GEF/C.38/8
June 8, 2010

GEF Council Meeting
June 29 – July 01, 2010
Washington DC

Agenda Item 14

BROADENING THE GEF PARTNERSHIP BY OPERATIONALIZING PARAGRAPH 28 OF THE GEF INSTRUMENT

Recommended Council Decision

The Council, having reviewed GEF/C.38/8, *Broadening the GEF Partnership by Operationalizing Paragraph 28 of the GEF Instrument*, notes the benefits to the GEF from including additional qualified executing entities in the GEF network, and approves the approach for operationalizing paragraph 28 of the GEF Instrument and accrediting new Project Executing Entities as outlined in the document.

Based on the Institutional Review of Four UN Agencies, attached as Annex 3 of GEF/C.38/8, the GEF approves the following four entities as GEF Executing Entities: the United Nations Education, Scientific, and Culture Organisation (UNESCO), U.N. Habitat, the World Food Program (WFP), and the World Health Organization (WHO). The Council directs the Secretariat to engage a third party consultant to assess their compliance with the GEF's minimum fiduciary standards. The Council further directs the Secretariat and Trustee to negotiate and conclude the necessary Memoranda of Understanding and Financial Procedures Agreement to establish them as GEF Project Executing Entities.

The Council requests the Secretariat, in cooperation with the Trustee, as necessary, to:

(a) Establish an accreditation panel comprised of up to 4 qualified experts from appropriate disciplines to evaluate accreditation applications;

(b) In consultation with the panel, establish a progressive approach to evaluation;

(c) Accept applications for accreditation from multilateral development banks, international organizations, regional organizations, bilateral development agencies, national institutions, non-governmental organizations, and academic institutions; and

(d) Bring resulting recommendations, as available, to Council.

The Council requests the Evaluation Office to initiate in June 2012 a review of the effort to operationalize paragraph 28, to be brought to Council for review in June 2013.

The Council agrees that accredited Project Executing Entities will receive a 9% fee for their project cycle management services.

The Council agrees that the costs of accreditation of the non-UN entities will be recovered from Applicant Executing Entities through an up-front fee.

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EXECUTIVE SUMMARY

1. The GEF Secretariat prepared the present proposal in response to the GEF-5 policy recommendations on allowing additional agencies referred to in paragraph 28 of the GEF Instrument to cooperate with the Secretariat and Trustee directly to assist recipient countries in preparing and implementing GEF-financed projects. The proposal recommends that a new definition of GEF entities be created – GEF Project Executing Entities – and that a process be created to accredit new entities that will be able to receive GEF resources directly for projects.

2. Consideration of new project entities in the GEF is not new, and seven new agencies were added to the GEF network of agencies in the past decade, following the provisions of paragraph 28. Moreover, direct access for national entities and CSOs has been under discussion for some time. New agencies would expand the set of skills available to the GEF. Direct access for national entities would enhance country ownership of projects in a way that is consistent with the Paris Declaration and the Accra Agenda for Action.

3. The present proposal argues that adding new GEF Executing Entities can be accomplished in a cost neutral manner, but this is dependent on several assumptions, including a reduction in the agency fee to 9% for EEs and that applicants pay for the cost of their accreditation. Taking into account high start up costs for the Trustee, implementation in a cost-neutral manner will depend on the number of new entities that are accepted, at least initially.

4. The paper proposes that the same process applied previously for new UN Agencies as Executing Agencies be followed in adding new UN agencies as Executing Entities. A separate accreditation process will apply for other types of EEs, characterized by the following elements:

a) a minimal role by the GEF Secretariat in handling administrative details related to receiving and processing applications;
b) formation of an independent accreditation panel to evaluate applications;
c) use of a progressive, risk-based evaluation methodology, according to criteria that are structured to ensure that an applicant meets the GEF fiduciary standards, particularly with regard to project performance, financial management, and internal controls.
d) a seven step accreditation process would be used, starting with submittal of an endorsement letter from a recipient country's operational focal point, and concluding with a memorandum of understanding with the Council and a financial procedures agreement with the Trustee.
e) applicants would pay an up-front accreditation fee; in case more in-depth analysis is needed, additional fees could be charged and would need to be paid for accreditation to move forward;
f) the Council would make final decisions, based on panel recommendations.

