Adaptation Fund’s Fiduciary Standards: Challenges, Successes and Lessons Learned

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Agenda

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Fiduciary Standards
Accreditation Process

PART II
Lessons Learned
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Fiduciary Standards
Starting Point

IMPLEMENTING ENTITIES:

- **Bear full responsibility** for the *overall management* of the projects and programmes approved by the AFB; and

- Carry out **financial, monitoring and reporting responsibilities** for the project.

Should be able to demonstrate:

- the existence of appropriate policies, processes and procedures in the areas covered by the Fiduciary Standards; and

- that they are effectively working as designed.
FIDUCIARY STANDARDS

- Specify the competencies/capabilities required from the implementing entities
- Approved by the Adaptation Fund Board
- Implementing entities must meet the requirements of the Fiduciary Standards to be accredited
  - Financial Management and Integrity
  - Institutional Capacity
  - Transparency, Self-investigative Powers and Anti-Corruption Measures and Mechanism to Address Complaints about Environmental or Social Harms Caused by Projects.
Financial Management and Integrity

- Legal Status
- Financial Statements and Audit Requirements
- Internal Control Framework
- Preparation of Business Plans and Budgets
Institutional Capacity

- Procurement
- Project Preparation and Approval
- Risk Assessment
- Project implementation Planning and Quality-at-entry Review
- Project Monitoring and Evaluation
- Project Closure and Final Evaluation
• Policies and Framework to deal with financial mismanagement and other forms of malpractice

• Commitment by the entity to apply the Fund’s Environmental and Social policy (FOR DISCUSSION THIS AFTERNOON- SESSION 2)

• Mechanism to deal with complaints on environmental and social harms caused by projects/programs (FOR DISCUSSION THIS AFTERNOON- SESSION 2)
Accreditation is an independent review undertaken by a team of experts for assessing an applicant entity’s capabilities to meet the requirements of approved Fiduciary Standards.
PARTIES INVOLVED
Implementing Entities

Responsibilities:

- To meet the fiduciary standards established by the AFB

- To submit their accreditation applications to the Secretariat together with the required supporting documentation that demonstrate how they meet the fiduciary standards

- To respond to the Accreditation Panel’s information requests and clarify any pending issue.
PARTIES INVOLVED
Secretariat

Responsibilities:

• To carry out a preliminary screening of the application to ensure that the application package is complete

• To facilitate the communication of the Accreditation Panel’s recommendations to the Adaptation Fund Board

• To facilitate the communication of the Board’s decision to the applicant entity

• To provide administrative support to the Accreditation Panel’s meetings.
PARTIES INVOLVED
Accreditation Panel

Responsibilities:

• To carry out an independent and objective review and analysis of the applicant entity’s application and supporting documentation.

• To deliberate on the findings and conclusions resulting from the analysis of the application and supporting documentation and reach consensus.

• To provide feedback to the applicant entity throughout the review process.

• To conclude and make a recommendation to the AF Board as to whether or not the applicant entity should be accredited.
Accreditation
How do we do it?

• **Step 1:** Register as a user with the AF Secretariat and obtain id and password for accessing the Accreditation Workflow of the Accreditation

• **Step 2:** Submit the application and attaching all supporting documentation. The application should be endorsed by the Designated Authority

• **Step 3:** AF Secretariat carries out a preliminary screening of the application package
Accreditation
How do we do it?

• **Step 4:** Accreditation Panel reviews application

• **Step 5:** Accreditation Panel deliberates on the results of the review

• **Step 6:** Based on the initial review of applications the accreditation the Panel may:
  – Request additional information/clarification from applicant entity
  – Undertake an on-site visit
  – Suggest to the AF Board that applicant has potential and be given additional time to improve its capacity in order to attain accreditation
  – Continuously provide support/advise through emails/teleconference call
Accreditation
How do we do it?

• **Step 7:** The Panel makes recommendation to AF Board

• **Step 8:** AF Board makes final decision on the accreditation of entity and informs applicant
• Selection of an appropriate entity for accreditation is vital to the accreditation process

• Due diligence is required when reviewing existing institutional capacity of potential candidates for NIE.

• Focus sometimes is primarily on handling international donor/loan funds with low priority on project management capabilities.
Typically applicant entities can be divided into 2 broad categories:

i. Government Ministries and
ii. Autonomous bodies with independent boards
   - Government owned Corporations
   - Foundations
   - NGOs

Typically government ministries are likely to have more experience of handling substantial foreign donor/loan funds.
Challenges for NIEs

1. Lack of in depth understanding of the Fiduciary Standard and it’s requirements
2. Limited competencies in some areas of the fiduciary standards
3. Human resource constraints (competencies and management time to build capabilities)
4. Experience limited to handling small projects (systems and processes not adequate to meet Standard)
Common Areas for Improvement (1)

1. Establishing an independent and effective Internal Audit Function and demonstrating its functioning

2. Setting up an Internal Control Framework with documented roles and responsibilities and evidence of its effective functioning

3. Existence of appropriate Procurement policies and procedures (including evidence of use of those procedures with specific examples)

For example some applicant entities merely provide a copy of the government procurement regulation without any elaboration on the workflow, key committees and authority and decision making levels within the applicant organisation. Others merely write that they follow UN or WB procedures
Common Areas for Improvement (2)

Project Appraisals

- Do not demonstrate the applicant entity’s capabilities as these are often prepared by a multilateral agency as a part of their appraisal process.

- Documents provided are 8-10 years old creating an impression that the entity has not handled projects for a long time.

