

# Feasibility report on the strengthening of citizen-based complaint review and referral mechanisms under the Green Climate Fund (GCF)

## Briefing paper<sup>1</sup>

### 1. Introduction

This briefing paper explores options for civil society organisations (CSOs)<sup>2</sup> to help ensure robust, well-functioning and responsive mechanisms under the Green Climate Fund (GCF) to handle grievances related to corruption and/or violations of social-environmental safeguards. Complaint review and referral systems are for the purpose of this paper understood as formal quasi-judicial or non-judicial complaint procedures – also known as grievance mechanisms – that can be used by individuals, workers, communities and/or CSOs who are potentially or already negatively affected, or risk being negatively affected, by specific activities and operations of financiers or companies. This paper builds on the experience of CSOs with various grievance mechanisms at the project, company, sector, national, regional or other multilateral levels. Input has been sought from a wide range of experts and resource persons who responded to an earlier discussion paper on this subject<sup>3</sup>.

The GCF's governance structure currently provides for the establishment of an Independent Integrity Unit (IIU) to investigate and take remedial action when cases of corruption occur. In addition, an independent redress mechanism (IRM) and an operationally independent Evaluation Unit (IEU) are also part of the governance structure of the Fund. This paper explores how CSOs can contribute to make these official mechanisms of the Fund more effective and increase the likelihood they will promote the goals of zero tolerance of corruption and of maximum protection of GCF-supported activities against potential negative social, environmental and human rights impacts. In particular, this paper also explores whether a separate, independent, citizen-based complaint review and referral system could complement and enhance the work of the GCF official anti-corruption, redress, and evaluation mechanisms.

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<sup>1</sup> Transparency International (TI) commissioned Both ENDS to explore how an independent, citizen-based complaint review and referral system could work in conjunction with and in support of the official functions of the Independent Integrity Unit (IIU) and Green Climate Fund implementing agencies as well as downstream financial and project executors. Both ENDS implemented this task in collaboration with Natural Justice and an independent legal expert.

<sup>2</sup> The term CSO as used in this paper is generic and does not assume a homogeneous group of civil society organisations. For the purpose of this paper also organisations of indigenous peoples are included in this category. In the context of this briefing paper CSOs are thought to meet commonly accepted standards of accountability.

<sup>3</sup> A list of respondents who generously offered feedback and advice is included in Annex 1

### **Green Climate Fund (GCF)**

- The basic principles are set forth in its “Governing Instrument”, which was approved by the 17<sup>th</sup> Conference of the Parties (COP) to the UN Framework Convention on Climate Change (UNFCCC) in 2011.
- The purpose of the GCF is “to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change”<sup>4</sup>.
- It aims to promote a paradigm shift towards low-emission (mitigation) and climate-resilient development pathways (adaptation) by providing support to developing countries, particularly those most vulnerable to the adverse effects of climate change.
- The GCF is meant to provide financial resources on a grant or concessional basis, including for the transfer of technology<sup>5</sup>.
- While the GCF is accountable to and functions under the guidance of the COP, it is a legal entity of its own, governed and supervised by a Board with full responsibility for funding decisions.

The concept of climate finance is based on achieving some form of additionality. New money that otherwise would not have been available is to be invested in climate mitigation or adaptation activities that would not be realised without this additional climate finance. Concerns have been raised about scarce new public international financial resources being spent on investments that do not result in real net reductions in greenhouse gas (GHG), or that would be built anyway, or even worse, that may subsidize investments which can actually perpetuate increased GHG emissions. Even with a methodology defining additionality that appears credible on paper, methodologies and ostensible GHG reductions and supposedly needed incremental finance can be easily levitated, especially if national governments on the GCF Board are prioritizing funding volumes over funding effectiveness. This appears to be already happening since several countries are insisting that new super-critical coal plants<sup>6</sup> be included as financing options for the GCF. Showing real climate protection additionality for adaptation may be even more problematic – and even more subject to manipulation and fraud – than for mitigation. This briefing paper aims to provide elements for consideration that may help the GCF advance a commonly agreed, firm and robust methodology on these issues, including mechanisms to sustain its effective implementation.

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<sup>4</sup> Governing Instrument for the Green Climate Fund, 2011, para 1;  
[http://gcfund.net/fileadmin/00\\_customer/documents/Key\\_documents/GCF\\_Governing\\_Instrument\\_web.pdf](http://gcfund.net/fileadmin/00_customer/documents/Key_documents/GCF_Governing_Instrument_web.pdf)

<sup>5</sup> UN Framework Convention on Climate Change, Article 11-1

<sup>6</sup> Super-critical coal fired power plants operate high-technology generators at very high pressures due to which the efficiency of the conversion of heat into power is increasing.

## **2. The role of grievance mechanisms in the governance structure of GCF**

It is part of the role of the Board to develop environmental and social safeguards and fiduciary principles and standards that are internationally accepted<sup>7</sup>, and to establish a framework for the monitoring and evaluation of performance and the financial accountability of activities supported by the Fund and necessary external audits<sup>8</sup>. The TORs of the IIU, IRM and the IEU have been approved by the Board<sup>9</sup>.

Developing and developed countries have an equal representation on the 24-member Board of the GCF, which is a significant improvement in comparison to most other multilateral financial institutions. However, it is not yet clear how votes of the different board members will be weighted in situations where there is no consensus. So far, no decisions have been taken on this issue, but current proposals include weighing votes according to the financial contribution made to the GCF<sup>10</sup>, an approach which is quite comparable to the conventional models of other multilateral financial institutions. Although consensus remains the preferred mode of decision making, the weighting of votes may affect future decision making on integrity or safeguard issues.

The GCF defines itself to be a continuously learning institution guided by processes for monitoring and evaluation<sup>11</sup>. Part of the core structure of the GCF is the aforementioned IEU, which will report to the Board<sup>12</sup>. The Board is furthermore charged with developing an information disclosure policy<sup>13</sup>, establishing the IIU to investigate allegations of fraud and corruption<sup>14</sup>, and establishing the IRM to respond to complaints related to the impacts of operations supported by the GCF<sup>15</sup>. In all this the Board is expected to develop mechanisms to draw appropriate expert and technical advice<sup>16</sup> as well as input and participation of stakeholders<sup>17</sup>, including CSOs. For CSOs eager to promote the highest standards for the grievance mechanisms under the GCF, it is therefore essential to engage with the Board.

The day-to-day operations of the GCF are implemented by a small Secretariat, headed by an Executive Director. Given the very small proposed staffing levels of the GCF Secretariat, many of its tasks will likely be outsourced to consultants and implementing entities. In light of these operational limitations, the GCF may be exposed to contradictory demands from different stakeholders. It is essential that CSOs organise themselves strongly to advocate for effective safeguarding of GCF funding against corruption, misuse or negative social, environmental or human rights impacts. The modest size of the GCF secretariat is – due to economics of scale – also likely to lead to advancing funding for large-scale projects and programmes at the expense of small-scale community-based initiatives, including those of indigenous peoples. It is in the GCF's interest as a learning organisation to actively engage and enhance the space for CSOs to contribute to such monitoring and due diligence processes.

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<sup>7</sup> Governing Instrument for the Green Climate Fund, 2011, para 18e

<sup>8</sup> Id., para 18i

<sup>9</sup> GCF/B.06/18, Decisions of the Board, 17 April 2014.

<sup>10</sup> GCF/B.09/15, Decision making Procedures for the Board in the Absence of Consensus, 26 February 2015

<sup>11</sup> Governing Instrument for the Green Climate Fund, 2011, para 2, 3

<sup>12</sup> Id., para 60

<sup>13</sup> Id., para 67

<sup>14</sup> Id., para 68

<sup>15</sup> Id., para 69

<sup>16</sup> Id., para 70

<sup>17</sup> Id., para 71

The financial assets of the GCF are managed by a trustee, which is initially the World Bank. The funds of the GCF can only be accessed via accredited national, regional and international implementing entities<sup>18</sup>. The cooperation of these implementing entities with the IIU, the IRM and the IEU of the GCF will be covered by agreements that still need to be worked out. The extent in which the GCF will delegate responsibilities for dealing with grievances remains unknown. This makes the selection of implementing entities a sensitive matter. While a participatory role for CSOs should have been established before the accreditation began, no such role has been formulated in the accreditation process of implementing agencies. The accreditation process is based on specific criteria that reflect the fiduciary principles and standards and environmental and social safeguards set by the Board of the GCF<sup>19</sup>. These fiduciary principles, standards and safeguards of the GCF also apply to the financial management practices and financing agreements of the GCF<sup>20</sup>. In its 7<sup>th</sup> meeting of May 2014, the Board adopted an initial set of fiduciary principles and standards, which is provided in Annex 2 to this briefing paper. These principles and standards are to be upheld by the governing structure of the GCF as well as by the implementing entities.

