a total amount of US\$3,941,100 almost fully utilizing its cap of US\$4 million. EPIU is also the national implementing partner for various UN Agencies and manages large-scale projects in the environmental field on their behalf.

Thus, the Panel is of the view that the cap may be increased from US\$ 4 million to US\$ 10 million.

CONCLUSION AND RECOMMENDATIONS

The Panel concludes that the EPIU continues to fully comply with the standards and other criteria for fast-track re-accreditation. The Panel recommends the fast-track re-accreditation of EPIU as a national implementing entity by the Adaptation Fund Board. In addition, as an NIE accredited originally through the streamlined approach, it is recommended that the present cap of US\$ 4 million be raised to US\$ 10 million.