5. The paper proposes that four UN agencies that have notified the Secretariat of their interest to serve as Executing Entities – the United Nations Education, Scientific, and Culture Organization (UNESCO), U.N. Habitat, the World Food Program, and the World Health Organization – be approved as GEF Project Executing Entities. The GEF Secretariat would form

an accreditation panel as soon as possible, with a view to begin accreditations on other types of entities as soon as possible. The Office of Evaluation (EO) is asked to evaluate the GEF's experience with Executing Entities and submit an evaluation in June 2013.

INTRODUCTION

1. The Policy Recommendations for the Fifth Replenishment of the GEF Trust Fund (GEF-5), under the title of *Broadening of the GEF Partnership*, requested that "the GEF Secretariat, in collaboration with the GEF Trustee, prepare a proposal for Council review in June 2010 to allow additional agencies referred to in paragraph 28 of the Instrument to cooperate with the Secretariat and Trustee directly, subject to Council approval, and in accordance with national priorities, to assist recipient countries in preparing and implementing GEF-financed projects. The proposal should include analysis of the pros and cons for each type of institution and detail the modalities for the engagement of such institutions."

2. This document contains a proposal on how the GEF could broaden its network of agencies through the further operationalization of paragraph 28 of the GEF Instrument. The proposal outlines a process through which UN agencies would become Project Executing Entities. It also describes how GEF recipient countries could nominate other types of organizations for accreditation as GEF Executing Entities, which would include a third-party review of their fiduciary controls and practices and project management capacities. The Council would be able to accredit those entities that are deemed as meeting the GEF's requirements. Accredited Project Executing Entities would then be eligible for direct access to GEF resources for the preparation and execution of GEF projects.

BACKGROUND

3. The choice of agencies with which the GEF and GEF recipient countries should partner is a critical consideration in the overall strategic development of the GEF Partnership. As highlighted in the GEF-5 policy recommendations, all ten GEF Agencies have played key roles, within their areas of comparative advantages, in helping recipient countries develop, implement, and manage GEF projects. They have also contributed valuable advice on the formulation of GEF-wide policies. However, the GEF needs to continue to ensure that its policies and procedures continue to develop in line with accepted international practices in terms of aid effectiveness.

4. Consideration of additional entities in the GEF partnership is not new, and the GEF relied on paragraph 28 when the number of GEF agencies was expanded from three to ten. The evolution of the engagement of GEF Agencies in the partnership has gone through three phases: (i) from the inception of the GEF (1991) to 1999, when only the three Implementing Agencies – UNDP, UNEP, and the World Bank – had direct access to GEF resources, in conformity with paragraph 22 of the GEF Instrument; (ii) from 1999 to 2006, when seven additional Executing Agencies[1] were brought in through a phased approach under a policy on expanded opportunities

[1] African Development Bank(AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IADB), European Bank for Reconstruction and Development(EBRD), International Fund for Agriculture and Development(IFAD), Food and Agriculture Organisation (FAO), and the United Nations Industrial Development Organisation (UNIDO).

for executing agencies and progressively given direct access to GEF resources, as allowed for by paragraph 28 of the Instrument; and (iii) the post 2006 period when a level playing field was established for all 10 GEF Agencies with the abolishment of the corporate budget for the Implementing Agencies.

5. Expanding access to GEF resources to a greater number of agencies, especially to national institutions and CSOs, has been a topic of discussion on the international stage, both inside and outside of the GEF, for several years. If the GEF is to remain a pioneering international financing institution, it will need to update its operational modalities to keep abreast of recent policy trends for greater country ownership in the programming of international assistance and greater use of country systems, particularly as outlined in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. This incipient initiative to expand the range of GEF entities with direct access to GEF resources is consistent with the emphasis in both of these documents on country ownership, alignment, and greater use of country systems.

6. New international financing mechanisms are increasingly relying upon the use of recipient countries' own systems to program and manage international assistance. The Global Fund to Fight AIDs, Tuberculosis, and Malaria (GFATM) and the Adaptation Fund of the Kyoto Protocol (AF) have both developed systems that allow for a central trust fund to provide resources directly to national institutions that meet approved standards, rather than relying solely on third party multilateral institutions.