As these principles and standards are setting the stage for mutual obligations in the cooperation agreement of the GCF with its implementing entities, CSOs may wish to call for a stronger and explicit requirement for implementing entities to refer all grievances related to GCF-funded activities to the grievance mechanisms of the Fund. The ultimate authority in handling such grievances should always be entrusted to the Fund, due to a number of reasons such as (*inter alia*):

- Implementing entities may not have adequate safeguard policies and associated grievance mechanisms in place;
- Implementing entities may be intent to defer all responsibility to project proponents;
- Implementing entities may face conflicts of interest for being directly implicated in triggering grievances;
- Implementing entities may not have the authority to implement lessons learned from grievance procedures; and
- Implementing entities may lack training and expertise to deliver redress.

CSOs thus may wish to call on the GCF to not outsource its grievance procedures to implementing entities, in order to avoid GCF building a inconsistent and fragmented record in this field. This should prevent a repetition of the lack of accountability that is often observed with financial intermediaries contracted by other multilateral financial institutions. In this respect, the GCF may be advised to refine the way it will ensure the highest standards of accountability in the potentially complex funding supply chains it will initiate. Strong principles and fiduciary standards – including standards for grievance procedures – will prove essential for GCF to withstand pressures to compromise on accountability for the sake of meeting funding release targets or accommodating certain political sensitivities.

At the level of social and environmental safeguards, the GCF provisionally adopts the Performance Standards in combination with the Guidance Notes of the International Finance Corporation (IFC)<sup>21</sup> (see Annex 3). The GCF aims to develop its own environmental and social

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<sup>18</sup> At this moment there are seven Implementing Entities accredited by the board of the GCF: CSE, Senegal; FPANP, Peru; SPREP, Samoa; ACUMEN, USA/international; UNDP, USA/international; KFW, Germany; ADB, Philippines.

<sup>19</sup> Governing Instrument for the Green Climate Fund, 2011, para 49

<sup>20</sup> Id., para 56

<sup>21</sup> GCF/B.07/11, Decisions of the GCF Board, 19 June 2014, p. 16, 17

safeguards (ESS) by the end of 2018, based on a detailed evaluation of its experiences after three years of operations, and experiences from evolving safeguard policies at other financial institutions<sup>22</sup>. For the time being, the GCF proposes a flexible approach that makes due diligence requirements dependent on and aligned with the level of perceived risks, with GCF documents hinting at a ‘learning by doing’ approach. In this period, the GCF should be committed to ensuring proper implementation of due diligence procedures by the Fund and its implementing entities, and should provide space to CSOs to contribute to that implementation.

A close reading of the GCF’s own Terms of Reference (TORs) of the Independent Evaluation Unit (IEU), the Independent Integrity Unit (IIU) and the Independent Redress Mechanism (IRM) reveals that there is no explicit guarantee that these units are being developed and become operational in synergy with each other (see Annex 4). As corruption issues are often related to social-environmental safeguard violations, such synergy does make sense at a conceptual level. However, corruption investigations tend to deal with confidential business information, the non-disclosure of which may affect the need for transparency in dealing with social, environmental or human rights grievances. In addition, the need for problem solving activities in relation to these grievances may command a different response as compared to corruption problems that might instead call for legal prosecution. Hence it is desirable that the GCF will conduct a formal review of the synergies of the different units in line with the scheduled review of its ESS after three years of operations. An opportunity for CSOs to meaningfully participate in that process and to provide shadow reports should be provided for.

The GCF is currently finalising its operational procedures, which determine the ways in which envisaged future amounts of up to US\$ 100 billion per year by 2020 will be disbursed. It reached effectiveness on the 21<sup>st</sup> of May 2015, and can begin allocating resources ahead of the Paris climate conference by the end of this year. The interest of many donors to disburse funds efficiently through lean structures and procedures is combined in the Fund with pressures to reject conditions that often are perceived as infringements on national sovereignty. Most policies (including those on the EIU, IIU and IRM) are being designed by the GCF Secretariat, which largely depends on external consultants. The proposed policies are then to be reviewed and approved by the Board. The Board needs to take a considerable number of decisions in a limited timeframe of 3 annual Board meetings of 3 days each. Given this current situation, it is hardly surprising that GCF’s policies tend to be predominantly based on the policies of existing international financial institutions and thus are likely to suffer from similar failings.

The GCF adopted an Initial Investment Framework which defines the (sub)criteria to determine the type of projects and programmes that will be eligible for GCF funding<sup>23</sup>. To ensure the fundamental financial, social and environmental integrity of the Fund CSOs – in particular from developing countries – should be enabled to undertake a detailed review of the initial investment framework and closely monitor and review its implementation by national designated authorities and any other parties submitting applications for support to the Fund. Strong criteria and inclusive, well-implemented consultation procedures in the upstream decision making process of the GCF may very well help prevent many problems which would otherwise be later addressed by its grievance mechanism.

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<sup>22</sup> Following growing concerns and bad publicity about the IFC’s record in working with Financial Intermediaries (FIs) – e.g., The Suffering of Others, Oxfam report, April 2015 – the IFC is currently revising its performance standards re FIs.

<sup>23</sup> GCF/B.09/23, Decisions of the GCF Board, 16 April 2015, p. 4, 5

Suggestions to enhance the CSO input and participation in the GCF by:

- Formal consultation procedures in Board decision making processes
- Application of highest transparency and information disclosure standards, including for activities outsourced to consultants and implementing entities
- Enhanced space and funding for monitoring and due diligence review processes
- Participative accreditation process for implementing agencies
- All grievances related to GCF funded activities to be referred to grievance mechanisms of the Fund
- Participative review process of the environmental and social safeguards applied by the Fund

### **3. Potential role of citizen-based complaint review and referral system**

The effective functioning of the IIU and the IRM - and by extension, also the IEU – will be heavily dependent on outside information (complaints, tip-offs, etc.) provided by affected communities, whistle blowers, individual academics, journalists or CSO representatives. As the GCF is just one of numerous multilateral financial institutions, there is a significant risk that its role in funding new project investments and its accountability mechanisms will not be well known or understood on the ground among local communities. As the capacities of the GCF to widely advertise and promote itself and its grievance mechanisms are uncertain, CSOs may be advised to assume an active role in urging the Fund and pressuring its donors to recognize and articulate its responsibilities in this regard. There are provisions that CSOs can have two active CSO observers at the Board<sup>24</sup>, but definitely a wider and more structural engagement of CSOs within the evolving GCF is arguably needed. Donors to the Fund should consider facilitating initiatives to enhance CSO input and participation to this end<sup>25</sup>.

A citizen-based complaint and referral system could therefore be an important addition to the existing governance structure of the Fund, to enhance and promote evolving improvements in the functioning of the GCF. Appropriate suggestions for the name of such a system might be the “GCF Independent Civil Society Information, Implementation and Accountability Facility” or “GCF Civil Society Information Enhancement Function”. A CSO-led function should clearly result in enhancing the effectiveness of the grievance mechanisms to assume the public responsibilities that the GCF has rightly identified. The CSO function would be a supportive arrangement to ensure that policies and procedures developed to date by the GCF will also be effectively implemented once the Fund enters its operational phase. It is not to suggest an extra layer or bureaucracy, but instead a CSO-driven counterpart arrangement to complement and strengthen the existing grievance mechanisms of the Fund.

An important role for a CSO-led function would be to further galvanise CSO involvement and participation in the operational phase of the GCF that is scheduled to start later this year, thus contributing to the GCF obtaining the necessary trust from its very beginning in promoting equity in delivering on international climate policies. An effective CSO-led function might benefit from experiences with comparable initiatives, such as the Adaptation Fund NGO Network<sup>26</sup>. It should also build on the experience of and seek cooperation with the networks of CSOs involved in monitoring and improving existing grievance mechanisms of other international financial institutions or private sector institutions, including some implementing entities. Organisations like the CEE Bankwatch Network<sup>27</sup> or the NGO Forum on the ADB<sup>28</sup> are good examples to inspire CSO engagement with the GCF. In essence, the CSO-led function would serve as a clearing house and concentrate on open communication channels between the operational structure of the GCF and the public at large. It would be an open forum with a clear core of people working specifically on the GCF.

