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INVESTING IN OUR PLANET

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Agenda Item 05

UPDATED POLICY ON MINIMUM FIDUCIARY STANDARDS

Recommended Council Decision

1. The Council, having reviewed document GEF/C.57/04/Rev.02, Updated Policy on Minimum Fiduciary Standards, approves, with immediate effect, the Policy contained in Annex B to the document, which supersedes the existing Policy on Minimum Fiduciary Standards for GEF Partner Agencies (GA/PL/02).
2. The Council requests each GEF Partner Agency, within 9 months of the Policy approval (or by September 30, 2020), to conduct a self-assessment and present a report to the GEF Secretariat on its compliance with the GEF Minimum Fiduciary Standards, including a signed certification of compliance, and, as necessary, time-bound action plans to remedy any shortfall. The GEF Secretariat is requested to consolidate GEF Partner Agency reports as a decision document for submission to the Council at its meeting in December 2020.
3. Recognizing that international practices will evolve over time, the Council agrees to review the GEF Minimum Fiduciary Standards as appropriate and needed.
4. The Council notes and confirms the content of paragraph 39 under “Addressing Concerns about Misuse of Funds”.

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INTRODUCTION

1. The GEF Minimum Fiduciary Standards (GMFS) were introduced in 2007 to ensure accountability, integrity, transparency, efficiency and effectiveness in the use of GEF financing.¹ They encompass project appraisal and oversight, procurement, monitoring and evaluation, internal and external audit, financial management and control, ethical standards, investigation, as well as hotlines and whistleblower protection. All GEF Partner Agencies² are required to comply with these standards.
2. In November 2017, at its 53rd meeting, the Council requested that the GMFS be reviewed in light of evolving best practice.³ The Secretariat initiated a review of the GMFS, based on a comparative analysis against relevant peer organizations, namely the Adaptation Fund (AF), the Green Climate Fund (GCF), and the Global Partnership for Education (GPE), as well as a questionnaire completed by 16 GEF Partner Agencies on their policies, procedures, and systems of relevance to the GMFS.
3. Preliminary findings of this review were presented in an information document to Council at its 55th meeting in December 2018, indicating that the GMFS are broadly consistent with those of the three peer organizations, and that further review, including technical analysis and consultation, was required before any changes to the policy could be proposed.⁴
4. Accordingly, the Secretariat commissioned further review which included a desk review as well as interviews with the GEF Partner Agencies to gauge the relevance and effectiveness of the GMFS as well as their alignment with international best practice. Building on this further review, the Secretariat carried out consultations with GEF Partner Agencies to develop an updated draft Policy for consideration by Council. A detailed background on the review and consultation process is provided in Annex A of this paper.
5. This paper presents the findings of this further review and resulting recommendations for an update of the GMFS based on these findings. It also puts forward a process by which the GEF Partner Agencies can demonstrate compliance with the proposed updated Policy.

¹ Council Document GEF/C.31/6, *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies* (http://www.thegef.org/sites/default/files/council-meeting-documents/C.31.6_Fiduciary_Standards_4.pdf)

² As set out in this proposed Policy, the term “GEF Partner Agency” refers to those institutions which are eligible to request and receive GEF resources directly for the design, implementation, and supervision of GEF Projects. It does not include agencies designated by countries that request resources from the GEF Secretariat for the execution of activities under GEF direct access modalities (implemented by the GEF Secretariat), including for Convention reports and National Portfolio Formulation Exercises.

³ Council Document GEF/C.53/08, *Rationale and Plan to Review the GEF’s Fiduciary Standards* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.53.08_Fiduciary_Standards_1.pdf)

⁴ Council Document GEF/C.55/Inf. 15, *Review of the Minimum Fiduciary Standards for GEF Agencies: Preliminary Findings* (<http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-C.55-Inf.15%20Review%20of%20the%20Minimum%20Fiduciary%20Standards%20for%20GEF%20Agencies.pdf>)

FURTHER REVIEW OF THE MINIMUM FIDUCIARY STANDARDS

6. This further review was carried out during 2019 by an independent expert⁵ engaged by the Secretariat to review the current GMFS against external benchmarks and to gauge their relevance and effectiveness.

7. Specifically, this review sought to answer the following guiding questions:

- (a) To what extent are the GMFS aligned with international best practice, including relevant international standards?
- (b) Are the GMFS effectively implemented, and is implementation effectively monitored and evaluated?
- (c) Should the GMFS be strengthened to better serve their purpose?

8. In the case of those GMFS where there exist international standards widely applicable to GEF Partner Agencies, these international standards were identified and used as the benchmark. Where there were multiple international standards which may be applicable to some but not all partners, the GMFS were compared against a distillation of common elements. Where there were no widely recognized international standards, GMFS were compared to authoritative national / international organization best practice.

9. The overall conclusion of the further review was that while the current GMFS remain broadly appropriate, they could be extended in various respects to reflect current best practice, consistent with the preliminary findings reported in December 2018 to Council.

10. The findings of the analysis indicated that:

In General:

- (a) GMFS on Procurement Process, Investigation Function, Hotline and Whistleblower Protection should be expanded to include elements that ensure they meet current international benchmarks;

In Relation to Standards on Project/Activity Processes and Oversight Criteria:

- (b) GMFS on Project/Activity Processes and Oversight Criteria should include Standard on Project Completion and Financial Closure to fully cover the GEF project cycle.
- (c) The Procurement Process Standard should more explicitly address transparency and fairness elements as well as economy and efficiency, and should encourage

⁵ John Fitzsimons has served as Inspector General of FAO, Director of Internal Audit for the CGIAR System of International Agricultural Research Centers, Head of the Financial Management Program of the World Bank's South Asia Region, Senior Internal Auditor for the World Bank, and Assistant Auditor General at the Australian National Audit Office.

the application of sustainable procurement concepts, recognizing that this is a developing subject of relevance to the GEF and its mission.

In Relation to Standards on Governance Framework Criteria:

- (d) GMFS on Governance Framework Criteria should include a Standard on GEF Partner Agency Oversight of Executing Entities.
- (e) The Financial Management and Control Frameworks Standard should place further emphasis on preventing and combating fraud and ensure that the provisions related to the separation of project implementation and execution functions better align to other, related GEF policies.
- (f) The Investigation Function Standard provisions that require GEF Partner Agencies to report to GEF Council the established instances of misuse of GEF funds should be supplemented with a provision for GEF Partner Agencies to submit annual statistical information on complaints received and under review.
- (g) To complement the GEF Policy on Environmental and Social Safeguards and the GEF Policy on Gender Equality, which focus on GEF projects and programs, the GMFS on Governance Framework Criteria should include a related institutional Standard on Gender-Based Violence and Sexual Exploitation and Abuse.

11. In addition, the review recommended that the GMFS should be updated to take into consideration relevant new GEF policies, including *the GEF Policy on Monitoring Agency Compliance with GEF Policies*, *the GEF Policy on Gender Equality*, *the GEF Policy on Environmental and Social Safeguards*, *the Fee Policy for GEF Partner Agencies*, *the GEF Policy on Monitoring* and *the GEF Policy on Evaluation*; and be revised to include references to these policies as appropriate.

PROPOSED UPDATES TO THE MINIMUM FIDUCIARY STANDARDS

12. The Secretariat, in collaboration with the Trustee, has employed a consultative process in conducting both the review of GMFS and their subsequent update. Initial consultation, including surveys and interviews with a set of GEF Partner Agencies, was then broadened through detailed feedback received on draft changes to the GMFS, first collectively at a GEF Agency Retreat in October 2019 and then individually in writing as well as in teleconferences requested by a number of GEF Partner Agencies, and finally, at a teleconference in November 2019 for all GEF Partner Agencies and the Trustee.