7. The GEF's experience with the Policy on Expanded Opportunities has overall been positive. An evaluation[2] undertaken by the GEF Evaluation Office and discussed at the November 2006 Council meeting found that all the GEF Executing Agencies have relevant mandates and possesses technical capabilities to work on relevant matters. Further, the evaluation conclude that the quality of the Executing Agency projects is on par with internationally quality standards and that the ability of the Executing Agencies to source and ensure co-financing for GEF initiatives follows the same pattern as Implementing Agencies.

Box 1. Paragraph 28 of the GEF Instrument

The Secretariat and the Implementing Agencies under the guidance of the Council shall cooperate with other international organizations to promote achievement of the purposes of the GEF. The Implementing Agencies may make arrangements for GEF project preparation and execution by multilateral development banks, specialized agencies and program of the United Nations, other international organizations, bilateral development agencies, national institutions, non-governmental organizations, private sector entities and academic institutions, taking into account their comparative advantages in efficient and cost-effective project execution. Such arrangements shall be made in accordance with national priorities. Pursuant to paragraph 20(f), the Council may request the Secretariat to make similar arrangements in accordance with national priorities. In the event of disagreements among the Implementing Agencies or between an Implementing Agency and any entity concerning project preparation or execution, an Implementing Agency or any entity referred to in this paragraph may request the Secretariat to seek to resolve such disagreements.

8. The GEF provided recipient countries with a broader choice of agencies with which to work, while the GEF took on a larger mandate, including the addition of the persistent organic

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[2] GEF/ME/C.30/4, *Evaluation of the Experience of Executing Agencies under Expanded Opportunities in the GEF*.

pollutants (POPs) and land degradation focal areas. The reform also introduced greater competition to the GEF by allowing the recipient countries to choose to work with the agency(ies) with more specialized skills and capacities in the relevant areas (a.k.a. comparative advantages); this competition also helps to ensure greater cost effectiveness[3] and achievement of results.

9. Enabling direct access to new entities is a tribute to the GEF Agencies' success in building capacity within the various types of institutions through which they have worked, particularly within national agencies and institutions in recipient countries. Most of the agencies likely to apply for direct access – including national agencies, multilateral and regional agencies, and civil society organizations (CSOs) have successfully executed GEF projects under the supervision and guidance of GEF Agencies.

OVERALL APPROACH

10. As stated in the GEF-5 policy recommendations, it is proposed that the three Implementing Agencies and the seven Executing Agencies operating under expanded opportunities maintain their current status in the GEF. They will continue to assist countries in implementing projects in their areas of comparative advantage and engage with the GEF Secretariat on corporate activities, including formulation of GEF-wide policies through the established GEF Focal Area Task Forces[4] as well as the GEF Operations Committee.[5]

11. In accordance with paragraph 28 of the GEF Instrument, this paper proposes that additional entities wishing to design and execute GEF projects without working under one of the current ten GEF Agencies be allowed to apply for accreditation as GEF project Executing Entities. The GEF Secretariat proposes the new term of Executing Entity (EE) to distinguish them from the current group of ten GEF Agencies, which includes both IAs, and EAs operating under expanding opportunities. Consistent with the GEF-5 policy reform recommendations, GEF EEs would only engage on project cycle management issues. They would not engage in GEF corporate activities.

12. This paper proposes that UN agencies applying to be Executing Entities be subject to the same accreditation and entry process that applied to other UN agencies that are currently IAs and EAs, which is briefly described below. Four UN Agencies have already expressed interest in working directly with the GEF Secretariat and Trustee and the Secretariat has already reviewed positively their strategic match with the GEF. All other applicant Executing Entities (here after referred to as Applicants) would need to undergo an accreditation process, at their own expense, paid up- front, which would include a brief review of an Applicant's value-added to the GEF as well as an assessment of the Applicant's capacity to execute GEF projects and its ability to meet the GEF's fiduciary standards and other project management rules.

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[3] The choice of Agency is effectively cost-neutral, as IA fees are uniform across type of agency and project. However, the more efficient the agency, the more it could be expected to do with the flat fee provided to it.