The CSO-led function should support communities to bring their aspirations and concerns across to the GCF and its implementing entities. It would enable access to information and the building of trust between the GCF and the communities that stand to benefit from its operations, allowing

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<sup>24</sup> <http://www.gcfund.org/observers/active-observers.html>

<sup>25</sup> Cf. Governing Instrument for the Green Climate Fund, para. 71, [http://www.gcfund.org/fileadmin/00\\_customer/documents/pdf/GCF-governing\\_instrument-120521-block-LY.pdf](http://www.gcfund.org/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf)

<sup>26</sup> Cf.: <http://af-network.org/>

<sup>27</sup> <http://bankwatch.org/>

<sup>28</sup> <http://www.forum-adb.org/>

the GCF to become an institution genuinely learning from mistakes and ‘successes’. It could actively assist the Fund to reach out to communities and to strengthen the effectiveness of the Fund by expanding opportunities for effective participation of civil society.

In the end, the CSO-led function should not only engage with the Secretariat and the Board of the GCF, but also aim to engage with the growing network of accredited implementing entities managing the projects and programmes supported by the Fund. Further discussion is needed to work out and ensure the basis of its legitimacy, to secure adequate independent funding and to elaborate and articulate its role and function in the long run.

#### **4. Recommendations for a strong role of CSOs**

This paper reviewed options for CSOs to help ensure robust, well functioning and responsive mechanisms under the GCF to address grievances related to corruption and/or violations of social-environmental safeguards. It assumes that the GCF will place a strong emphasis on the implementation of strict policies aiming to prevent compliance problems to be addressed by its grievance mechanisms. It considers the establishment of three independent mechanisms (the IEU, IIU and IRM) within the current governing structure of the Fund to be a very welcome initial step.

To contribute to the effectiveness of these mechanisms, a stronger and better articulated role of CSOs is recommended on the following issues:

1. The participatory and advisory role of CSOs in decision making processes at the Board of the Fund should be better defined, including a role for CSOs in the accreditation process for implementing entities, and in assisting in the development of a robust methodology to ensure additionality in climate finance;
2. While the GCF is aiming for a modest and efficient operational structure with many tasks to be outsourced to implementing entities, it will be important for CSOs to insist on the highest standards of accountability and clear responsibilities for the GCF in the potentially complex funding supply chains it will initiate;
3. To ensure the GCF realising its own commitment to becoming a learning institution, it will be essential for the GCF to assume a hands-on approach in developing its grievance mechanisms, safeguards and national GCF strategies, including an active outreach policy in cooperation with CSOs to ensure that its potential is being understood by all parties potentially affected by activities supported by the Fund;
4. A GCF Independent Civil Society Information, Implementation and Accountability Facility should be established as a supportive arrangement to ensure (more) effective implementation of grievance policies and procedures developed to date by the GCF, including by bringing forward the aspirations and concerns of local communities and indigenous peoples to the GCF and its implementing entities.

## **Annex 1: List of resource persons**

Name	Organisation	Country
Bruce Rich		USA
Pratim Roy	Keystone	India
Andrea Rodriguez	AIDA	Mexico
Kris Genovese	SOMO	Netherlands
Titi Soentoro	Aksi!	Indonesia
Christine Lottje	German Climate Finance website	Germany
Katherine McDonnell	Earth Rights International	USA
Jacob Waslander	NL Ministry of Foreign Affairs / Board member GCF	Netherlands
Niranjali Amerasinghe	CIEL	USA
Karen Orenstein	FoE-US	USA
Komala Ramachandra	Accountability Counsel	India / USA

## Annex 2: Initial fiduciary principles and standards of the Fund

**Summary table<sup>29</sup>**

	Purpose	Scope
<b>Basic fiduciary criteria</b>	Key administrative and financial capacities	<ul style="list-style-type: none"> <li>• General management and administrative capacities;</li> <li>• Financial management and accounting;</li> <li>• Internal and external audit;</li> <li>• Control frameworks;</li> <li>• Procurement;</li> </ul>
	Transparency and accountability	<ul style="list-style-type: none"> <li>• Disclosure of conflicts of interest;</li> <li>• Code of ethics;</li> <li>• Capacity to prevent or deal with financial mismanagement and other forms of malpractice;</li> <li>• Investigations;</li> <li>• Anti-money laundering and anti-terrorist financing;</li> </ul>
<b>Specialized fiduciary criteria</b>	Project management	<ul style="list-style-type: none"> <li>• Project preparation and appraisal (from concept to full funding proposal);</li> <li>• Project oversight and control;</li> <li>• Monitoring and evaluation;</li> <li>• Project-at-risk systems and related project risk management capabilities;</li> </ul>
	Grant award and/or funding allocation mechanisms	<ul style="list-style-type: none"> <li>• Grant award procedures;</li> <li>• Transparent allocation of financial resources;</li> <li>• Public access to information on beneficiaries and results;</li> <li>• Good standing with regard to multilateral funding; (e.g. through recognized public expenditure reviews);</li> </ul>
	On-lending and/or blending	<ul style="list-style-type: none"> <li>• Appropriate registration and/or licensing by a financial oversight body or regulator in the country and/or internationally, as applicable;</li> <li>• Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;</li> <li>• Creditworthiness;</li> <li>• Due diligence policies, processes and procedures; Financial resource management, including analysis of the lending portfolio of the intermediary;</li> <li>• Public access to information on beneficiaries and results;</li> <li>• Investment management, policies and systems, including in relation to portfolio management;</li> </ul>

<sup>29</sup> GCF/B.07/11, Decisions of the GCF Board, 19 June 2014, p. 15.

		<ul style="list-style-type: none"> <li>• Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;</li> <li>• Financial risk management, including asset liability management;</li> <li>• Governance and organizational arrangements, including relationships between the treasury function and the operational side (front desk).</li> </ul>
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## I. Initial basic fiduciary standards

### 1.1 **Key administrative and financial capacities**

1. Underlying principles of the Fund's initial basic fiduciary standards for administrative and financial capacities are:

- (a) Financial inputs and outputs are properly accounted for, reported, and administered transparently in accordance with pertinent regulations and laws, and with due accountability;
- (b) Information relating to the overall administration and management of the entity is available, consistent, reliable, complete and relevant to the required fiduciary standards; and
- (c) Operations of the entity show a track record in effectiveness and efficiency.

#### 1.1.1 ***General management and administrative capacities***

2. Clear and formal definition of the main "corporate governance" actors of the entity and of their respective roles and responsibilities (for example, oversight authorities, audit committee, regulators, governing board, executive body, internal audit body, external audit body, etc.);

- (a) Existence of adequate internal oversight bodies and transparent rules regarding the appointment, termination and remuneration of members of such committees;
- (b) A consistent, clear and adequately communicated organization chart available, which describes, as a minimum, the entity's key areas of authority and responsibility, as well as well-defined reporting/delegation lines;
- (c) A consistent and formal process to set objectives and to ensure that the chosen objectives support and align with the mission of the entity.
- (d) Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve; and
- (e) A general management plan that also includes processes to monitor and report on the achievement of set objectives.

#### 1.1.2 ***Financial management and accounting***

- (a) Financial statements follow the Generally Accepted Accounting Principles (GAAP) and are prepared in accordance with recognized accounting standards, such as the

International Financial Reporting Standards (IFRS), or the International Public Sector Accounting Standards (IPSAS) in the case of public entities, or other equivalent standards;

(b) The entity has in place a clear and complete set of financial statements that provide information on:

- (i) A statement of assets, liabilities and fund balances (statement of financial position);
- (ii) A statement of financial performance (income and expenses/revenue and expenditure);
- (iii) A statement of changes in financial position or a statement of changes in reserves and fund balances;
- (iv) A statement of cash flows;
- (v) A description of the accounting policies used explaining the accounting framework used; and
- (vi) Appropriate notes and disclosures in annexes to the financial statements, in particular explaining the accounting framework used, the basis of preparation of the financial statements, and the specific accounting policies that are necessary for a proper understanding of the financial statements.

(c) Financial statements are reported periodically, consistent with previous reporting periods, and allow for comparison among reporting periods;

(d) The entity uses accounting and financial information systems based on the accounting principles and procedures indicated in paragraph (a) above and how the accounting policies of the entity are adapted to the nature and complexity of its activities;

(e) Transparent and consistent payment and disbursement systems are in place with documented procedures and clear allocation of responsibilities. The entity has also legal and operational capacity to receive international payments from the Fund's Trustee and to make payments to the Fund's Trustee;

(f) A track record in the preparation and transparent use of business plans, financial projections and budgets, and the ability to continuously monitor performance and expenditure against these; and

(g) Resources, systems and procedures (including fiduciary accounts, as appropriate) are in place that ensure proper financial reporting over the use of funding received from the Fund.