- No information provided on the procedures, nor responsibilities/authority levels, for identification, design, appraisal and approval of projects.
Common Areas for Improvement (3)

• Project - Risk Assessment
  – Many entities do not have a system for undertaking project risk assessment at the appraisal stage

• Quality-at-Entry Review
  – Typically a weak area in many NIEs. Need to demonstrate at the least existence of systems for project implementation planning
Common Areas for Improvement (3)

• M&E framework
  – Typically, applicants adhere to M&E requirements of the donors/fund providers.
  – AF does not prescribe specific M&E requirements
  – Applicants required to have their own framework
  – Must demonstrate experience of using the framework
Zero Tolerance towards Fraud and Corruption
  – Demonstration of a policy and culture are missing

Lack of Documented Policies and Procedures for Mismanagement and Corruption, including:
  – Code of Conduct
  – Conflict of Interest
  – Whistleblower Protection
  – Avenues for reporting violations
  – Investigation Procedures
A few applicant entities have developed requisite capacities based on regular interaction and guidance (through emails/telecons) from the Accreditation Panel over a period of several months leading to successful accreditation of the entities.

In several other cases such support from the Panel has not led to adequate capacity building as a result of which the entities cannot be recommended for accreditation.

The Adaption Fund and Accreditation Panel do not have the mandate to provide intensive support to applicant entities for Capacity Building.
Support from for capacity building can take several forms

- Provide an in depth/better understanding of the Fiduciary Standards to the key people at the applicant entity
- Provide access to resources or outsourced resources to develop policies/processes/procedures and templates as a part of the capacity building exercise
- Provide information on best practices in other organisations which may be relevant to the entity
- Provide support as the entity develops required competencies to implement the new policies/processes/procedures and templates
Sometimes application merely states that we follow a multilateral’s processes. This does not meet Fund’s fiduciary standards because:

- Processes are built around an organisation’s own structures
- Processes require certain competencies and should be tailored to each organization
- There is no demonstration of the ability of the entity or experience in carrying out the processes
- Outside Agency support can help develop appropriate systems/processes/procedures which are simple and suited to the requirements including size and operations of the applicant entity
Case Study 1

• Initial assessment revealed gaps in information/capacity in all the areas of the Fiduciary Standards
• Initial response to Accreditation Panel slow
• Continuous follow-up by the panel to ascertain the status of actions taken to address the gaps and provide guidance
• A major positive was the appointment of a different person as the Chief Executive
• Accreditation panel also undertook a field visit to the entity
Case Study 1

The regular interventions and follow-up with the entity resulted in:

- Major improvements in the working of the Internal Audit function, with regular oversight of payments and disbursements and procurements
- An effectively functioning and independent Audit Committee
- Strengthening of the Procurement function
- Training of staff on Project Management including sponsoring 2 senior executives for a one year part time course
- Anti-Corruption policy/strategy approved and published and an Anti-Corruption Committee comprising of HODs and chaired by the CEO established
Case Study 1

• Took the entity just under 12 months to bring about several major changes
• Entity’s accreditation approved by Adaptation Fund Board
• The Entity expressed its thanks to the Accreditation Panel for its guidance and support in an email sent by the Chief executive
• The Entity did not use any other external institutional or consultant support
Case Study 2

• The applicant NIE is a small entity from a small country
• Initial assessment revealed gaps in information/capacity in several areas of the Fiduciary Standards
• With respect to project management the Entity’s systems were not robust for handling projects other than very small ones
• The initial and subsequent responses to Accreditation Panel feedback have been very prompt
• The Panel requested the Entity to prepare an action plan with timelines for fulfilling the gaps
The Entity provided regular updates on the progress of the Action Plan to the Accreditation Panel.

The Entity also exchanged draft policies/proposals with the Panel and sought its views.

The Entity also sought funding from outside donors for building its capacity in the form of training for the senior management in some areas.
Case Study 2

- However, despite the commitment of the management, given the size of the entity, availability of human resources internally and the need to maintain current operations it has not been able to commit adequate resources to the task of developing and implementing appropriate internal policies and procedures to meet the requirements of the Fiduciary Standard.
Case Study 2 – NIE (4)

- As a consequence the Entity has despite working at it for 12 months and tremendous commitment not yet been able to complete the task of capacity building.
- This is a challenge which in the view of the Accreditation Panel is likely to be faced by other small entities also.
Case Study 3

- The applicant entity represents a group of small countries.
- While the auditors gave an unqualified opinion on the entity’s financial statements, it did not have an Internal Audit function nor an Audit Committee.
- Information provided in respect of the Internal Control Framework and the Payment & Disbursement procedures had gaps.
- Similarly, information on procurement processes was incomplete with no evidence of control over procurement by Executing Entities or oversight of the Procurement function.
Case Study 3

• Inadequate information/evidence was provided in respect of the various stages of the Project Management Cycle
• Very little information was available in the area relating to Transparency, Self-investigative powers, and Anti-corruption measures
• After the initial rounds of exchange of information several of the outstanding issues were handled successfully. The Panel requested the applicant entity to provide a work plan with time frames for concrete action in respect of the outstanding issues
Case Study 3

• Thereafter, the Panel requested the applicant entity to provide a work plan with time frames for concrete action in respect of the outstanding issues as these required sustained effort and time

• The applicant submitted an action plan with regular progress reports and status of outstanding issues

• The applicant and the Panel regularly (virtually every month) exchanged notes on the progress and the Panel also provided its observations/comments on the policies and procedures being put in place.
Case Study 3 – RIE (3)

• As a result today the applicant has built significant capacities in Internal Audit and Internal Control and also started implementation of most of the newly developed systems.

• Additionally very significant progress has been made regarding the whole area relating to Transparency, Self-investigative powers, and Anti-corruption measures, including preparation of a staff Code of Conduct and setting up of procedures for handling Conflict of Interest and Investigations.

• The entity has since been accredited.
Thank You

And Questions