[4] The task forces are chaired by the focal area team leaders at the Secretariat, and include focal area specialists from the Secretariat and the GEF Agencies.

[5] The Committee is chaired by the Head of Operations & Strategy at the GEF Secretariat and includes the Executive Coordinates of the GEF Agencies.

13. The paper first assesses the benefits and costs of including new entities to work directly with the Secretariat and Trustee on project execution. It then addresses key policy questions regarding the accreditation process and proposes an accreditation process. The GEF Secretariat engaged a consultant (Grant Thornton) to assist it in analyzing these key questions.

BENEFITS OF A BROADER PARTNERSHIP

14. The benefits of allowing direct access to a greater range of agencies are similar to the benefits seen during the GEF's experience with the Policy on Expanded Opportunities. Namely, the inclusion of agencies with different strengths and capabilities will add value to the GEF network and will provide recipient countries with more choice. As called for by the GEF-5 policy recommendations, the "pros and cons" of broadening access to each type of agency under is discussed in Annex 2.

15. The range of entities that are interested in accessing GEF resources directly would bring to the GEF different, and sometimes unique skills, capabilities, and other assets (e.g.. enhanced co-financing) that would enhance the GEF's ability to accomplish its mission. Enabling a greater range of entities to work directly with the GEF would energize these entities' engagement with the GEF and its mission, thereby enhancing the degree to which the GEF leverages their skills and capabilities. Thus, many of them are likely to be increasingly effective in working directly with the GEF rather than through one of the ten GEF Agencies. This reform would also bring the following benefits:

(a) New entities would also bring a degree of in-country experience, local knowledge, and new networks that current GEF Agencies might not have.

(b) In many instances, direct access is likely to be more cost effective since the GEF would only have to fund the management costs of one entity for a given project rather than pay both the GEF implementing agency fee and the portion of the project management budget supported by the GEF grant. Indeed, this reform is consistent with the impact of the technology revolution in the private sector, which has reduced the role of middle men.

(c) This reform will enhance country ownership since countries will have a broader range of agencies from which to choose. As called for by the Paris Declaration, use of recipient country national agencies will particularly enhance country ownership.

(d) The GEF would be able to engage directly with regional entities, which would enable the GEF to build these organizations capacity in terms of managing resources and projects.

(e) It will also further promote the agreed measures of the Accra Agenda for Action, whereby donors agreed to greater use of "good quality country systems."

COST BENEFIT ANALYSIS

16. These benefits need to be balanced against the potential costs of enabling direct access to GEF resources for more entities. These potential costs include both initial costs –costs to accredit new entities, to negotiate Memoranda of Understanding (MOU) and Financial

Procedures Agreements (FPAs) – as well as the possibility of increased transaction costs related to dealing with more entities.

17. Based on the following assumptions and considerations, the GEF Secretariat believes that an expansion of the GEF partnership can be achieved in GEF-5 in at least a cost neutral manner.

(a) The primary driver of costs to the GEF is the number of overall projects, not the number of agencies. It is reasonable to assume that the number of projects in GEF-5 will be the same as GEF-4. The average size of project will increase.

(b) Executing Entities would receive a fee of 9% on projects. Additionally, the Secretariat proposes that there be a cap on project management costs of 6% of the total grant[6].

(c) Based on the experience of the seven Executing Agencies operating under enhanced opportunities, it is projected that new executing entities would at most assume a 10% share GEF-5.

(d) New entities would pay for their costs of accreditation[7].

(e) The costs to the Evaluation Office and STAP will be negligible given that the number of projects does not change. Costs for the Evaluation Office of dealing with more entities would materialize when Executing Entity projects move to terminal evaluation. These costs are also project driven and are not likely to increase by much.

(f) Costs to the GEF Secretariat are also expected to be low and would be associated with managing the application process. Depending on the flow of applications received, the Secretariat might need to consider one additional staff position.

(g) The greatest cost will be increased start up and transaction costs for the Trustee, as explained below.

18. If Executing Entities receive a 9% fee and project management costs for Executing Entities are capped at 6% of the project grant, the combined total of fees and management costs would come to 15%. This represents a savings of five percentage points compared with current arrangements in the GEF whereby IA fees are 10% and management costs are capped at 10%.