### **1.1.3 Internal and external audit**

#### **A. Independent audit committee**

3. An independent audit committee or comparable body is appointed and fully functional and oversees the work of the internal audit function as well as the external audit firm as it relates to the audit of financial statements, control systems and reporting.

4. The audit committee or comparable body is guided and mandated by written terms of reference that address its membership requirements, duties, authority, accountability and regularity of meetings.

**B. Internal audit**

5. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (as defined by the Institute of Internal Auditors).

- (a) The internal audit function has a documented terms of reference or charter, reviewed and approved formally by senior management and the audit committee, that outlines its purpose, authorized functions and accountability;
- (b) The internal audit function is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors or other equivalent standards;
- (c) Auditors and/or entities that provide internal auditing services adhere to ethical principles of integrity, objectivity, confidentiality and competency, which is supported by specific legal arrangements to this effect;
- (d) The internal audit function is independent and able to perform its respective duties objectively. It is headed by an officer specially assigned to this role with due functional independence, who reports to a level of the organization that allows the internal audit activity to properly fulfil its responsibilities;
- (e) The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan. The audit plan outlines the priorities of the function and is consistent with the organization's goals;
- (f) The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) ensuring proper coverage and a minimization of duplication of efforts;
- (g) The internal audit function disseminates its findings to the corresponding senior management units and business management units, which are responsible for acting on and/or responding to recommendations;
- (h) The internal audit function has a process in place to monitor the response to its recommendations; and
- (i) A process is in place to monitor and assess the overall effectiveness of the internal audit functions, including periodic internal and external quality assessments.

**C. External audit**

6. The external financial audit function ensures an independent review of financial statements and internal controls (as defined by the International Federation of Accountants (IFAC)).

- (a) The entity has appointed an independent external audit firm or organization;

- (b) The work of the external audit firm or organization is consistent with the recognized international auditing standards such as International Standards on Auditing (ISA), or other equivalent standards;
- (c) In cases where the entity is subject to external audits carried out by a national audit institution or other form of public independent inspection body, provisions should be made so that the external audits are guaranteed independence and impartiality, including through formal terms of reference, and are conducted periodically;
- (d) The entity exhibits all necessary provisions and arrangements to ensure that an annual audit opinion on the financial statements and/or, as appropriate, on all financial resources received from the Fund and administered by the entity, is issued by the external auditor and made public; and
- (e) The external auditor makes regular reports of observations with respect to accounting systems, internal financial controls, and administration and management of the organization. Audits and management progress reports are reviewed by the audit committee or comparable body annually.

#### **1.1.4 Control framework**

7. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of financial reporting;
- (c) Compliance with applicable laws and regulations;
- (d) A control framework that has been adopted and that is documented and includes clearly defined roles for management, internal auditors, the board of directors or comparable body, and other personnel;
- (e) A control framework that covers the control environment ("tone at the top"), risk assessment, internal control activities, monitoring, and procedures for information sharing;
- (f) A control framework that defines roles and responsibilities pertaining to the accountability of fiscal agents and fiduciary trustees;
- (g) At the institutional level, risk-assessment processes are in place to identify, assess, analyse and provide a basis for proactive risk responses in each of the financial management areas. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent;
- (h) The control framework guides the financial management framework;
- (i) Procedures are in place for identifying internal controls and assessing the details of the controls annually in core financial management areas, including:
  - (i) Budgeting;

- (ii) Accounting;
  - (iii) Internal control;
  - (iv) Funds flow (including disbursements, cash management, unused fund close-out);
  - (v) Financial reporting; and
  - (vi) Auditing arrangements;
- (j) Provisions for regular oversight of the procurement function with consistent monitoring and follow-up on review reports evidence that a risk management process exists and allows management to identify, assess and address existing or potential issues that may hamper the achievement of the entity's objectives; and
- (k) Duties are segregated where incompatible. Related duties are subject to a regular review by management; response is required when discrepancies and exceptions are noted; and segregation of duties is maintained between settlement processing, procurement processing, risk management/reconciliations, and accounting.

### **1.1.5 *Procurement***

8. Procurement processes in the applicant entity cover regular procurement relating to the general operations of the entity as well as procurement in the context of the implementation and execution of funding proposals approved by the Fund. These should include formal standards, guidelines and systems based on widely recognized processes and an internal control framework to ensure fair and transparent procurement processes.

- (a) Formal internal guidelines and a procurement policy that promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability, and authority to take procurement actions;
- (b) Specific procurement guidelines are in place with respect to different types of procurement managed by the entity, such as consultants, contractors and service providers;
- (c) Specific procedures, guidelines and methodologies as well as adequate organizational resources for overseeing, assessing and reviewing the procurement procedures of beneficiary institutions, executing entities or project sponsors are in place;
- (d) Procurement performance in the implementation of Fund's approved funding proposals is monitored at periodic intervals, and there are processes in place requiring a response when issues are identified;
- (e) Procurement records are easily accessible to procurement staff, and procurement policies and awards are publicly disclosed;
- (f) Evidence of transparent and fair procurement policies and procedures that are consistent with recognized international practice, including such provisions and practices as:
  - (i) Non-discrimination and equal treatment of candidates;
  - (ii) Dispute resolution procedures;
  - (iii) Obligation to use and adherence to tendering procedures;

- (iv) Best value for money; and
- (v) Adequate ex-post communication and publication of beneficiaries.

## **1.2 Transparency and accountability**

9. Underlying principles are:
  - (a) Protection and commitment against mismanagement and fraudulent, corrupt and wasteful practices;
  - (b) Disclosure of any form of conflict of interest (actual, potential or perceived); and
  - (c) Code of ethics, policies and culture that drive and promote full transparency and accountability.
10. Transparency and accountability are to be demonstrated through an effective combination of fully functional policies, procedures, systems and approaches. The following standards outline the key standards to demonstrate fiduciary alignment with the above principles.

### ***1.2.1 Code of ethics***

- (a) The organization has in place either a documented code of ethics that defines ethical standards to be upheld, listing the parties required to adhere to the standards, including employees, consultants, and independent experts; or alternatively, a set of clear and formal management policies and provisions are in place to define expected ethical behaviour by all individuals contracted or functionally related to the organization;
- (b) All individuals with a functional and/or contractual relationship to the organization are made aware of such codes of ethics or policies/provisions as appropriate; and
- (c) The organization has in place an ethics committee or has allocated such functions to other relevant instances within the organization.

### ***1.2.2 Disclosure of conflict of interest***

- (a) The organization has a disclosure policy, or equivalent administrative provisions to this effect, that establishes the necessary mandatory financial disclosures of possible, actual, perceived or apparent conflicts of interest by identified parties as appropriate; and
- (b) The policy, or equivalent administrative provisions, specifies prohibited personal financial interests and describes the principles under which conflicts of interests are reviewed and resolved. It should also describe sanction measures for parties that do not disclose such conflicts on a proactive basis where a conflict of interest is identified.

### ***1.2.3 Capacity to prevent or deal with financial mismanagement and other forms of malpractice***

- (a) Demonstrated experience and track record in accessing financial resources from national and international sources, as appropriate;
- (b) Evidence of tone or statement from the governing bodies or senior management of the organization emphasizing a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by staff members, consultants, contractors, or from any other relevant party associated directly or indirectly with the general operations of the entity, and particularly in relation to the implementation of approved funding proposals;
- (c) Avenues and tools for reporting suspected ethics violations, misconduct, and any kind of malpractice, which should be complemented by provisions and mechanisms protecting whistleblowers and individuals reporting such violations;
- (d) Evidence of an objective investigation function for allegations of fraud and corruption, which includes procedures in the organization to process cases of fraud and mismanagement, undertake necessary investigative activities and generate periodic reports for information and follow-up by the ethics function; and
- (e) General management policies promote an organizational culture that is conducive to fairness, accountability and full transparency across the organization's activities and operations.

### ***1.2.4 Investigation function***

11. The investigation function provides for the independent and objective investigation of allegations of fraudulent and corrupt practices (using widely recognized definitions such as those agreed by the International Financial Institutions Anti-Corruption Task Force) in all operations of the entity as well as allegations of possible entity staff misconduct.

- (a) The investigation function has publicly available terms of reference that outline the purpose, authority and accountability of the function. This function may be assigned to a dedicated organizational component within the entity's structure or to another appropriate element of the organization;
- (b) To ensure functional independence, the investigations function is headed by an officer who reports to a level of the organization that allows the investigation function to fulfil its responsibilities objectively;
- (c) The investigation function has published guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process; and
- (d) The investigation function has a defined process for periodically reporting case trends. To enhance accountability and transparency, case trend reports and other information are made available to senior management and relevant business functions to the extent possible.

