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

NIE, RIE and MIE Workshop
Bangkok, Thailand
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Agenda

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Role of Implementing Entities
Fiduciary Standards
Accreditation Process

PART II
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Common areas for Improvement
Capacity Building
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Case Study 3
IMPLEMENTING ENTITIES:

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

- Carry out **financial management, 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
Fiduciary Standards

• Approved by the Adaptation Fund Board
• Specify the competencies/capabilities required from the implementing entities
• To be accredited implementing entities must meet the requirements of the Fiduciary Standards relating to four key areas:
  - Legal status
  - Financial Management and Integrity;
  - Institutional Capacity; and
  - Transparency, Self-investigative Powers and Anti-Corruption Measures and Polices and Mechanisms to monitor and address Complaints about Environmental or Social Harms Caused by Projects.
• Legal Status
  - Demonstration of legal personality
  - Ability to contract with AF and authority to directly receive funds
Financial Management and Integrity

• Financial Statements and Audit Requirements
  - Production of reliable financial statements prepared in accordance with internationally recognised standards
  - Production of annual externally audited accounts that are consistent with recognised international auditing standards
  - Capability for functionally independent internal auditing in accordance with internationally recognized standards
Financial Management and Integrity

• Internal Control Framework
  - Demonstration of use of a control framework that is documented with clearly defined roles for the governing body, management, internal auditors and other personnel
  - Demonstration of proven payment and disbursement systems

• Preparation of Business Plans and Budgets
  - Preparation of long-term business/strategic plans or financial projections and annual budgets
  - Ability to spend and monitor against budgets
Discuss Requirements for meeting Fiduciary Standards with respect to Financial Management and Integrity

(This slide is inserted for reference during presentation preparation stage only)
Procurement

- Evidence of transparent and fair procurement policies and procedures at the national level that are consistent with recognized international practice (including dispute resolution procedures)
Institutional Capacity

• Project Preparation and Appraisal
  - Capability and experience in identification and design of projects (Experience of adaptation projects would be an added advantage)
  - Availability of or access to resources and conducting appraisal activities and track record thereof
  - Ability to examine and incorporate the likely impact of technical, financial, economic, social, environmental, and legal aspect at the appraisal stage
  - Procedures/framework in place and implemented to undertake risk assessment, with respect to assessment of environmental and social risks as per the Adaptation Fund Environment & Social policy, and integrate mitigation strategies/plans into the project document at the appraisal stage
Institutional Capacity

• Project Implementation Planning
  - Institutional system for planning implementation of projects with particular emphasis for quality-at-entry
  - Preparation of project budgets for projects being handled by the entity or any sub-entity within it
Institutional Capacity

• Project Monitoring and Evaluation
  - Capacity to undertake periodic independent monitoring and evaluation of the project
  - External audit of detailed project accounts/ financial statements
  - A project-at-risk process or system, to identify and redress problems that may arise during project implementation and interfere with the achievement of its objectives
Institutional Capacity

• Project Closure and Final Evaluation
  - Demonstration of an understanding of and capacity to assess impact/implications of the technical, financial, economic, social, environmental, and legal aspects of projects on completion
  - Demonstration of competence to execute or oversee execution of projects/programmes
Discuss detailed Requirements for meeting Fiduciary Standards with respect to Institutional Area

(This slide is inserted for reference during presentation preparation stage only)
Transparency, Self-investigative Powers, Anti-corruption measures and handling complaints about harmful Environmental or Social Impact of projects

- Policies and Framework to deal with financial mismanagement and other forms of malpractice;
  - Evidence/tone/statement from the top emphasising a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by implementing entity staff or from any external sources
  - Capacity and procedures to deal with financial mismanagement and other forms of malpractice
  - Documented investigation function for undertaking fair and objective investigations into allegations of fraud and corruption
Commitment by the entity to apply the Fund’s Environmental & Social safeguard policy
- This covers 15 areas which are listed in the Policy

Mechanism to deal with complaints on environmental and social harms caused by projects/programs
- The structure, procedures and the technical capacity within the entity to receive, investigate and deal with complaints related to Environmental and Social Harms caused by projects/programmes
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<td>Fair and equitable access to benefits</td>
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<td>Conservation of biological diversity</td>
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<td>Avoidance of disproportionate impact on marginalized and vulnerable groups</td>
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<td>Respect for and promotion of international human rights</td>
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<td>Pollution prevention and resource efficiency</td>
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<td>Avoidance of significant negative impact on public health</td>
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<td>Respect for core labor rights</td>
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<td>Protecting physical and cultural change</td>
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<td>Respect for UN declaration of the Rights of Indigenous peoples</td>
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<td>Lands and Soil Conservation</td>
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<td>8</td>
<td>Avoidance of involuntary settlement</td>
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Discuss Requirements for meeting Fiduciary Standards with respect to Transparency, Self-investigative Powers, Anti-corruption measures and handling complaints about harmful Environmental or Social impact of projects

(This slide is inserted for reference during presentation preparation stage only)
Accreditation Process
Accreditation is a process through which a team of experts undertakes an independent review of an application and recommends accreditation once it determines that the applicant entity meets the Adaptation Fund’s Fiduciary Standards.
PARTIES INVOLVED
Implementing Entities

Responsibilities:

- 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 issues and work with the Accreditation Panel to meet the Fiduciary Standards established by the AFB.
PARTIES INVOLVED
Secretariat

Responsibilities:

- To carry out preliminary screening of the application to ensure that the application package is complete
- To facilitate communication of the Accreditation Panel’s recommendations to the Adaptation Fund Board
- To facilitate communication of the Board’s decision to the applicant entity
 PARTIES INVOLVED
Accreditation Panel

Responsibilities

- Carry out an independent and objective review and analysis of the applicant entity’s application and supporting documentation

- Deliberate on the findings and conclusions resulting from the analysis of the application and supporting documentation and reach consensus

- Provide feedback to the applicant entity throughout the review process including request for additional information and documents

- Conclude and make a recommendation to the AF Board as to whether or not the applicant entity should be accredited
Accreditation: How does the process work?