19. If new Executing Entities assume 1% of the GEF-5 portfolio (estimated conservatively at \$3.6 billion), resulting savings from this change would be \$1.8 million. If the Executing Entities' share of the portfolio rises to a total of 10%, savings would increase to \$18 million.

20. These potential savings would, however, also entail increased costs to the Trustee. As new Executing Entities come on board, the Trustee will be responsible for negotiating new Financial Procedures Agreements, advising new entities on GEF protocols and procedures, and integrating them into the GEF network. To minimize new costs, the Trustee plans to organize negotiation, training, and initiation sessions for new Executing Entities in groups after they are approved by Council. (For example, Trustee could handle new UN agencies together). The

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[6] Currently, GEF Agencies receive a 10% implementing agency fee, of which 9% is for project cycle management services. Executing entities under the GEF Agencies also incur project management costs. GEF policy has been to limit these to 10% of the total project grant. This has meant that total overhead and management costs amount to 20%.

[7] This is estimated to range from \$25,000 to \$100,000. See paragraphs 41 to 45 for more information.

Trustee estimates that costs for these initiation and training events will run between $100,000 and $120,000 for each group of Entities. There would also be a slight increase in additional annual transaction costs.

21. If the assumptions of cost savings above hold, given the indicated costs for the Trustee, it should be possible to accredit multiple new Executing Entities without incurring net costs to the GEF Trust Fund. Indeed, there could be net savings. Given the numerous benefits described, and either cost neutrality or cost savings, benefits clearly appear to outweigh costs.

ACCREDITATION PROCESS: KEY POLICY QUESTIONS

22. The Council will need to answer key questions regarding the accreditation process prior to define steps in the process. This section recommends positions on the following key issues: accreditation of UN agencies, engagement with bilateral agencies and national entities, what type of entity should evaluate Applicants, the role of the Secretariat in the accreditation process, the type of review that should be used (single full review vs. progressive review), the process by which Applicants would pay for the costs of accreditation, and key aspects of the risk-based evaluation process.

UN Agencies

23. Several UN agencies already serve as GEF Agencies and became IAs or EAs through a different process than that which will be recommended below. Four UN agencies have already expressed an interest in accessing the GEF Trust Fund directly: the United Nations Educational, Scientific, and Educational Organisation (UNESCO), United Nations Habitat (UN Habitat), the World Food Program (WfP), and the World Health Organization (WHO). All have either executed GEF projects as an executing agency or they have received funding directly from the World Bank outside of the GEF.

24. Prior to 2006, seven agencies, including three UN agencies, became GEF Executing Agencies with direct access. This was achieved through a four step process: (a) the agency notified the Secretariat of its interest in accessing the GEF Trust Fund directly; (b) the Secretariat reviewed each agency according to its strategic fit and complementarity with the GEF as well as its capacity to execute projects; (d) the Council decided whether to accept the application; and (e) memoranda of understanding and FPAs were concluded.

25. For the four agencies above, steps (a) and (b) have already been completed.   The agencies informed the Secretariat of their interest in working directly with the Secretariat and Trustee in 2009 during the GEF-5 replenishment, and the Secretariat has performed an institutional review, attached as Annex 3. The Secretariat, therefore, believes it appropriate to present their candidacies to Council as the first set of Executing Entities. If approved, the Secretariat and Trustee would begin work to conclude the necessary memoranda of understanding and financial procedures agreement.

26. If approved as new Executing Entities, the Secretariat would also need to contract a third-party evaluator to assess each agency's fiduciary standards, in the same manner as has been done for the ten GEF Agencies. For those areas in which an agency did not meet the GEF's standards, the agency would need to agree to a monitorable action plan. The GEF Trust Fund would pay for the assessment of the Applicant's fiduciary standards in the same way that it paid for the

assessments of the ten GEF Agencies. The GEF Secretariat estimates these assessments would cost approximately $15,000 per agency, or $60,000 total.