### ***1.2.5 Anti-money laundering and anti-terrorist financing***

## **II. Initial specialized fiduciary standards**

12. The Fund's specialized fiduciary criteria refer to institutional capacities that will qualify the applicant entities to undertake specialized activities depending on the nature and scope of their mandate within the Fund's operations.

## **2.1 Initial specialized fiduciary standards relating to project management**

13. The underlying principles are:

- (a) Ability to identify, formulate and appraise projects or programmes
- (b) Competency to manage or oversee the execution of approved funding proposals, including the ability to manage executing entities or project sponsors and to support project delivery and implementation;
- (c) Capacity to consistently and transparently report on the progress, delivery and implementation of the approved funding proposal;

### ***2.1.1 Project preparation and appraisal***

- (a) Track record of capability and experience (including appropriate tendering procedures for project proposals) in the identification and design of projects or programmes within the respective jurisdiction (subnational, national, regional or international, as applicable);
- (b) Capacity to clearly state project objectives and outcomes in preparing funding proposals and to incorporate key performance indicators with baselines and targets into the project design;
- (c) Ability to examine and incorporate technical, financial, economic and legal aspects as well as possible environmental, social and climate change aspects, and relevant assessments thereof, into the funding proposal at the appraisal stage; and
- (d) Appropriate fiduciary oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.

### ***2.1.2 Project oversight and control***

- (a) Operational systems, procedures and overall capacity to consistently prepare project implementation plans, including project budgets, reporting guidelines and templates to be used by executing entities or project sponsors;
- (b) Operational capacity and organizational arrangements to continuously oversee the implementation of the approved funding proposal in order to regularly assess project expenditure against project budget as well as to monitor and identify opportunities for improving project performance against its budget and timelines;
- (c) Appropriate reporting capabilities and capacities to appropriately publish implementation reports; and
- (d) Operational systems and overall capacity to conduct necessary activities relating to project closure, including due reporting on results achieved, lessons learned and recommendations for improvement, as well as capacity to disseminate results and make key findings publicly available.

### ***2.1.3 Monitoring and evaluation***

14. The monitoring function detects, assesses, and provides management information about risks relating to projects, particularly those deemed to be at risk.

15. The evaluation function assesses the extent to which projects, programmes, strategies, policies, sectors or other activities achieve their objectives and contribute to the initial results areas of the Fund. The goal of evaluation is to provide an objective basis for assessing results, to provide accountability in the achievement of objectives, and to learn from experience (and to detect any deviation from project planning in the early stages).

## A. Monitoring

- (a) Operational and organizational resources are available to implement monitoring functions, policies and procedures consistent with the requirements of the Fund's monitoring and evaluation guidelines;
- (b) The roles and responsibilities of the monitoring function are clearly articulated at both the project and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project origination and supervision functions;

Tools for reporting on project monitoring are available and monitoring results are periodically published.

## B. Evaluation

- (a) Independent evaluations are undertaken by an established body or function as part of a systematic programme of assessing results, consistent with relevant requirements and related Fund policies;
- (b) The evaluation function follows impartial, widely recognized, documented and professional standards and methods;
- (c) The evaluation body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the entity, ideally reporting directly to the board of directors or comparable body. If its structural independence is limited, the evaluation body or function has provisions that ensure transparent reporting to senior management;
- (d) An evaluation disclosure policy is in place. Evaluation reports are disseminated as widely as possible, at a minimum to all parties directly or indirectly involved in the project or programme. To enhance transparency, reports are available publicly to the extent possible.

### 2.1.4 ***Project-at-risk systems and related project risk management capabilities***

- (a) A process or system, such as a project-at-risk system, is in place to flag early on when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems;
- (b) Availability of an independent risk management function differentiated from project implementation and project supervision responsibilities;
- (c) Risk assessment:
  - (i) Demonstrated capabilities to undertake the assessment of financial, economic, political and regulatory risks during the implementation stages; and

- (ii) Demonstrated ability to integrate risk mitigation and management strategies into the funding proposal at all levels listed above, and to exercise such strategies during the implementation stage.

## **2.2 Grant award mechanisms**

### **2.2.1 Transparent eligibility criteria and evaluation**

- (a) The grant award mechanism is organized in a fully transparent manner that guarantees impartiality and equal treatment to all applicants;
- (b) The evaluation process is based solely on the criteria for exclusion, eligibility, selection and award pre-announced in the call for proposals;
- (c) Eligibility evaluation performed on the basis of the criteria stated in the call for proposals;
- (d) All stages are formally documented through standardized checklists and forms;
- (e) There is an evaluation committee that:
  - (i) Evaluates the applications to make a recommendation for award and rejections in accordance with the pre-announced criteria; and
  - (ii) Works in accordance with the formal rules of procedure.

### **2.2.2 Grant award decision and procedures**

- (a) The grant award decision is taken by the person or body who is legally authorized to sign grant agreements on behalf of the awarding body;
- (b) The grant award decision is based on the grant award proposal prepared by the evaluation committee;
- (c) If the grant award does not follow evaluation committee's recommendation, the departing decision is adequately justified and documented;
- (d) The grant decision states the following:
  - (i) Subject and overall amount of decision;
  - (ii) Name of beneficiaries, title of granted activity, grant amount awarded, and the reason(s) for this choice; and
  - (iii) Name(s) of application(s) rejected and reason for their rejection(s).
- (e) Checks have been undertaken to guarantee that one and the same activity only results in the award of one grant to any one beneficiary;
- (f) No grant is awarded retrospectively for activities already started or completed at the time of the application;
- (g) All applicants are notified in writing of grant award outcome; and

- (h) Rejected applications result in rejected applicants receiving reason(s) for rejection with reference to the pre-announced criteria;

#### **2.2.3 *Public access to information on beneficiaries and results***

- (a) Grant-awarding entity makes the grant award results public;
- (b) Results made public within a reasonable timeframe following the grant award decision;
- (c) The following information should be included (at a minimum):
  - (i) Name, address and nationality of the beneficiary;
  - (ii) Purpose of the grant; and
  - (iii) Grant amount awarded and, where applicable, the maximum co-financing rate of the cost.

#### **2.2.4 *Transparent allocation and implementation of financial resources***

- (a) There is a system in place to provide assurance on the reality and eligibility of activities to be carried out with the grant award as well as the legality of the underlying operations;
- (b) There is a system in place to recover funds unduly paid;
- (c) There is a system in place to prevent irregularities and fraud;
- (d) The grant-awarding entity monitors the implementation of funded programme activities and supports beneficiaries through counselling and advice;
- (e) There are sufficient possibilities for the beneficiary to contact the grant-awarding entity;
- (f) The grant-awarding entity carries out on-site visits to monitor the implementation of individual projects;
- (g) Those on-site visits are used to support the beneficiary, gather and disseminate best practices and establish/maintain good relations between the awarding entity and the beneficiary entity;
- (h) There are clear procedures about procurement rules the grant beneficiary is required to apply, if any;
  - (i) The amount of the grant is finalized only after the grant-accepting entity has accepted the final report and accounts;
  - (j) There are procedures in place for the suspension, reduction, or termination of the grant if the beneficiary fails to comply with its obligations.

#### **2.2.5 *Good standing with regard to multilateral funding***

#### **2.3 *On-lending and/or blending***

16. Additional specialized criteria for on-lending and blending will apply for intermediaries and IEs that wish to use those financial instruments with the Fund's resources. The following list suggests possible on-lending and blending capacities for consideration during the accreditation process:

- (a) Appropriate registration and/or license from a financial oversight body or regulator in the country and/or internationally, as applicable;
- (b) Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;
- (c) The creditworthiness of the institution making on-lending or blending arrangements;
- (d) Due diligence policies, processes and procedures in place;
- (e) Financial resources management, including analysis of lending portfolio of the intermediary;
- (f) Public access to information on beneficiaries and results;
- (g) Investment management, policies and systems, including in relation to portfolio management;
- (h) Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;
- (i) Financial risk management, including asset liability management;
- (j) Governance and organizational arrangements, including relationships between the entity's treasury function and the operational side;
- (k) For intermediaries or IEs that blend grant awards:
- (l) There are clear procedures about the grant award rules that the implementing partner is required to apply; or
- (m) If the intermediary or IE uses its own rules, the minimum requirements are satisfactory.