13. During this iterative process, several draft versions were circulated, and multiple comments were received from different parties with regards to each Standard and these were taken into consideration when revising the policy, in an effort to address key issues raised while maintaining alignment with international best practice and ensuring consistency with other relevant GEF policies. Consequently, the proposed updates presented in this paper not only reflect the results of an iterative and consultative process that has benefited from GEF Partner

Agency and Trustee contributions; but they are also consistent with existing GEF policies and procedures.

14. The proposed Updated Policy on Minimum Fiduciary Standards is presented in Annex B of this paper. The updates to the GMFS are provided in Annex B1 and are shown in color (dark orange). These updates can be categorized as (a) general updates, and (b) updates specific to each standard.

General Updates

15. In general, the references to other GEF policies have been updated and key terms such as “GEF Partner Agency” and “Executing Entity” have been applied consistently, and clear definitions have been provided.

16. Two umbrella statements have been added to confirm that (a) GEF Partner Agencies have in place the necessary policies, procedures, systems and capabilities to meet the GMFS; and (b) GEF Partner Agencies require that the GMFS are met during GEF funded project and program implementation.

Updates Specific to Each Standard

17. The following is an overview of the specific updates that are proposed for each standard.

Minimum Standards on Project/Activity Processes and Oversight Criteria

Project Appraisal Standards

18. A reference to “gender equality” has been added in reference to the new *GEF Policy on Gender Equality*, approved by Council in November 2017.⁶

Procurement Processes

19. This standard has been expanded in line with best practice and to confirm that GMFS related to the procurement process are taken into consideration by GEF Partner Agencies when assessing Executing Entities. New sections have been added to clarify transparency and fairness elements and to encourage consideration of sustainable procurement concepts.⁷

⁶ GEF Policy SD/PL/02, *GEF Policy on Gender Equality*
(http://www.thegef.org/sites/default/files/documents/Gender_Equality_Policy.pdf)

⁷ As this is an emerging area of procurement practice, the section has been worded so as not to be overly prescriptive.

Project Completion and Financial Closure

20. To close a gap that was identified in coverage of the project cycle within the GMFS, a new standard on project completion and financial closure has been added.

Evaluation Function

21. This standard has been expanded to make references to the norms, principles, criteria and minimum requirements that are set out in the new *GEF Evaluation Policy*, approved by Council in June 2019.⁸

Minimum Standards on Governance Framework Criteria

External Financial Audit

22. The standard has been expanded to note that an Audit Committee or equivalent will have oversight over risk management, internal control and internal audit as well as external audit. In addition, references to external international benchmarks have been updated.

Financial Management and Control Frameworks

23. This standard has been edited to remove the circularity in the language on “internal control” and the confusing reference to “internal control over auditing arrangements”. In addition, consistent with the identification of prevention and management of misuse of funds and other forms of malpractice as a potential area for update in the current GMFS⁹, this standard has also been expanded to add reference to anti-fraud controls, and a new section has been added on rigorous measures to prevent and detect fraud and financial mismanagement.

24. The separation of project implementing and executing functions and the segregation of duties, which were combined originally, are now presented in new sections. The wording on separation of function has been updated to align with the related provisions in the *Fee Policy for GEF Partner Agencies*, adopted by Council in June 2012.¹⁰

⁸ Council Document GEF/ME/C.56/02/Rev.01, *The GEF Evaluation Policy* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.ME_C56_02_Rev01_GEF_Evaluation_Policy_June_2019_0.pdf)

⁹ As noted in Council Document GEF/C.55/Inf. 15, *Review of the Minimum Fiduciary Standards for GEF Agencies: Preliminary Findings* (<http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-C.55-Inf.15%20Review%20of%20the%20Minimum%20Fiduciary%20Standards%20for%20GEF%20Agencies.pdf>).

¹⁰ GEF Policy FI/PL/03, *Fee Policy for GEF Partner Agencies* (http://www.thegef.org/sites/default/files/documents/Agency_Fee_Policy.pdf)

Oversight of Executing Entities

25. Consistent with the earlier identification of grantee oversight as a potential area for update in the current standards¹¹, a new Standard on Oversight of Executing Entities has been added for GEF Partner Agencies to have measures in place to review and oversee GEF funded project and program implementation.

Financial Disclosure

26. The title of this standard has been expanded to read “Financial Disclosure/Conflict of Interest” and references to financial disclosures in the standard expanded to cover other types of conflicts of interest, to reflect that the latter may not always be financial in nature.

Codes of Ethics

27. This standard has been updated to incorporate current best practice regarding the role of an ethics function.

Internal Audit

28. This standard has been expanded in respect of applying professional internal audit standards, confirming the independence of the internal audit function, and including the expected cycle of coverage in risk-based audit plans.

Investigations Function

29. A new section has been added to emphasize the need for investigation standards and to clarify the minimum requirements expected to meet international standards and good practice. More guidance on the contents of reports on the investigation function has been added, and the concept of independence has also been reinforced.

30. The language in this section on reporting when GEF funds are not being used or have not been used for the purpose for which they have been provided is carried over from the existing GMFS Policy (page 17, paragraph 9) with minor modifications.¹²

31. In addition, a new procedure has been added to require more real-time information to Council of cases of possible non-compliance with the GMFS. This new provision requires Agencies, subject to their requirements of confidentiality, to inform Council promptly, through the Secretariat, of claims of non-compliance which the Agency has taken under formal review

¹¹ As noted in GEF/C.55/Inf. 15, *Review of the Minimum Fiduciary Standards for GEF Agencies: Preliminary Findings* (<http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-C.55-Inf.15%20Review%20of%20the%20Minimum%20Fiduciary%20Standards%20for%20GEF%20Agencies.pdf>),.

¹² GEF Policy GA/PL/02 *Minimum Fiduciary Standards for GEF Partner Agencies* http://www.thegef.org/sites/default/files/documents/Fiduciary_Standards.pdf

according to Agency procedures.¹³ This is similar to the new procedure for informing Council of possible non-compliance with the Policy on Environmental and Social Safeguards, adopted by Council in June 2019.¹⁴ This new procedure further requires annual statistical reporting by Agencies, subject to their requirements of confidentiality, on GEF project and program-related complaints received, reviewed and investigated.

32. The concept of independence has also been reinforced and a new section has been added to recognize the need for investigation standards and to clarify the minimum requirements expected to meet international standards and good practice. More guidance on the contents of reports on the investigation function has been added.

Hotline and Whistleblower Protection

33. The standard has been expanded to better define “hotline or comparable mechanism”, to emphasize its wide availability and to cover all instances of illegal or Agency-prohibited activity.

34. A new section has been added concerning requirements for maintaining records of complaints received and status of actions taken on them. Existing section on whistleblower protection policy has been expanded in line with current international standards and good practice.

Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT)

35. No substantive changes have been made to this standard.

Gender-based Violence and Sexual Exploitation and Abuse

36. Based on consultations with GEF Partner Agencies and the Trustee, it was determined that these issues are addressed in the *GEF Policy on Environmental and Social Safeguards*, Minimum Standard 1 (4) (m, n and o), which apply to all GEF-funded projects and programs¹⁵.