Engagement of Bilateral Agencies

27. The GEF has engaged with bilateral aid agencies on projects for almost 20 years, usually through project co-financing. Several Council Members have asked that the GEF enable bilateral agencies to engage "directly" with the GEF Trust Fund. There are two options:

(a) Accreditation and Direct Access: Bilateral agencies would apply for accreditation as Executing Entities following the process outlined below. The Secretariat proposes that each bilateral Executing Entity be limited to project grant approvals up to 10% of their government's contribution to the GEF Trust Fund during a replenishment. Upon reaching this ceiling, no more project proposals would be processed.

(b) Relevant Bilateral Aid Qualifies as GEF Contributions: Based on practices within the Multilateral Fund of the Montreal Protocol, the GEF would count bilateral cooperation to GEF recipient countries as a contribution to the GEF Trust Fund if certain conditions were met. Such contributions would be limited to 10% of the pledge. The amount representing the annual bilateral co-operation would be credited for the year designated by the GEF donor participant, as part of its contribution. The underlying projects also would need to be:

i. Consistent with the mandate of the GEF;

ii. Consistent with the strategic objectives of the GEF focal areas;

iii. Based on the incremental cost principle;

iv. Consistent GEF project review criteria;

v. Endorsed by the GEF Country Operational Focal Point; and

vi. Reviewed and approved by the GEF Council.

National Entities

28. The types of entities of recipient country governments that could apply for accreditation would be those government agencies that execute projects and are funded in a manner to execute particular projects.

Role of the Council and Secretariat

29. For accreditation of entities besides UN agencies, the Council and the Secretariat would have roles as follows. The Council's would make final decisions on whether to accredit a GEF Executing Entity. All favorable recommendations by the independent accreditation evaluation body will be presented to Council for its review and possible approval. The Council would receive reports on all applications received and decisions taken by the evaluation body, including rejections. The Council would also approve: (i) the arrangements for procuring accreditation assessment services by an accreditation assessment entity; (ii) the role of the Secretariat; (iii) the application and accreditation process and criteria; and (iv) and Memoranda of Understanding with accredited Executing Entities.

30. The GEF Secretariat recommends that its role in the accreditation process should be minimal so as to avoid perceptions that it is allowing its own value judgments or interests to influence accreditation recommendations. On the other hand, the accreditation entity will need to interact with some part of the GEF on administrative issues (e.g. contracting and forwarding recommendations to Council) and it could be costly to have the accreditation assessment entity (hereafter referred to as accreditation entity) assess all applications, even incomplete ones. Based on options put forward by Grant Thornton, the Secretariat recommends that it play the following basic functions:

a) *Review of applications for completeness*: The Secretariat would receive all applications and review them to ensure that all sections were complete and responsive. The Secretariat would return those applications deemed inadequate, with guidance on what information was lacking. Applications deemed complete would be forwarded to the assessment entity.

b) *Minimum review of value added/strategic fit*: The Secretariat would make a very brief assessment of whether the entity would add value to the GEF and have strategic fit. Applications not demonstrating value added would be returned, but this would only happen in very rare circumstances. (See Annex 4 for more detail).

c) *Receipt of accreditation fees*.

d) *Administrative arrangements with accreditation entity*, including conclusion of contracts and payment for services rendered.

e) *Reporting to Council*, including forwarding of recommendations from accreditation entity.

31. The strengths of this approach are that the GEF Secretariat would remain independent of judgments of an Applicant's fiduciary standards and their capability to implement GEF projects. Efficiencies would be enhanced and costs controlled because only fully complete applications would be forwarded. The review of an Applicant's value added could open the Secretariat to charges of bias, but this is expected to be a rare occurrence and the Secretariat would remain fully accountable to the Council.

Accreditation Entity

32. With the assistance of Grant Thornton, the Secretariat considered several options for what type of entity the GEF Council should rely on to evaluate applications for accreditation as GEF Executing Entities, including a single or multiple firms engaged by contract or an accreditation panel formed for this purpose. The Secretariat recommends that assessments of applications be performed by an accreditation panel comprised of subject matter experts selected based on their knowledge and expertise on fiduciary issues, financial evaluation of donor implementing agencies, risk assessment, and project execution. While there could be cost advantages to contracting with a single firm, it might be difficult to find a firm with sufficient expertise in all the areas necessary for the assessment. Formation of a panel to assess applications would enable the GEF to match skill sets on the panel with accreditation needs and to allow for greater international representation.