## **Annex 3: Interim environmental and social safeguards of the Fund**

### **I. Overview of the International Finance Corporation Performance Standards**

1. The eight Performance Standards (PS) and the objectives of each are as follows:
  - 1.1 PS1: Assessment and management of environmental and social risks and impacts
    - (a) Identify funding proposal's environmental and social risks and impacts;
    - (b) Adopt mitigation hierarchy: anticipate, avoid; minimize; compensate or offset;
    - (c) Improve performance through an environmental and social management system;
    - (d) Engagement with affected communities or other stakeholders throughout funding proposal cycle. This includes communications and grievance mechanisms.
  - 1.2 PS2: Labour and working conditions
    - (a) Fair treatment, non-discrimination, equal opportunity;
    - (b) Good worker-management relationship;
    - (c) Comply with national employment and labour laws;
    - (d) Protect workers, in particular those in vulnerable categories;
    - (e) Promote safety and health;
    - (f) Avoid use of forced labour or child labour.
  - 1.3 PS3: Resource efficiency and pollution prevention
    - (a) Avoid, minimize or reduce project-related pollution;
    - (b) More sustainable use of resources, including energy and water;
    - (c) Reduced project-related greenhouse gas emissions.
  - 1.4 PS4: Community health, safety and security
    - (a) To anticipate and avoid adverse impacts on the health and safety of the affected community;

- (b) To safeguard personnel and property in accordance with relevant human rights principles.

## 1.5 PS5: Land acquisition and involuntary resettlement

- (a) Avoid/minimize adverse social and economic impacts from land acquisition or restrictions on land use:
  - (i) Avoid/minimize displacement; (ii) Provide alternative project designs;
  - (iii) Avoid forced eviction.
  - (b) Improve or restore livelihoods and standards of living;
  - (c) Improve living conditions among displaced persons by providing: (i) Adequate housing; (ii) Security of tenure.

## 1.6 PS6: Biodiversity conservation and sustainable management of living natural resources

- (a) Protection and conservation of biodiversity;
- (b) Maintenance of benefits from ecosystem services;
- (c) Promotion of sustainable management of living natural resources; (d) Integration of conservation needs and development priorities.

## 1.7 PS7: Indigenous peoples

- (a) Ensure full respect for indigenous peoples
  - (i) Human rights, dignity, aspirations;
  - (ii) Livelihoods;
  - (iii) Culture, knowledge, practices;
- (b) Avoid/minimize adverse impacts;
- (c) Sustainable and culturally appropriate development benefits and opportunities;
- (d) Free, prior and informed consent in certain circumstances.

## 1.8 PS8: Cultural heritage

- (a) Protection and preservation of cultural heritage;
- (b) Promotion of equitable sharing of cultural heritage benefits.

2. The International Finance Corporation (IFC) PS can be viewed at:

[http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC\\_Performance\\_Standards.pdf?MOD=AJPERES.](http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC_Performance_Standards.pdf?MOD=AJPERES)

## **II. Performance Standard Guidance Notes**

3. A set of eight Guidance Notes, corresponding to each PS, offers guidance on the requirements contained in the PS. In addition, the World Bank Group Environmental, Health and Safety (EHS) Guidelines are technical reference documents with general and industry-specific examples of good international practice and are linked to the PS through PS2 and PS3.

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4. The Guidance Notes and EHS Guidelines can be found at:

[http://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework++2012/Performance+Standards+and+Guidance+Notes+2012/](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework++2012/Performance+Standards+and+Guidance+Notes+2012/)

## **Annex 4: TORs of IEU, IIU & IRM**

### **→ Terms of reference of the Independent Evaluation Unit**

#### **I. Background**

1. The terms of reference of the Independent Evaluation Unit (IEU) are based on the Governing Instrument (particularly, but not exclusively, its paragraphs 59-62), taking into account Board decisions and documents, best international practices and the specific functions of the Fund, its scope of activities, size and structure.

#### **II. Objectives**

2. The following objectives of the IEU are derived from the Government Instrument:
  - (a) Informing the decision-making by the Board and identifying and disseminating lessons learned, contributing to guiding the Fund and stakeholders as a learning institution, providing strategic guidance;
  - (b) Conducting periodic independent evaluations of the Fund's performance in order to provide an objective assessment of the Fund's results and the effectiveness and efficiency of its activities; and
  - (c) Providing evaluation reports to the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) for purposes of periodic reviews of the financial mechanism of the Convention.

#### **III. Independence of evaluation and role of the Board**

3. According to the best-practice norms and standards for independent evaluation,<sup>30</sup> the evaluation function should be located independently from the other management functions so that it can be free from undue influence. It needs to have full discretion in directly submitting its reports. The Head of the IEU will be appointed by, and report to, the Board, potentially through a designated Board committee. The appointment will be for a three-year term. The recruitment process will be conducted in a transparent manner and in consultation with the Board. The Head of the IEU can be removed only by decision of the Board. To preserve independence, upon termination of service as the IEU Head, he/she will not be eligible for staff positions within the Secretariat.

4. The staff of the IEU will be subject to the Code of Conduct of Staff.
5. The Board will review and approve the evaluation policy, three year-rolling evaluation work plans, the annual work programme and budget. It will also review, on an annual basis. The progress in the implementation of IEU recommendations.

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<sup>30</sup> *Sourcebook for Evaluating Global and Regional Partnership Programs* elaborated by the OECD/DAC Network on Development Evaluation and IEG/World Bank.

## **IV. Responsibilities**

6. Should the COP commission an independent assessment of the overall performance of the Fund, the IEU would support the work involved in such assessment. An overall performance study of the Fund could become a responsibility of the IEU, as has been the case with the Global Environment Facility (GEF) Evaluation Office since 2007.
7. Furthermore, taking into account international experience, and in light of the results of its evaluations, the IEU will make recommendations to improve the Fund's performance indicators and its results management framework.
8. In addition, the IEU will attest to the quality of the Fund's self-evaluation conducted by the Secretariat.
9. The IEU will synthesize the findings and lessons learned from its evaluations to inform the Board and the Executive Director as well as stakeholders.
10. The IEU will actively participate in relevant evaluation networks to ensure that it is at the frontier of evaluation practice and that it benefits from relevant initiatives undertaken by other evaluation units.
11. The IEU will establish close relationships with the independent evaluation units of the intermediaries and implementing entities of the Fund and will seek to involve them in their activities wherever feasible and appropriate.
12. The IEU will be responsible for conducting, or managing by contracting consultants, the types of evaluations mentioned in Section V, using as much as possible internally generated data streams and analytical outputs, and applying the best evaluation norms and standards.<sup>31</sup> The use of technical expert panels or similar mechanisms may be appropriate, as recommended in the case of the GEF by the peer review of its evaluation function. The IEU will ensure that evaluation team members do not have conflicts of interest with respect to the activities in whose evaluation they will be involved. Finally, the IEU will be responsible to develop and update the evaluation policy of the Fund.

## **V. Types of evaluation and the Fund's result areas**

13. Given that the Fund will pursue a country-driven approach, after its first years of operation the IEU may perform evaluations of the activities funded in different countries, i.e. *country portfolio evaluations*.
14. Furthermore, the IEU may also perform *thematic evaluations* of the different types of activities that the Fund will finance, such as those designed to enable and support enhanced actions on climate change adaptation or mitigation. With time, these thematic evaluations may cover all the results areas of the Fund.<sup>32</sup>
15. In addition, as the Fund will support developing countries in pursuing project-based and programmatic approaches in accordance with climate change strategies and plans, such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and other related

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<sup>31</sup> In addition to the norms and standards, quoted in footnote 1, another relevant source are the good-practice standards developed by the independent evaluation offices of multilateral development banks (MDBs), through their Evaluation Cooperation Group (ECG). See [https://wpqr4.adb.org/LotusQuickr/ecg/PageLibrary48257B910010370B.nsf/h\\_Toc/7165ce615f744f0848257b95002c9f1d/?OpenDocument](https://wpqr4.adb.org/LotusQuickr/ecg/PageLibrary48257B910010370B.nsf/h_Toc/7165ce615f744f0848257b95002c9f1d/?OpenDocument).

<sup>32</sup> Document GCF/B.05/02 identifies 14 initial result areas of the Fund.

activities, the IEU may also perform *evaluations of those project-based and programmatic approaches*.

16. The types of evaluation mentioned above will provide the Board and the COP with an independent assessment of the Fund's operations. These evaluations could also be used as building blocks for an overall assessment of the Fund. To maximize the value added of IEU evaluations, the IEU will prepare its work plans after consulting with the Board and the Secretariat. All these evaluations will be performed mainly by independent consultants managed by the IEU.