ADDRESSING CONCERNS ABOUT MISUSE OF FUNDS

37. The new reporting procedure set out in the Investigations Function section above is designed to follow the GEF governance structure, under which Agencies are responsible to implement projects and respond to complaints alleging non-compliance. It is also important to note the role and responsibility of others where there is a concern about misuse of funds. Per the GEF Instrument, GEF Partner Agencies are accountable to the GEF Council for the use of GEF funds and activities carried out therewith. Annex B of the GEF Instrument further provides that the Trustee is accountable to Council for the performance of

¹³ The phrase “taken under formal review” is intended to include allegations that the Agency has determined to be credible and merit further formal review or investigation, according to Agency procedures.

¹⁴ The procedure in the Safeguards Policy similarly focuses on the reporting of cases determined by Agencies to be within the scope of their review.

¹⁵ GEF Policy SD/PL/03, *Policy on Environmental and Social Safeguards*, Minimum Standard 1 (4) (m, n and o) (http://www.thegef.org/sites/default/files/documents/gef_environmental_social_safeguards_policy.pdf)

its fiduciary responsibilities, and calls for a consultative approach to address and resolve any concerns that the Trustee may have regarding inconsistencies between uses of Fund resources and the Instrument and Council decisions. The Trustee also has individual Financial Procedures Agreements (FPAs) with the 18 GEF Partner Agencies. According to Section 12.5 of these FPAs, where the Trustee has reason for concern about such inconsistencies, the Trustee will request additional information from the GEF Partner Agency. If not satisfied with this information, the Trustee may request an external audit by the Agency's auditors in this exceptional situation. Subsequent FPA provisions specify measures to be taken in case of non-compliance related to financial reporting and, in the case of a determination by the Agency of misuse of funds, provision for the return of resources to the GEF Trust Fund. Additional information and background is set out in a document presented to Council in 2012.¹⁶

38. This document from 2012 notes that situations of misuse of funds could be evidenced in several ways, including through financial reports received by the Trustee under the FPAs or other reports received by the Secretariat or the Evaluation Office under the GEF Instrument, GEF Council decisions or the MOUs between the Secretariat and GEF Partner Agencies. It also explains that in addition to periodical reporting requirements, the FPAs provide that if the Trustee has reason for concern that GEF resources provided to the GEF Partner Agency for a project may not have been used in accordance with the GEF Instrument and decisions taken by the GEF Council, the Trustee will ask the GEF Partner Agency to provide it with additional information concerning the use of the resources and, if not satisfied with the information, may request external financial audit of the GEF Project by the Agency auditors (as set out in Section 12.5 mentioned above).

39. The Council may request the Trustee to seek additional financial information under section 12.5 of the FPAs with GEF Partner Agencies. Pursuant to section 12.5 of the FPA and other provisions of the FPA, the Trustee has the authority to reach out to GEF Partner Agencies to request additional information and/or determine appropriate course of action, which may include receiving financial statements and a special audit of the subject project. It is a collaborative process with the GEF Partner Agency, and the Trustee will follow up with the Agency to obtain the necessary details for the Agency to be accountable to the Council for its project implementation. The Trustee would keep the Secretariat and the Council informed of the developments on this matter.

EFFECTIVENESS AND IMPLEMENTATION

40. The Secretariat proposes that this updated Policy on GEF Minimum Fiduciary Standards come into effect as soon as approved by the Council and apply to all GEF-financed projects and programs, including those already under implementation and those approved on or after the date of effectiveness.

GEF PARTNER AGENCY COMPLIANCE

Monitoring of GEF Partner Agency Compliance

41. Periodic GEF Partner Agency self-assessments and risk-based, independent, third-party reviews of GEF Partner Agency compliance with the GMFS will be carried out once per replenishment cycle in accordance with the *Policy on Monitoring Agency Compliance with GEF*

¹⁶ Clarifying the Responsibilities of the GEF's Key Actors with respect to the Use of GEF Resources, GEF/C.42/04 May 11, 2012.

*Policies*¹⁷. The first such regular compliance review is due in 2022, the final year of the 7th replenishment period. In the case of any future updates to the GMFS, the timing of compliance review may be considered at that time.

42. With regards to the current update of the GMFS presented in this paper, the changes are significant enough to warrant a limited compliance reassessment process as soon as possible. As the first set of regular self-assessment and third-party review mandated by the *Policy on Monitoring Agency Compliance with GEF Policies*, is not scheduled until 2022, GEF Partner Agency self-assessments will be conducted and reported to Council within one year after Council's adoption of the updated GMFS. Then, in view of the nature of the current changes to the GMFS, an independent third-party review will be conducted as the first regular review in 2022, in accordance with the *Policy on Monitoring Agency Compliance with GEF Policies*.

43. Thus, to ensure a timely roll-out and implementation of the updated GMFS, the Secretariat proposes that GEF Partner Agencies submit a report, including either a signed certification of compliance with the GMFS or a time-bound action plan to achieve compliance, no later than September 30, 2020. The Secretariat would then compile GEF Partner Agency self-assessment reports, certifications and any action plans for Council review and decision at its 59th meeting in December 2020. The Council will then decide if a GEF Partner Agency may continue to seek GEF financing while it implements a time-bound action plan.

Addressing Non-Compliance

44. If, based on self-assessment and/or risk-based, independent, third-party reviews, a GEF Partner Agency is found to be no longer compliant with the GMFS, including as a result of updates to the GMFS, the GEF Partner Agency in question, in consultation with the Secretariat, will develop a concrete, time-bound action plan to achieve compliance in accordance with paragraph 16 of the *GEF Policy on Monitoring Agency Compliance with GEF Policies*.¹⁸

¹⁷ GEF Policy ME/PL/02, *Monitoring Agency Compliance with GEF Policies*
(http://www.thegef.org/sites/default/files/documents/Monitoring_Agency_Compliance_Policy_0.pdf)

¹⁸ GEF Policy ME/PL/02, *Monitoring Agency Compliance with GEF Policies*
(http://www.thegef.org/sites/default/files/documents/Monitoring_Agency_Compliance_Policy_0.pdf)

ANNEX A. BACKGROUND

1. At its 31st meeting in June 2007, the Council took note of the *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies*, prepared by the Trustee, and requested the Agencies to implement them. The Council further requested that Agencies implement the GEF Minimum Fiduciary Standards (GMFS) within one year or put in place plans to begin implementation by a specified date, and that each Agency present a report to the GEF Secretariat on its compliance for consolidation and submission to the Council at its 33rd meeting in April 2008. Recognizing that international practices would evolve over time, the Council agreed to review the GMFS every four years.¹⁹
2. Subsequently, GEF Partner Agencies reported on their compliance, and – where necessary – developed action plans to achieve compliance. By June 2015, ten original Agencies were assessed to be fully compliant with the GMFS. The standards were also applied in the accreditation of eight additional Agencies, carried out between 2011 and 2015. Thus, by the end of 2015, all 18 GEF Partner Agencies were found to be compliant.
3. In the meantime, the Council, at its 41st meeting in November 2011, approved an update of the GMFS to address the clear separation of implementation and execution functions for all GEF Partner Agencies.²⁰
4. In October 2016, at its 51st meeting, the Council approved the *Policy on Monitoring Agency Compliance with GEF Policies*, including the GMFS.²¹ According to this policy, GEF Partner Agencies will carry out periodic self-assessments of their compliance with relevant GEF policies, including the GMFS and report their findings to the Council once per replenishment cycle, starting in the final year of the seventh replenishment of the GEF Trust Fund (GEF-7).
5. In November 2017, at its 53rd meeting, the Council agreed that the GMFS should be reviewed in light of evolving best practice and requested the Secretariat in collaboration with the Trustee to present the findings of such a review at the 55th Council meeting²².
6. Accordingly, the Secretariat commissioned a review of the GMFS, based on a comparative analysis against equivalent standards of relevant peer organizations, namely the