33. Using World Bank procurement guidelines, the Secretariat would acquire the services of necessary experts to form the accreditation panel. Expert consultants that would need to be

retained would include financial experts, donor-funding experts, and environmental project experts.

Types of Evaluation

34. Two methods for evaluating or assessing applications were considered: a single full review and progressive levels of review. Under a single full review, the Accreditation Panel would undertake a full review of the same depth for all Applicants, regardless of their degree of experience in working with the GEF or differences in the degree of information available on their fiduciary and control practices. A progressive review would be one in which the depth of review would be based on the level of risk presented by an entity. It would begin with a preliminary desk review and, for those entities requiring it, would include more comprehensive levels of review by the Accreditation Panel for applications deemed to require it based on the panel's assessment of risk according to explicit evaluation criteria, the need for further information and assessment, or the clear demonstration of full capacities in all evaluation criteria areas.

35. The Secretariat recommends the progressive option. While the single review option is attractive in terms of equality of treatment, it is impractical as there will be variance among Applicants in terms of the level of risk they present to the GEF, experience in executing projects, and information about their fiduciary controls and practices in their application. The level of review effort will be driven by the facts and circumstances of each Applicant and the resulting complexity and risk. It is also unlikely that accreditation can be conducted through a desk review in all circumstances. In some cases, onsite verification of capacities and systems may be required in order to render a decision on accreditation. Some are likely to require a less intensive review and could proceed more quickly than those Applicants who do not have the same depth of experience and controls. The single full review option is also likely to be more costly overall, as all applications would need to be subjected to the same degree of scrutiny

36. The progressive review option would base the level of review effort on an assessment of each application. The accreditation panel would conduct a preliminary review of each Applicant to determine if there is sufficient information to categorize the Applicant as "low risk" such that no further review is necessary. These Applicants would receive recommendations for approval after successful completion of a preliminary review. The remaining Applicants would progress to a full review, which would then yield recommendations to Council on whether to "approve" or "reject."

Risk-Based Evaluation Process and Scoring

37. The accreditation panel would employ a risk-based evaluation and scoring system to evaluate applications received. The panel would assess each application based on evaluation criteria and indicators in the application and would score them. This process can be summarized as follows and is described in greater detail in Annex 4 (Risk-Based Evaluation Process and Scoring).

38. After a brief review by the GEF Secretariat of the Applicant's strategic fit and value added (see Annex 4), all complete applications would be forwarded to the accreditation panel. The panel would evaluate the applications based on two sets of criteria that track the GEF's

minimum fiduciary standards: (i) performance criteria including procurement; and (ii) financial management and internal controls.

(a) The performance evaluation criteria are designed to assess each Applicant's capacity to develop, appraise, and execute successful GEF funded projects. They also include assessment of past performance; and

(b) The financial management and internal control criteria are meant to assess the Applicant's business environment, including codes of conduct, as well as internal controls. They are based on the GEF's fiduciary standards.

39. The panel would score and rank applications on their level of risk to the GEF. Those Applicants assessed as having a level of risk below a certain threshold would be recommended for "approval" to the Council. Those Applicants above a specified threshold would be recommended for "rejection," and Applications receiving a "medium" risk score would be subject to further evaluation, possibly involving on-site reviews and an assessment of whether immediate mitigation measures could be implemented so as to bring the associated risk to a level whereby the Applicant could be recommended for approval.

Cost of Accreditation Evaluation and Payment

40. The Secretariat recommends that all applicant Executing Entities, besides UN agencies, pay for the full cost of their accreditation. This is important for enabling this reform to be cost neutral to the GEF. Applicants would be required to pay an initial accreditation fee to the GEF prior to the start of the assessment by the accreditation panel, which would be non-refundable, even if an Applicant entity were to fail to receive accreditation.

41. The initial up-front fee would need to be sufficient to cover the cost of a full desk review and assessment of the application. Grant Thornton estimates that a fee of $25,000 per applicant should be sufficient. This is based on the assumption of a four-member panel and that applicants present complete documentation and have a history of executing projects similar to GEF projects.