## **VI. Evaluation criteria**

17. The evaluation criteria to be used by IEU will be the following (taking into account the Fund's results management framework):

- (a) Relevance, effectiveness, efficiency, impact and sustainability of projects and programmes;<sup>33</sup>
- (b) Coherence in climate finance delivery with other multilateral entities;
- (c) Gender equity;
- (d) Country ownership of projects and programmes;<sup>34</sup>
- (e) Innovativeness in result areas (extent to which interventions may lead to paradigm shift towards low-emission and climate resilient development pathways);
- (f) Replication and scalability - the extent to which the activities can be scaled up in other locations within the country or replicated in other countries (this criterion, which is considered in document GCF/B.05/03 in the context of measuring performance, could also be incorporated in independent evaluations);<sup>35</sup> and
- (g) Unexpected results, both positive and negative.

## **VII. Feedback and knowledge management**

18. Independent Evaluation Unit evaluations will be published and reports will be provided to the COP for its periodic reviews of the financial mechanism of the Convention.<sup>36</sup>

19. Evaluation results should feed back into the design phase, thus contributing to enhancing the quality of funded activities. To facilitate this process, the IEU will periodically prepare brief notes synthesizing lessons learned from evaluations.

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<sup>33</sup> Co-benefits and global environmental co-benefits would be included either within relevance and/or effectiveness, depending on the definition of the objectives of the Fund's activities that will be evaluated.

<sup>34</sup> Even though this is not a standard evaluation criterion, it is included among the evaluation criteria that the IEU should use in order to take into account decision B.04/04, that country ownership will be a core principle of the Fund's business model framework.

<sup>35</sup> Following the good practice of the Independent Evaluation Office of the International Fund for Agricultural Development (IFAD).

<sup>36</sup> As established in the Annex to decision 5/CP.19.

## **VIII. Delineation of roles and responsibilities of the Fund's IEU and those of the independent evaluation mechanisms of implementing entities and intermediaries**

20. In the initial phase of its operations, the Fund will be exclusively be working through subnational, national, regional and international implementing entities and intermediaries. Thus, it will be of necessary to define the delineation of roles and responsibilities of the Fund's IEU and those of the independent evaluation mechanisms of implementing entities and intermediaries.

21. The Fund's IEU should closely cooperate with the relevant departments or units of implementing entities and intermediaries and should seek to involve them in its activities wherever feasible.

22. The relationship between the IEU and the corresponding body of implementing entities or intermediaries will be covered by agreements which will be entered into by the Fund with these entities or intermediaries which will require these to cooperate with the Fund's IEU, where required.

23. The IEU will support the strengthening of evaluation capacities in subnational, national and regional IEs and intermediaries to enable evaluation of their Fund portfolio activities. Over time, in those countries in which there are sub-national, national or regional intermediaries or implementing entities with evaluation capacities, the IEU could involve them in Fund evaluations.

## → Terms of reference of the Independent Integrity Unit

### I. General principles

1. Pursuant to paragraph 68 of the Governing Instrument, the Board will establish an

Independent Integrity Unit (IIU), to work with the Secretariat and report to Ethics and Audit Committee and to the Board, to investigate allegations of fraud and corruption and other prohibited practices (coercive and collusive practices, abuse, conflict of interest and retaliation against whistle-blowers) in line with best international practices and in close coordination or cooperation with relevant counterpart authorities.

2. The Independent Integrity Unit will enjoy complete independence in the exercise of its responsibilities; and in order to conduct an investigation, it will have full access to all relevant Fund's documents and data, including electronic data. During the course of its work, the IIU will need to work closely with the Secretariat. The IIU will report to the Board directly or through the Ethics and Audit Committee.
3. The IIU will actively participate in relevant networks of integrity department/units to ensure that it is at the frontier of relevant practice and that it benefits from initiatives undertaken by integrity units of other international organizations.
4. The IIU will establish close relationships with the integrity units of the intermediaries and implementing entities. However, the IIU will not be precluded from conducting its own investigations.
5. All complaints and allegations against the Fund or persons associated with it that fall within the competence of the IIU, as defined in these terms of reference, will be addressed by the IIU. The IIU will maintain objectivity, impartiality and fairness throughout the investigative process and conduct its activities with the highest levels of integrity.
6. The IIU will be free from improper influence or fear of retaliation.
7. The staff of the IIU will be managed by the Head of the IIU. The staff of the IIU will be subject to the Code of Conduct of the Staff. In this regard, the staff of the IIU will disclose to the Head of the IIU, in a timely manner, any actual or potential conflict of interest they may have in an investigation in which they are participating, and the Head of the IIU will take appropriate steps to remedy the conflict. The Head of the IIU will disclose to the Executive Director and the Ethics and Audit Committee any actual or potential conflict of interest he/she may have in an investigation, and the Executive Director will take appropriate steps to remedy the conflict. Appropriate procedures will be prepared by the Secretariat, for review by the Ethics and Audit Committee and Board approval, to investigate allegations of misconduct on the part of any staff member of the IIU, and mitigate any conflict of interest.
8. Investigations conducted by the IIU will not be a judicial or quasi-judicial process, and the standard of proof that will be used by the IIU to determine whether a suspicion or allegation is substantiated, will be whether the information as a whole shows that an investigative finding is more probable than not.

9. Investigative findings will be based on facts and related analysis. The subject of an investigation will be given the opportunity to explain the reasons for the conduct and provide information supporting such explanation.

10. If the IIU does not find sufficient information during the investigation to substantiate a suspicion or allegation, it will document its findings, close the investigation, and notify the Secretariat and other parties, as appropriate.

11. Where the IIU's investigative findings indicate that a complaint was knowingly false, it will refer the matter to the Secretariat for any further action.

12. The IIU will, during an investigation, take appropriate measures to protect as confidential any non-public information associated with an investigation, and will take appropriate measures to prevent the unauthorized disclosure of investigative findings.

13. To the extent possible, interviews conducted by the IIU during an investigation will be conducted by two persons. Interviews may be conducted in the language of the person being interviewed, where appropriate, using interpreters. The Fund will not pay a witness or an informant; however, the IIU may assume the responsibility for reasonable expenses incurred by witnesses or informants to meet with the IIU.

14. The IIU may engage external parties (e.g. individuals or companies experienced in forensic investigations) to assist it in its investigations.

## **II. Principal responsibilities**

15. The IIU will:

(a) Serve as the initial point of contact for all alleged and suspected incidents of an integrity violation, as defined in these terms of reference, including fraud and corruption, involving any Fund activity, including by its staff members, corporate procurement by the Fund, and activities (including projects and programmes) using Fund resources directly or indirectly;

(b) Register all complaints and review them to determine whether they fall within the authority of the IIU (or require referral to another body), and determine the priority of a case with respect to other cases, taking into account the monetary value of the integrity violation, media and other sensitivity and relevance to a possible financial risk and reputational risk. Where practical, the IIU will acknowledge receipt of all complaints;

(c) Adopt appropriate procedures to determine whether an integrity violation has occurred; gathering sufficient related evidence, attempt to identify the integrity violators and establish the extent of the integrity violation as well as the techniques used;

(d) Examine and determine the veracity of alleged or suspected integrity violations against implementing entities or intermediaries, project executing entities, contractors, consultants, service providers, or other external stakeholders, or against the Fund's staff members, report its investigative findings to the Secretariat and/or an oversight body, and make recommendations, as appropriate, that are derived from its findings;

(e) With reference to complaints regarding any activities using Fund resources directly or indirectly or in connection with corporate procurement, provide the Secretariat or any potential Fund body established to consider remedial actions with investigative findings to decide on remedial actions, including possible sanctions;

- (f) With reference to staff of the Fund, investigate allegations of staff misconduct, involving violations of the Code of Conduct of the Fund's Staff and other integrity violations as defined in these terms of reference, including allegations referred to the IIU by the Secretariat; cooperate and coordinate with the Executive Director and the Secretariat in the conduct of investigation; report to the Secretariat its findings for the Executive Director to decide on disciplinary actions;
- (g) With reference to the Executive Director, bring to the attention of the Co-Chairs and the Ethics and Audit Committee the findings on any investigation involving misconduct or integrity violations;
- (h) In consultation with the Executive Director and other designated officials of the Fund, recommend improvements to policies, procedures and controls to mitigate the opportunities for integrity violations in the Fund's activities, including activities implemented through implementing agencies and intermediaries, to ensure that all staff, external stakeholders and implementing entities and intermediaries adhere to the highest integrity standards; and document all investigative findings and conclusions;
- (i) Provide the Ethics and Audit Committee with the information that the Committee may reasonably request for it to fulfil its role pursuant to its terms of reference, in particular concerning the issues of Board conflict of interest, confidentiality and ethics;
- (j) Report to the Board on its activities, including summary investigative findings and any remedial action decided upon by an oversight body in the case of external stakeholders, or by an implementing entity or intermediary;
- (k) In collaboration with the Secretariat and the Executive Director, promote awareness of the Fund's integrity standards, including to all implementing entities and intermediaries, and executing entities;
- (l) Consult and collaborate with multilateral funds, international finance institutions and other relevant parties to share experience and insight on how best to address integrity violations;
- (m) Coordinate with relevant national and international counterpart authorities during investigations of alleged or suspected integrity violations, when considered appropriate and authorized by the Secretariat;
- (n) Consider and recommend for Board approval the participation in arrangements between multilateral funds and international financial institutions on integrity matters; and
- (o) Prepare and submit an annual report to the Board, summarizing its activities.