¹⁹ Council Document GEF/C.31/6, *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies* (http://www.thegef.org/sites/default/files/council-meeting-documents/C.31.6_Fiduciary_Standards_4.pdf)

²⁰ Council Document GEF/C.41/06/Rev.01, *GEF Minimum Fiduciary Standards: Separation of Implementation and Execution Functions in GEF Partner Agencies* (http://www.thegef.org/sites/default/files/council-meeting-documents/C.41.06.Rev_01_GEF_Minimum_standards_paper_1.pdf)

²¹ Council Document GEF/C.51/08/Rev.01, *Monitoring Agency Compliance with GEF Policies on Environmental and Social Safeguards, Gender, and Fiduciary Standards: Implementation Modalities* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.51.08.Rev_01_Monitoring_Agency_Compliance_v2.pdf)

²² Council Document GEF/C.53/08, *Rationale and Plan to Review the GEF's Fiduciary Standards* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.53.08_Fiduciary_Standards_1.pdf)

Adaptation Fund (AF), the Green Climate Fund (GCF)²⁶, and the Global Partnership for Education (GPE), as well as a questionnaire completed by 16 GEF Partner Agencies on the evolution of their policies, procedures, and systems of relevance to the GMFS.

7. At the 53rd meeting, some Council members also requested the Secretariat to consider ways to address issues related to Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) on an accelerated timeline. Echoing that request, Participants to the seventh replenishment of the GEF Trust Fund (GEF-7) requested that *“the on-going review of the minimum fiduciary standards take into account international standards related to anti-money laundering and counter terrorism finance and that the Secretariat in collaboration with the Trustee propose any updates to the minimum fiduciary standards, as necessary, for Council consideration”*.²³

8. In response, the Secretariat proposed AML-CFT related minimum requirements and at its 55th meeting in December 2018, the Council approved these requirements and asked them to be included in an updated version of the GMFS.²⁴ The Council further requested Agencies to certify that they met these AML-CFT related minimum requirements or present time-bound action plans to achieve compliance, no later than April 30, 2019²⁵.

9. In December 2018, the Secretariat also provided the Council with preliminary findings of the review of the GMFS in an information paper²⁶ which noted that *“it could be beneficial to review more closely certain areas of the policy to ensure adequate alignment with international best practice. These include, inter alia, provisions related to procurement, sub-recipients of GEF funds, and the prevention and management of misuse of funds and other forms of malpractice. Moreover, the policy could merit changes in due course to improve the flow of information on the implementation of the minimum fiduciary standards, and to improve coherence with other, recently updated or forthcoming GEF policies”*.

10. The information paper concluded that *“there is a need to carry out a further technical analysis across certain standards, and there is a need for consultation across the Partnership on possible changes. In addition, any updated policy should reflect the new policies on monitoring and evaluation, which are expected in the Spring of 2019. Accordingly, based on further review*

²³ Council Document GEF/C.55/Inf. 15, *Review of Minimum Fiduciary Standards for GEF Agencies: Preliminary Findings*, paragraph 13 (<http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-C.55-Inf.15%20Review%20of%20the%20Minimum%20Fiduciary%20Standards%20for%20GEF%20Agencies.pdf>)

²⁴ Council Document GEF/C.55/09, *Updating the Minimum Fiduciary Standards on Issues Related to Anti-money Laundering and Combating the Financing of Terrorism* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.55.09_AML-CFT.pdf)

²⁵ Council Document GEF/C.55/JointSummary, paragraphs 15-16 (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.55_Joint_Summary_of_the_Chairs.pdf)

²⁶ Council Document GEF/C.55/Inf. 15, *Review of Minimum Fiduciary Standards for GEF Agencies: Preliminary Findings* (<http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-C.55-Inf.15%20Review%20of%20the%20Minimum%20Fiduciary%20Standards%20for%20GEF%20Agencies.pdf>)

and consultations, the Secretariat, in collaboration with the Trustee, could work towards presenting to the Council any proposed updates to the policy at the 57th Council meeting”.

11. Subsequently, in 2019, the Secretariat initiated further review of the GMFS, including technical analysis as well as targeted interviews with GEF Partner Agencies.

12. In June 2019, Council paper GEF/C.56/05/Rev.01 stated that *“Reporting on possible non-compliance with Agencies’ fiduciary policies and safeguards; including cases related to fraud, corruption, and misuse of funds; will be addressed as part of the planned update of the GEF’s minimum fiduciary standards for Council consideration at its 57th meeting in the Fall of 2019.”*²⁷

13. The further review was concluded in July 2019. Based on its findings and recommendations, a proposed draft update to the GMFS Policy was developed and circulated for consultation during September to November 2019. This paper presents the final proposal to update the Policy for decision by Council at its 57th meeting in December 2019.

²⁷ GEF/C.56/05/Rev.01, Informing the Council of Possible Non-Compliance with Environmental and Social Safeguards (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.56.05.Rev._01_Informing%20the%20Council%20of%20Possible%20Non-Compliance%20with%20ESS.pdf)

ANNEX B. GEF POLICY ON MINIMUM FIDUCIARY STANDARDS

Definitions

1. *Environmental and Social Safeguards*: Measures taken by a development agency to avoid, minimize, mitigate, and where appropriate, offset adverse social or environmental impacts arising from projects financed by the agency. Minimum standards for GEF Partner Agency policies, procedures, systems and capabilities related to identifying and addressing environmental and social risks and impacts in GEF projects and programs include: (a) Environmental and Social Assessment, Management and Monitoring; (b) Accountability, Grievance and Conflict Resolution; (c) Biodiversity Conservation and the Sustainable Management of Living Natural Resources; (d) Restrictions on Land Use and Involuntary Resettlement; (e) Indigenous Peoples; (f) Cultural Heritage; (g) Resource Efficiency and Pollution Prevention; (h) Labor and Working Conditions; and (i) Community Health, Safety and Security.²⁸ In the GEF, the application of environmental and social safeguards standards and procedures is part of the project appraisal process.
2. *Evaluation*: A systematic and impartial assessment of planned, ongoing or completed activities, projects, programs in specific focal areas or sectors, policies, strategies and their implementation, or other topics relevant to the GEF partnership and organization.²⁹
3. *Execution Activities and Functions*: Execution generally includes the management and administration of the day-to-day activities of projects in accordance with specific project requirements in an agreement with the GEF Partner Agency responsible for implementation. Execution implies accountability for intended and appropriate use of funds, procurement, and contracting of goods and services.³⁰
4. *Executing Entity*: An organization that executes a GEF Project or Program, or portions of it, under the supervision of a GEF Partner Agency, including national or sub-national government agencies, civil society organizations, private sector entities, or academic institutions, among others.
5. *GEF Partner Agencies*: Those agencies eligible to request and receive GEF resources directly for the design, implementation, and supervision of GEF Projects. It does not include agencies designated by countries that request resources from the GEF Secretariat for the execution of activities under GEF direct access modalities (implemented by the GEF

²⁸ GEF Policy [SD/PL/03, Policy on Environmental and Social Safeguards](http://www.thegef.org/sites/default/files/documents/gef_environmental_social_safeguards_policy.pdf) (http://www.thegef.org/sites/default/files/documents/gef_environmental_social_safeguards_policy.pdf)

²⁹ Council Document [GEF/ME/C.56/02/Rev.01, The GEF Evaluation Policy](http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.ME_C56_02_Rev01_GEF_Evaluation_Policy_June_2019_0.pdf) (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.ME_C56_02_Rev01_GEF_Evaluation_Policy_June_2019_0.pdf)

³⁰ For more detailed description of implementation and execution activities/functions, see Council Document GEF/C.39/9, *Rules and Guidelines for Agency Fees and Project Management Costs*, page 4.