**Step 1:** Applicant entity registers as a user with the AF Secretariat and obtains id and password for accessing the online Accreditation Workflow.

**Step 2:** Entity, having been endorsed by the Designated Authority, submits the application, attaching all supporting documentation.

**Step 3:** AF Secretariat carries out a preliminary screening of the application package.
Accreditation

How does the process work?

**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 does the process work?

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

**Step 8:** AF Board makes final decision on the accreditation of entity and informs applicant
Lessons Learnt
Lessons Learned - Selection of NIEs

- 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 and other requirements
Typically applicant entities fall into 2 broad categories:

i. Government Ministries typically Finance or Environment

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

- Lack of in depth understanding of the Fiduciary Standards and their requirements
- Limited competencies in some areas of the Fiduciary Standards
- Experience limited to handling of small projects (hence systems and processes not adequate to meet Standard)
Common Areas for Improvement (1)

- Establishing an independent and effective Internal Audit Function and demonstrating its functioning
- Setting up an Internal Control Framework with documented roles and responsibilities and evidence of its effective functioning
- 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 procedures/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
  – Entities do not have a system/framework for undertaking project risk assessment at the appraisal stage, including the identification and assessment of project’s environmental and social risks and the integration of mitigation strategies into the project document
Common Areas for Improvement (3)

• Quality-at-Entry Review
  - Typically a weak area in many NIEs. Need to demonstrate at the least existence of systems for adequate planning prior to implementation of the project
• M&E framework
  – Typically, applicants adhere to M&E requirements of the donors/fund providers.
  – AF does not prescribe specific M&E requirements
  – However it prefers that applicants have their own framework including procedures for monitoring the status of measures for handling/avoiding/minimising or mitigating environmental and social risks
  – Must demonstrate experience of using the framework
Common Areas for Improvement (6)

• Evidence of the Entity’s commitment to apply the Adaptation Fund’s Environmental & Social safeguard policy

• Capacity to address complaints on environmental and social harms caused by projects.
  
  - Demonstration of an accessible, transparent, fair and effective mechanism (either within the entity itself, local, national or project specific) for receiving and effectively handling complaints about environmental and social harms caused by projects/programs.
Common Areas for Improvement (6)

• Capacity to address complaints on environmental and social harms caused by projects.
  - Demonstration of an accessible, transparent, fair and effective mechanism (either within the entity itself, local, national or project specific) for receiving complaints about environmental and social harms caused by projects/programs.
Capacity Building
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 could not be recommended for accreditation.

The Adaptation Fund and Accreditation Panel do not have the mandate to provide intensive support to applicant entities for Capacity Building.
Capacity building support from outside agencies can take several forms including:

- Provision of an in-depth/better understanding of the Fiduciary Standards to the key people within the applicant entity
- Provision of access to resources or outsourced resources to develop policies/processes/procedures and templates as a part of the capacity building exercise
- Provision of information on best practices in other organisations which may be relevant to the entity
- Provision of support as the entity develops required competencies to implement the new policies/processes/procedures and templates
• Sometimes applicant entity merely states that it follows a multilateral agency’s processes. This does not meet Fund’s fiduciary standards because
  - Processes are normally built around the multilateral 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 - NIE

- Initial assessment revealed gaps in information/capacity in all the areas of the Fiduciary Standards
- Initial response to Accreditation Panel was 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 Officer
- Accreditation Panel also undertook a field visit to the entity
Case Study 1 - NIE

• The regular interventions and follow-up with the entity resulted in
  – Major improvements in the working of the Internal Audit function, with ongoing oversight of payments and disbursements and procurement
  – An effectively functioning and independent Audit Committee
  – Strengthening of the Procurement function
  – Training of staff in 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 – NIE

• Took the entity just under 12 months to bring about several major changes
• Entity’s accreditation approved by Adaptation Fund Board
• The Entity did not use any other external institutional or consultant support
Case Study 2 – NIE

• 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 sufficiently robust for handling projects other than very small ones
• The initial and subsequent responses to Accreditation Panel feedback were very prompt
• The Panel requested the Entity to prepare an action plan with timelines for fulfilling the gaps
Case Study 2 – NIE

• 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
However, despite the commitment of its 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

• As a consequence the Entity has, despite 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
• Keeping the challenge faced by such small entities in mind the Adaptation Fund Board decided as follows at its 23rd meeting in March, 2014:

“The Adaptation Fund would maintain the Fiduciary Standards as is but would delineate compensatory measures for each standard that align with the risk profile of small entities. Most notably though not exclusively, when assessing the standards for smaller entities the Panel would take into consideration minimum compensating measures, controls, and practices to determine whether or not such entities meet the requirements needed to demonstrate the capacity to comply with the fiduciary standards for the particular risk profile associated with smaller entities.”
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 - RIE

- 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 - RIE

- 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

• As a result 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 in the areas of 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

Questions?