### **III. Delineation of roles and responsibilities of the Fund's Independent Integrity Unit and those of the integrity mechanisms of implementing entities and intermediaries**

16. The IIU should closely cooperate with the relevant departments or units of implementing entities and intermediaries.
17. The relationship between the IIU and the corresponding body of implementing entities or intermediaries will be covered in agreements that will be entered into by the Fund with these implementing entities or intermediaries that will require these to cooperate with the Fund's IIU, where required.

18. The IIU will share best practices and give guidance that can be helpful for the Fund's readiness activities.

## **IV. Governance and management structure**

19. The IIU will be headed by an expert with experience and proven track record in conducting integrity investigations and leading an integrity unit. The Head of the IIU should enjoy impeccable reputation of honesty and integrity and be widely respected and regarded for his/her competence and expertise.

20. The Board, on the recommendation of the Ethics and Audit Committee, will be responsible for:

- (a) Appointing the Head of the IIU, in an open and transparent manner to be decided by the Board;
- (b) Establishing processes or mechanisms for taking actions based on the investigative findings and conclusions of the IIU, as appropriate;
- (c) Receiving reports on the activities of the IIU;
- (d) Considering and approving the annual budget of the IIU.

21. The tenure of the office of the Head of the IIU will be for three years; renewable once. In order to ensure independence of the office, the incumbent may not be removed from office during his/her term, except for malfeasance or mental incapacitation. His/her terms and conditions of appointment will be decided by the Board. The Head of the IIU shall not be eligible for any type of employment by the Fund within one year after the date of the end of his/her appointment.

## → Terms of reference of the independent redress mechanism

### I. Role and functions

1. The Governing Instrument mandates the Board to establish “an independent redress mechanism that will report to the Board. The mechanism will receive complaints relating to the operation of the Fund and will evaluate and make recommendations”. The independent redress mechanism (IRM) is not intended to be a court of appeals or a legal mechanism.
2. The IRM is a mechanism within the Fund that will:
  - (a) Address the reconsideration of funding decisions in accordance with paragraphs 6 to 10 of the Arrangements between the Fund and the Conference of the Parties, and
  - (b) Address the grievances and complaints by communities and people who have been directly affected by the adverse impacts through the failure of the project or programme funded by the Fund to implement the Fund's operational policies and procedures, including environmental and social safeguards.

### II. Modalities for reconsideration of funding decisions

3. A request can be filed by a developing country that has been denied funding for a specific project or programme in that country by the Board, even though resources were available. Such a request will need to include a description of the project or programme that has been denied funding, and will need to substantiate the reasons why the developing country believes that the denial was inconsistent with the policies, programme priorities and eligibility criteria of the Fund, including those implementing guidance provided by the Conference of the Parties.
4. When considering such a request, the IRM will:
  - (a) Review the request in an open and transparent manner;
  - (b) Use informal means, in the first instance, for addressing the request to bring about a satisfactory and amicable resolution of the request;
  - (c) If informal means are not successful, determine whether the Fund was inconsistent with its policies, programme priorities and eligibility criteria when denying funding to a specific project or programme;
  - (d) Prepare a report for the Board's consideration, including recommendation on possible remedial actions.
5. The Board may consider the request in view of the report and take steps to implement the recommendation of the IRM.

### III. Modalities for redress for affected communities

6. The IRM will treat all stakeholders in a fair and equitable manner. While ensuring transparency and fairness, the IRM will be cost-effective, efficient and

complementary to other supervision, audit, quality control and evaluation systems of the Fund. The IRM will follow international best practices.

7. A grievance or complaint can be filed by a group of persons who have been directly affected by adverse impacts through the failure of the project or programme funded by the Fund to implement the Fund's operational policies and procedures, including environmental and social safeguards, or the failure of the Fund or its intermediaries and implementing entities to follow such polices. Other kinds of complaints, such as allegations of corruption, misprocurement, will be handled by other units of the Fund, i.e. the Independent Integrity Unit.

8. When considering such a grievance or complaint, the IRM will follow the steps below:

- (a) Evaluate if a grievance or complaint meets the eligibility criteria set out in paragraph 7;
- (b) If deemed eligible, address a grievance or complaint from those directly affected by the projects/programmes funded by the Fund;
- (c) Use informal means for addressing the grievance or complaint such as problem solving and mediation to bring about a satisfactory and amicable redress of the grievance or complaint;
- (d) Where such informal efforts are not successful, determine if project-affected communities or people encountered impacts because of a failure to follow the Fund's operational policies and procedures, including environmental and social safeguards, and make recommendations to the Board for actions, as appropriate;
- (e) The IRM may also make recommendations to the Board to make changes to operational policies and procedures;
- (f) Monitor whether the decisions taken by the Board following IRM recommendations have been implemented; and
- (g) Prepare and submit periodic progress reports to the Board, as and when required, and an annual report that will also be disseminated to the public.

## **IV. Governance and management structure**

9. The IRM Unit will have the highest professional and technical standards for its staff and operations and will be headed by a part-time expert with experience in running an accountability mechanism and will comprise two other part-time experts who have relevant background and experience relating to such a mechanism. These persons should enjoy impeccable reputation of honesty and integrity and be widely respected and regarded for their competence and expertise. As and when the workload justifies, the part-time head position could be converted into a full-time position. The Head of the IRM Unit will report to the Board.

10. The Board will be responsible for:

- (a) Appointing the Head of the IRM Unit, in an open and transparent manner to be decided by the Board;
- (b) Overseeing the activities of the IRM;
- (c) Considering and approving the annual budget of the IRM;

(d) Taking decisions and authorizing actions on recommendation of the IRM, following the investigations; and

(e) Monitoring the implementation of the decisions taken.

11. The tenure of the office of the Head of IRM Unit will be for three years, renewable once. To ensure independence of the office, the incumbent may not be removed from office during his/her term, except for malfeasance or mental incapacitation. His/her terms and conditions of appointment will be decided by the Board. The Head of the IRM Unit shall not be eligible for any type of employment by the Fund within one year after the date of the end of his/her appointment.

12. The IRM Unit will keep a roster of experts with a variety of technical skills who will be selected in an impartial and objective manner. These experts will be invited and assigned the task to carry out compliance appraisals in those cases where screening determines that the complaint meets the eligibility criteria and where mediation has failed. The selection of the candidates will be made carefully to eliminate any possible actual or perceived conflict of interest. These experts will be paid all their expenses, and fees or honorarium on the basis of the work performed.

13. The staff of the IRM Unit will be subject to the Code of Conduct of Staff.

## **V. Guidelines and procedures**

14. The detailed guidelines and procedures governing the work of the IRM will be approved by the Board. The procedures to be followed will be iterative, whereby expeditious and low-cost redress of grievances and resolution of complaints can be facilitated. Only in those cases where such informal resolution of problems is not possible, the subsequent phase of investigation and determination will be invoked.

## **VI. Budget, staffing and reporting**

15. To ensure its financial independence, the Head of IRM Unit will propose a budget for meeting the annual expenses and the Board will consider and approve this budget.

16. For administrative purposes only, the Head of IRM Unit will report to the Executive Director, but for all substantive work, he/she will be responsible to the Board.

17. All staff appointments and terminations of service in the IRM Unit will be the sole responsibility of the Head of IRM Unit and not of the Secretariat.

## **VII. Delineation of roles and responsibilities of the Fund's independent redress mechanism and those of the accountability mechanisms of implementing entities and intermediaries**

18. The Fund's IRM should closely cooperate with the relevant departments or units of implementing entities and intermediaries.

19. The relationship between the IRM and the corresponding body of implementing entities or intermediaries will be covered in agreements which will be entered into by the Fund with these implementing entities or intermediaries which will require these to cooperate with the Fund's IRM, where required.

20. The IIU will share best practices and give guidance that can be helpful for the Fund's readiness activities.

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