Secretariat), including for Convention reports and National Portfolio Formulation Exercises.

6. *GEF Project*: An activity or set of activities that promote the achievement of the purposes of the GEF for which resources from any of the Trust Funds operated by the GEF has been requested by a GEF Partner Agency on behalf of an eligible recipient and/or approved by the GEF Council or the CEO.

7. *Implementation Activities and Functions*: Implementation generally involves project identification, preparation of project concept, appraisal, preparation of detailed project documents, project approval and start-up, project supervision, and project completion and evaluation³¹.

8. *Monitoring*: The continuous or periodic, standardized process of collecting and analyzing data on specific indicators to provide decision-makers, managers, and Stakeholders with information on progress in the achievement of agreed objectives and the use of allocated resources.³²

9. *Program*: A longer-term and strategic arrangement of individual yet interlinked projects that aim at achieving large-scale impacts on the global environment.

10. *Project Appraisal*: The investigative process used by a development agency to determine whether projects and activities financed by the agency meet their development goals, including sustainable development and environmental goals, before funds are disbursed. In practice, a GEF Partner Agency's project appraisal process may include the investigation of multiple aspects of a project, including economic, technical, institutional, financial, environmental, social, commercial, etc.

³¹ For more detailed description of implementation and execution activities/ functions, see Council Document GEF/C.39/9, *Rules and Guidelines for Agency Fees and Project Management Costs*, page 4.

³² Council Document [GEF/C.56/03/Rev.01](http://www.thegef.org/sites/default/files/documents/EN_GEF.C.56.03.Rev_.01_Policy_on_Monitoring.pdf), *Policy on Monitoring* (http://www.thegef.org/sites/default/files/documents/EN_GEF.C.56.03.Rev_.01_Policy_on_Monitoring.pdf)

I. Introduction

1. This policy outlines the minimum fiduciary standards set forth by the GEF Council in order to strengthen the accountability of the GEF Partner Agencies.

II. Objectives

2. The objective of this policy is to strengthen financial and programmatic accountability of the GEF by requiring that all GEF Partner Agencies meet the agreed minimum fiduciary standards that are listed in Annex I: *GEF Minimum Fiduciary Standards*.

III. Scope of Application

3. This Policy applies to all GEF Partner Agencies.

IV. Core Principles

4. As a general matter, minimum fiduciary standards are maintained with the implementation of procedures that reflect several core principles. These include:
 - (a) Professional standards. Fiduciary management functions (for all categories) are undertaken based on published guidelines by the GEF Partner Agency which take into account internationally recognized professional standards and principles.
 - (b) Independence. Fiduciary review functions are appropriately independent and objective in the execution of their respective duties.
 - (c) Transparency. To ensure both accountability and remedial action, the results of reviews are disclosed to the fullest extent possible, taking into account confidentiality and other concerns as appropriate.
 - (d) Monitoring and response. Procedures are in place that establish periodic monitoring so that issues raised in reviews are dealt with effectively.
 - (e) Value-for-money provisions. Procedures focus, as appropriate, on ensuring that the maximum benefit, for the resources expended, has been obtained from goods and services acquired or provided.
5. These core principles apply across the board, in the design and implementation of standards in each of the covered areas.

V. Application to Different Types of Operations

6. The GEF Council has decided that all GEF Partner Agencies need to meet the GEF Minimum Fiduciary Standards (GFMS).³³ The following is guidance drawn from Council Document GEF/C.31/6.³⁴

7. In general, all GFMS apply across all types of operations, where there are projects and/or activities to which they can be applied sensibly. Most of the standards apply generally, rather than to project- or GEF-specific activities. These include external and internal audit, financial management and controls, financial disclosure, codes of ethics, investigation, and hotline and whistleblower protection. Requirements for monitoring and evaluation are covered under GEF Monitoring and Evaluation Policies respectively.³⁵ Project appraisal standards, procurement processes, and project-at-risk systems may vary to some degree, depending on the type of programs and activities, in terms of the appropriate criteria and objectives used. However, the core principles are consistent across different types of operations and activities.

8. In the specific context of a GEF Partner Agency's GEF work, any assessment must examine whether GEF activities are fully covered by institution-wide standards. In addition, institutional standards designed to cover core business activities must be assessed to ensure that their application to GEF work is effective. This Policy assumes that GEF Partner Agency activities are undertaken consistent with the recommendations of GEF/C.31/5, *Comparative Advantages of the GEF Agencies*.³⁶ In any case, if a GEF Partner Agency's management and control frameworks are focused on different kinds of activities than those undertaken by the GEF Partner Agency for the GEF, there must be an examination of whether the frameworks achieve their intended purposes for GEF activities as well. This may apply to existing or future operations.

9. As noted in GEF/C.31/5, *Comparative Advantages of the GEF Agencies*, an assessment of GEF Partner Agency capacity to manage different types of projects would be based, inter alia, on each GEF Partner Agency's fiduciary policies, including environmental and social safeguard procedures. In specific cases of integrated projects that include components where the expertise and experience of a GEF Partner Agency is lacking or weak, partnerships with other GEF Partner Agencies must be established with clear complementary roles, so that all aspects of

³³ This Policy recognizes that GEF Partner Agencies adopt their own policies and procedures aligned with the GFMS in a manner that is appropriate to their unique status. References to international standards provide guidance as to international best practice which the GFMS takes into account.

³⁴ Council Document GEF/C.31/6, *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies* (http://www.thegef.org/sites/default/files/council-meeting-documents/C.31.6_Fiduciary_Standards_4.pdf)

³⁵ Council Document GEF/C.56/03/Rev.01, *Policy on Monitoring* (http://www.thegef.org/sites/default/files/documents/EN_GEF.C.56.03.Rev_01_Policy_on_Monitoring.pdf), and Council Document GEF/ME/C.56/02/Rev.01, *The GEF Evaluation Policy* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.ME_C56_02_Rev01_GEF_Evaluation_Policy_June_2019_0.pdf).

³⁶ Council Document GEF/C.31/05, *Comparative Advantages of the GEF Agencies* <http://www.thegef.org/council-meeting-documents/comparative-advantages-gef-agencies>

the projects can be well managed.

10. Should GEF Partner Agencies choose to implement activities that are generally outside of their respective comparative advantage, and to implement such activities in partnership with another GEF Partner Agency that has that comparative advantage, as required by the GEF Council, they make arrangements so that all of the appropriate fiduciary standards, controls and business practices that are required to support those specific activities are in place.

VI. Application to GEF Partner Agencies

11. As a principle, assessments of whether GEF Partner Agencies meets the GMFS should take into account the following:

(a) Reasonable Assurance of Effectiveness. The evaluation should take into account not just the existence of fiduciary standards, but also their effectiveness. That is, the assessment should consider whether the fiduciary management policies and functions are reasonably effective in achieving their intended purposes and that GEF Partner Agencies maintain capacity (internally or through third parties for certain fiduciary activities). In that regard, it should be recognized that GEF Partner Agencies work in challenging environments throughout the world. All GEF Partner Agencies remain vulnerable to some degree to the risks that fiduciary standards and controls are meant to identify and mitigate. Absolute assurance about the application and effectiveness of fiduciary requirements and controls is not possible; a standard of reasonable assurance is the appropriate one to follow.

(b) Comparability. Among GEF Partner Agencies, there will inevitably be different standards and procedures in place, sometimes for the same purposes, and the distance below or above the benchmark in a given area will differ. If a minimum benchmark is not met in a particular area, the assessment should review and take into account any standards or procedures that are in place that provide equivalent or comparable functions or assurance. Similarly, different approaches to fiduciary functions may be equivalent in their effect. For example, audit, investigation and evaluation functions may be established separately within an agency or may be organized under an Inspector General.

(c) Communication of Assessment Findings. After GEF Partner Agencies are assessed, it is important that any findings, including identified issues and gaps in a GEF Partner Agency's ability to meet the GMFS, should be communicated to the individual Agencies promptly, in order to provide adequate response.

(d) Periodic Monitoring. GEF Partner Agencies not meeting the GMFS will report annually to the GEF Council on their progress in meeting the GMFS under their agreed monitorable and time-bound action plans.

VII. Review and Evolution of Fiduciary Standards

12. The Council agreed that implementation of fiduciary standards and procedures is, for most of the areas, an evolving process. From a GEF Partner Agency's perspective, a function may be established, or a policy or practice introduced, on the basis of required GMFS with an expectation that the relevant policies and practices would be enhanced over time. This Policy recognizes that GEF Partner Agencies adopt policies and procedures in a manner that is appropriate to their unique status, and it references international standards to provide guidance.

VIII. Monitoring of GEF Partner Agency Compliance and Addressing Non-Compliance

13. Regular periodic GEF Partner Agency self-assessments; risk-based, independent, third-party reviews of the Agencies' compliance with the GMFS; and steps to respond when a GEF Partner Agency is no longer compliant will be carried out in accordance with the Policy on Monitoring Agency Compliance with GEF Policies.³⁷ If the GMFS are updated in between replenishment cycles, the Council will determine the timing of self-assessments and third party reviews.

³⁷ GEF Policy ME/PL/02, *Monitoring Agency Compliance with GEF Policies*.
(http://www.thegef.org/sites/default/files/documents/Monitoring_Agency_Compliance_Policy_0.pdf)

Annex B1: GEF Minimum Fiduciary Standards

1. The standards below are the GEF Minimum Fiduciary Standards initially approved by the GEF Council in 2007 and subsequently updated as agreed by Council.
2. GEF Partner Agencies have in place the necessary policies, procedures, systems and capabilities and ensure that they meet the GEF Minimum Fiduciary Standards.
3. GEF Partner Agencies have in place the necessary policies, procedures and legal arrangements to require that the GEF Minimum Fiduciary Standards are met during GEF funded project and program implementation, and GEF Partner Agencies implement such policies, procedures and legal arrangements.

I. Project/Activity Processes and Oversight Criteria

1. Project Appraisal Standards - *Project appraisal functions include the establishment of standards and appropriate safeguards that are used to determine whether projects and activities are reasonably likely to meet their development goals before funds are dispersed.*
 - (a) A project and/or activity appraisal process is in place with the purpose of examining whether proposed projects and/or activities meet appropriate technical, economic, financial, environmental, social (including considerations of gender equality), institutional and/or other relevant criteria³⁸, and whether they are reasonably likely to meet stated objectives and outcomes.
 - (b) The appraisal process provides institutional checks and balances at the stage of project design:
 - Policies and risk-assessment procedures are in place specifying the criteria and circumstances under which environmental, social (including considerations of gender equality), institutional and/or fiduciary assessments must be conducted to incorporate environmental, social or other relevant considerations into a proposed project or activity.³⁹
 - Guidelines or policies are in place that provide for evaluation by technical advisors, who assess whether or not a proposed project or activity is eligible for GEF funding, based on the GEF-mandated criteria; is likely to achieve GEF goals; and is aligned with scientifically sound principles.

³⁸ Agencies are required to meet GEF minimum standards on *Environmental and Social Safeguards* (as defined in GEF Policy SD/PL/03, *Policy on Environmental and Social Safeguards*, and the requirements of GEF Policy SD/PL/02, *Policy on Gender Equality* and GEF Policy SD/PL/01, *Policy on Stakeholder Engagement*).

³⁹ Agencies' processes and procedures must meet the requirements of the GEF Policy SD/PL/03, *Policy on Environmental and Social Safeguards* (http://www.thegef.org/sites/default/files/documents/gef_environmental_social_safeguards_policy.pdf)

- (c) Project and/or activity development objectives and outcomes are clearly stated and key performance indicators with baseline and targets are incorporated into the project/activity design.
 - (d) Appropriate fiduciary oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions by the GEF Partner Agency during implementation.
2. Procurement Processes – *GEF Partner Agency procurement processes covering both internal/administrative procurement and procurement by recipients of funds include written standards based on widely recognized processes and an internal control framework to protect against fraudulent and corrupt practices (using widely recognized definitions such as those agreed by the International Financial Institutions Anti- Corruption Task Force) and waste.*
- (a) Specific GEF Partner Agency policies and guidelines promote economy, efficiency, transparency and fairness in procurement through written standards and procedures that specify procurement requirements, accountability, and authority to take procurement actions. As a minimum, these policies and guidelines provide for:
 - Open competition and define the situations in which other less competitive methods can be used; and
 - Wide participation through publication of business opportunities; descriptive bid/ proposal documents that disclose the evaluation criteria to be used; neutral and broad specifications; non-discriminatory participation and selection principles; and sufficient time to submit bids or proposals.
 - (b) Specific procurement guidelines are in place with respect to different types and categories of procurement, including the recruitment of consultants, managed by the GEF Partner Agency.
 - (c) Procurement guidelines provide for security and confidentiality of information during the bidding, opening, evaluation and debriefing phases of procurement.
 - (d) Procurement guidelines provide for a procurement protest mechanism whereby bidders have a right to complain during the bidding process about non-compliance with procurement policies and guidelines and irregularities in the process; are informed of this right; and there is a clear process whereby complaints are received and addressed.
 - (e) Standard contracts include dispute resolution procedures that provide for an efficient and fair process to resolve disputes arising during the performance of the contract.
 - (f) General Conditions of Contract and tender conditions provide for contract awardees to adhere to anti-fraud and corruption policies and provide

access to GEF Partner Agency investigators to bidder/contractor records relating to bids and contracts in the event that this is needed to support investigations of complaints of fraud or corruption.

- (g) Procurement guidelines encourage the consideration of sustainability concepts⁴⁰ in the procurement of goods.
 - (h) Specific procedures, guidelines and methodologies of assessing the procurement procedures of executing entities are in place.
 - (i) Procurement performance in implemented projects is monitored at periodic intervals, and there are processes in place requiring a response when issues are uncovered.
 - (j) Procurement records are easily accessible to procurement staff, and procurement policies and awards are publicly disclosed.
3. Monitoring and Project-at-Risk Systems - *The GEF Policy on Monitoring*⁴¹ establishes minimum requirements based on widely recognized, best practice norms and standards for monitoring in the GEF. From a fiduciary perspective, the monitoring function detects, assesses, and provides management information about risks related to projects and/or activities, particularly those deemed to be at risk.
- (a) Monitoring functions, policies and procedures have been established consistently with the requirements of the GEF Policy on Monitoring.
 - (b) The roles and responsibilities of the monitoring function are clearly articulated at both the project/activity and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project and/or activity origination and supervision functions.
 - (c) Monitoring reports at the project/activity level are provided to a project/activity manager as well as to an appropriately higher level of managerial oversight within the organization so that mid-course corrections can be made, if necessary. Monitoring reports at the entity/portfolio level are provided to both project/activity managers and to an appropriately higher level of oversight within the organization so that broader portfolio trends are identified, and corresponding policy changes can be considered.
 - (d) A process or system, such as a project-at-risk system, is in place to flag when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the

⁴⁰ Examples of guidance can be found in the International Standard ISO 20400:2017 Sustainable Procurement and information produced by the Marrakesh Task Force on Sustainable Procurement (<http://www.unep.fr/scp/marrakech/taskforces/procurement.htm>).

⁴¹ Council Document GEF/C.56/03/Rev. 01, *Policy on Monitoring* (http://www.thegef.org/sites/default/files/documents/EN_GEF.C.56.03.Rev_01_Policy_on_Monitoring.pdf)

problems.

- (e) Adequate fiduciary oversight procedures are in place to guide the project risk assessment process and to ensure its quality and monitoring of follow-up actions by the GEF Partner Agency during implementation.
4. Project Completion and Financial Closure - *Operational systems and overall capacity are in place to conduct necessary activities relating to project completion and financial closure*
- (a) Procedures have been established concerning project operational completion and financial closure, including reporting on results achieved, lessons learned and recommendations for improvement, and final financial reports, including information on co-financing.
 - (b) There are procedures to make project results publicly available.
5. Evaluation Function - *The evaluation function assesses the extent to which projects, programs, strategies, policies, sectors, focal areas, or other activities achieve their objectives. The goals of evaluation are to provide an objective basis for assessing results, to enhance accountability in the achievement of agency objectives, and to learn from experience. The GEF Evaluation Policy, adopted by Council in June 2019⁴², establishes requirements for evaluation in the GEF based on widely recognized, best practice norms and standards including impartiality, professionalism, and a high degree of independence.*
- (a) Independent evaluations are undertaken by an established body or function as part of a systematic program of assessing results, consistent with the requirements of the GEF Evaluation Policy.
 - (b) The evaluation function follows impartial, widely recognized, documented and professional standards and methods, consistent with the norms, principles, criteria and minimum requirements set out in the GEF Policy on Evaluation.
 - (c) The evaluations body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the GEF Partner Agency, ideally reporting directly to the board of directors or comparable body. If its structural independence is limited, the evaluations body or function has transparent reporting to senior management and/or the governing board.
 - (d) An evaluation disclosure policy is in place. Evaluation reports are

⁴² Council Document GEF/ME/C.56/02/Rev.01, *The GEF Evaluation Policy*
http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.ME_C56_02_Rev01_GEF_Evaluation_Policy_June_2019_0.pdf

disseminated as widely as possible, and at a minimum to all parties directly or indirectly involved with the project. To enhance transparency, to the extent possible, reports are available to the public.

II. Governance Framework Criteria

1. External Financial Audit - *The external financial audit function ensures an independent review of financial statements and internal controls.*
 - (a) The GEF Partner Agency has appointed an independent external audit firm or organization to perform an annual audit of its financial statements.
 - (b) The work of the external audit firm or organization is consistent with recognized international auditing standards such as International Standards on Auditing (ISA) or the International Standards of Supreme Audit Institutions (ISSAI).
 - (c) Financial statements are prepared in accordance with recognized accounting standards such as International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), or Generally Accepted Accounting Principles (GAAP) that are accepted in major capital markets for listed companies.
 - (d) The internal controls over financial reporting cover the use of GEF funds, and Management asserts to the GEF Partner Agency governing body that these internal controls are adequate.
 - (e) An annual audit opinion on the financial statements and/or, as appropriate, on all GEF funds received from the Trustee and administered by the GEF Partner Agency, is issued by the external auditor and made public.
 - (f) An independent audit committee, or comparable body, is appointed and oversees the work of the external audit firm or organization as it relates to the audit of the financial statements, as well as risk management, internal control, and internal audit. The audit committee or comparable body has written terms of reference that address its membership requirements, duties, authority, accountability and regularity of meetings.
 - (g) The external auditor makes regular reports of observations with respect to accounting systems, internal financial controls, and administration and management of the organization. Auditor and management progress reports are reviewed by the audit committee or comparable body annually.
2. Financial Management and Control Frameworks - *An internal control framework is a risk-based process designed to provide reasonable assurance and feedback to management regarding the achievement of objectives in the following*

categories:⁴³

- *Effectiveness and efficiency of operations*
 - *Reliability of financial reporting and financial management frameworks*
 - *Compliance with applicable policies and procedures.*
- (a) A control framework has been adopted that is documented and includes clearly defined roles for management, internal auditors, the board of directors or comparable body, and other personnel.
- (b) The control framework covers the control environment (“tone at the top”), risk assessment, internal control activities, monitoring, and procedures for information sharing.
- (c) The control framework has defined roles and responsibilities pertaining to accountability of fiscal agents and fiduciary trustees.
- (d) At the institutional level, risk-assessment processes are in place to identify, assess, analyze 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.
- (e) The control framework guides the financial management framework.
- (f) Procedures are in place for identifying internal controls, including controls designed to prevent or detect fraud, and assessing control details annually in core financial management areas, including:
- Budgeting;
 - Accounting;
 - Funds flow (including disbursements, cash management, unused fund close- out); and
 - Financial reporting.
- (g) The control framework applies rigorous measures to prevent and combat fraud and other forms of financial mismanagement by employees, by contractors and suppliers under the GEF Partner Agency’s own procurement, or in respect of funds provided to executing entities.
- (h) There is a separation of functions between project implementation and execution:

⁴³ This is elaborated, for example, in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control – Integrated Framework*.

- (i) There is a separation of functions such that the entity that undertakes project execution reports and is responsible to the agency that carries out project implementation, with the latter overseeing the executing entity and having accountability to the GEF Council. This explicitly precludes a merging or crossing over of the functions of the GEF Partner Agencies and executing entities as they are distinct and separate.
 - (ii) In cases where a GEF Partner Agency carries out both implementation and execution of projects⁴⁴, the GEF Partner Agency must separate its project implementation and execution duties, and describe in project planning documents, each of the following:
 - A satisfactory institutional arrangement for the separation of implementation and executing functions in different departments of the GEF Partner Agency; and
 - Clear lines of responsibility, reporting and accountability within the GEF Partner Agency between the project implementation and execution functions.
 - (i) Financial management segregation of duties: 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.
3. Oversight of Executing Entities – GEF Partner Agencies have measures in place to review and oversee GEF funded project and program implementation.
- (a) There is a well-defined due diligence process prior to the GEF Partner Agency’s approval of a project, to assess fiduciary risks, including preparation of risk mitigation and action plans so that proposed executing entities have adequate fiduciary controls in place to manage GEF funds used to finance a project.
 - (b) Information regarding funding agreements is made publicly available.
 - (c) There is a monitoring system in place designed to ensure that grants are implemented, and funds are used by executing entities as intended.
 - (d) For projects funded by GEF, there is a framework in place to suspend disbursements to executing entities and recover GEF funds not used in

⁴⁴ Consistent with GEF Policy FI/PL/03, *Fee Policy for GEF Partner Agencies*, the selection process for the GEF Partner Agency that shall perform executing functions should be transparent, and this exception from normal GEF practice should be clearly described at the project concept stage, i.e., including such information in the Project Identification Form or submitted before or by the time of CEO Endorsement/Approval at the latest.

compliance with legal agreements including fraud.

4. Financial Disclosure/Conflict of Interest - *The financial disclosure and conflicts of interest policies delineate the process surrounding mandatory financial disclosures of possible or apparent conflicts of interest by identified parties.*
 - (a) Documented policies covering identified parties define conflicts of interest arising from personal financial interests or otherwise that require disclosure, including actual, perceived and potential conflicts.
 - (b) The policies specify prohibited personal financial interests and other types of conflicts of interest situations.
 - (c) The policies describe the principles under which conflicts of interests are reviewed and resolved by the GEF Partner Agency. It describes sanction measures for parties that do not self-disclose where a conflict of interest is identified.
 - (d) Parties covered by the policies are provided a way to disclose personal financial interests and/or other conflicts of interest situations annually and/or on an ongoing basis to an administrative function within the GEF Partner Agency.
 - (e) The policies establish processes for the administration and review of financial disclosure interests of the defined parties, as well as resolution of identified conflicts of interests, under an independent monitoring/administration function.
5. Code of Ethics/Conduct - A code of ethics/conduct or equivalent for GEF Partner Agency staff promotes responsible conduct and ethical behavior.
 - (a) A documented code or equivalent defines ethical standards to be upheld, including protecting GEF Partner Agency and trust fund assets. The code lists parties required to adhere to the standards including senior managers, employees, consultants and independent experts. It describes disciplinary and enforcement actions for violations and provides for appropriate flexibility in application and implementation in local environments.
 - (b) An ethics or related function provides administrative support for the code or equivalent, including awareness-raising of the code or equivalent, providing advice on and monitoring compliance with the code or equivalent and investigating or referring for investigation identified or alleged violations.
 - (c) Multiple avenues for reporting compliance and/or other business conduct concerns such as a hotline (for example, web portals for online reporting, and information on confidential email and phone numbers and physical means of reporting) and contact information for functional/department

options (e.g. human resources, ethics office or internal audit) are readily available (e.g. on the GEF Partner Agency's intranet and/or external websites).

6. Internal Audit - *Internal auditing is an independent, objective activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*
- (a) Internal audit activity is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors (IIA). GEF Partner Agencies have their own internal guidelines to aid audit staff in applying the standards.
 - (b) Auditors and entities that provide internal auditing services adhere to ethical principles of integrity, objectivity, confidentiality and competency.
 - (c) The internal audit function is functionally independent and objective in the execution of its respective duties. There is an officer designated to head the internal function. The chief audit officer reports to a level within the organization that allows the internal audit activity to fulfill its responsibilities objectively.
 - (d) The internal audit function has documented terms of reference/charter that outlines its purpose, authorized functions, and accountability and confirms the professional standards being followed and the arrangements in place for the function's independence and objectivity.
 - (e) The internal audit function has a documented description of the audit planning process, including a risk-based methodology for preparing these audit plans, including the cycle of coverage expected in each plan. The audit plan outlines the priorities of the function and is consistent with the GEF Partner Agency's goals.
 - (f) The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) for proper coverage and to minimize duplication of efforts.
 - (g) The internal audit function disseminates its findings to the corresponding senior and business management units, who 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.
 - (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.

7. Investigation Function - *The investigation function provides for independent, objective investigation of allegations of fraudulent and corrupt practices (taking into account as appropriate recognized definitions such as those agreed by the International Financial Institutions Anti- Corruption Task Force) in GEF Partner Agency operations, and of allegations of possible agency staff misconduct.*
- (a) The GEF Partner Agency's investigations function has publicly available terms of reference that outline the purpose, authority, and accountability of the function.
 - (b) To ensure functional independence, the investigations function is headed by an officer independent from operational or programmatic activities who reports to a level of the organization that allows the investigation function to fulfill its responsibilities objectively and independently.
 - (c) The investigation function is carried out in accordance with standards, referred to in its terms of reference, that provide for:
 - Maintaining objectivity, impartiality, and fairness throughout the investigative process and conducting investigation activities competently and with the highest levels of integrity.
 - Managing any actual or potential conflicts of interest of investigative staff.
 - Protecting confidentiality.
 - Basing investigative findings on facts and related analysis, which may include reasonable inferences and take into account both inculpatory and exculpatory information.
 - Having sufficient access to the personnel, records, facilities of the entity to meet the above requirements.
 - (d) The investigations 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.
 - (e) The investigations function has a defined process for periodically reporting information on the investigation function, case trends and lessons learned with respect to internal controls. To enhance accountability and transparency, to the extent possible, case trend reports and other information are made available to senior management and respective functional business areas.

- (f) Subject to GEF Partner Agency requirements of confidentiality, the GEF Partner Agencies
- Report to Council, through the Secretariat, when an Agency determines to take under formal review⁴⁵ an allegation of possible non-compliance with Agency fiduciary requirements, including fraud and corruption involving a GEF funded project, in accordance with its policies and procedures, together with any non-confidential information about the review that the Agency is able to provide
 - Keep the Council informed of developments in those cases, through the Secretariat.
 - Notify the GEF Council, through the Secretariat and with a copy to the Trustee, when an Agency determines that GEF funds are not being used or have not been used for the purpose for which they have been provided, including any fraudulent or corrupt practices.
 - Report to Council on an annual basis through the Secretariat, statistical information on cases involving non-compliance with Agency fiduciary requirements (including fraud and corruption) that involve GEF-financed projects and are under their formal review.

8. Hotline & Whistleblower Protection – *GEF Partner Agency policies provide avenues for reporting suspected violations and protections for individuals reporting such violations.*

- (a) A hotline or comparable mechanism (for example, web portals for online reporting, and information on confidential email and phone numbers and physical means of reporting) is in place and accessible to ensure the capacity to take in reports of suspected unethical, fraudulent or similar activity as defined by GEF Partner Agency policy.
- (b) An intake function coordinates information reported from the hotline, compliance and/or other business concerns from internal and external sources. The intake function maintains an appropriate level of autonomy from the investigations function.
- (c) Records are maintained of complaints received from communication channels, and the status of actions taken on them, with regard for the confidentiality of cases.
- (d) A whistleblower protection policy is in place which:

⁴⁵ The phrase “taken under formal review” refers to allegations that the Agency has determined to be credible and merit further formal review or investigation, according to Agency procedures.

- Specifies who is protected and defines protected disclosures including those relating to violations of law, rules or regulations, abuse of authority, gross waste of funds, gross mismanagement or a substantial and specific danger to public health and safety.
 - Defines the standard of protection from retaliation including placing the burden on the agency to provide evidence that the alleged acts of retaliation would have taken place absent the protected disclosure.
 - Extends protection for staff.
 - Establishes reasonable timeframes for lodging complaints of retaliation.
 - Allows management/human resources to take precautionary measures, if deemed appropriate, to protect complainants.
 - Indicates that staff found to have engaged in retaliation will be subject to disciplinary measures.
- (e) Policies are in place to provide confidentiality and/or anonymity, as requested, of whistleblowers, informants and witnesses or others making reports (such as by using appropriate hotline technology and preserving anonymity in the reporting processes).
- (f) Procedures are in place for the periodic review of handling of hotline, whistleblower, and other reported information to determine whether it is handled effectively and whether processes for protecting whistleblowers and witnesses are consistent with best international practice.
9. Anti-Money Laundering and Combating the Financing of Terrorism – *GEF Partner Agencies demonstrate that they have in place the necessary policies, procedures, systems, and capabilities to:*
- (a) Systematically screen individuals and/or entities to whom/which GEF funds are transferred for risks related to money laundering and the financing of terrorism;
 - (b) Effectively address risks when identified, based on standard decision-making procedures;
 - (c) Prevent GEF funds being used for the purpose of any payment to persons or entities, or for the import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, including under United Nations Security Council Resolution 1373 and related resolutions.