42. For those applications requiring further evaluation, however, the panel would estimate the required level of additional evaluation work, and the applicant would be assessed an additional fee prior to further review. If the applicant did not wish to pay for further assessment, the application would be deemed to have been withdrawn.

43. The level of additional evaluation required would vary according to the case, but it could include field level due diligence on supporting documentation, verification of systems, review of specific transactions, and review of previous project documentation. Costs would vary, but additional costs for the panel could range up to an additional $75,000, resulting in a total cost of approximately $100,000 for some cases.

44. The GEF would likely need to budget resources up front for the Secretariat to start the process. Overtime, these funds would be repaid as accreditation fees are repaid. The GEF would receive the application fee (based on the contract or task order) from the Applicant before the accreditation panel would perform its accreditation assessment. In turn, proceeds from fees would be used to pay for the costs of the accreditation panel, including the costs of the panel members and administrative costs borne by the Secretariat.

APPLICATION AND ACCREDITATION CYCLE

45. The Secretariat recommends that the accreditation process for Applicants be comprised of the following steps. See Annex 5 for more detail on the steps below.

Step 1: Endorsement of Applicant

46. A GEF recipient country's operational focal point submits an endorsement letter to the GEF Secretariat requesting that an accreditation process be initiated for an identified agency. The Secretariat ensures its validity and invites the entity to apply. Focal points would be limited to endorsing up to two national entities, but no limits would exist for other types of entities, given that they are limited in number already.

Step 2: Application Receipt and Initial Secretariat Review

47. The Applicant submits an application to the GEF Secretariat, which reviews it for completeness and strategic fit/value added to the GEF partnership. Applications deemed completed are forwarded to the accreditation panel.

Step 3: Evaluation of Applications by Accreditation Panel

48. The accreditation panel conducts a risk-based evaluation using the methodology described in Annex 4 "Risk-Based Evaluation Process and Scoring Methodology." After a preliminary assessment, Applicants are categorized into three groups: recommendation for "approval," "reject," or "further review." Those in the last category would be assessed a further fee, upon payment of which the panel would conduct further assessment, including whether the entity could implement immediate mitigation strategies that would bring it to an acceptable level a recommendation of "approval." (This fee is estimated to range up to $75,000). The panel would develop a written report of its findings and its recommendations of either "approve" or "reject" for all Applicants.

Step 4: Submittal to GEF Council

49. For each approved application, the panel submits a cover letter with its recommendation to the GEF Council, through the GEF Secretariat, with the written assessment attached. The Secretariat also copies this letter and written assessment to the Applicant. (The Council would also receive a report on the Secretariat's actions and panel's work, including a list of all applications received, completed applications forwarded to the panel, and rejected applications.)

Step 5: The GEF Council Accreditation Decision

50. The GEF Council makes the final accreditation decision for panel approved applications.

Step 6: Applicant Accreditation Notification

51. The GEF Secretariat formally notifies these Applicants of the GEF Council's accreditation decision.

Step 7: Negotiation and Approval of Memorandum of Understanding and Financial Procedures Agreement

52. Accredited Project Executing Entities will negotiate a Memorandum of Understanding with the Secretariat in which they will commit to follow all relevant GEF policies and procedures. The GEF Trustee will enter into a Financial Procedures Agreement with the GEF Project Executing Entity that will enable the Trustee to transfer funds to the entity in accordance with the relevant rules and policies applicable to GEF projects generally and the relevant provisions of the applicable financial procedures agreement.

53. Upon approval by the Council of the MOU, the entity will be eligible to submit project identification forms (PIFs) for grant resources from the Trust Funds managed by the GEF: the GEF Trust Fund, LDCF, and SCCF.

OTHER ACCREDITATION ISSUES

54. In the immediate term, it is expected that there will be only one type of accreditation—new accreditation of Project Executing Entities. Over time, however, it is anticipated that there may be up to three accreditation types: new, reaccreditation, and reaccreditation after suspension.

55. An Executing Entity whose application had been turned down could reapply for accreditation, but a new endorsement letter from a recipient country's operational focal point would be required. To be deemed complete, such applications would need to explain the reforms that had been taken to improve the quality of the Applicant's fiduciary controls and procedures to bring it into compliance with GEF requirements.

MONITORING AND EVALUATION

56. GEF projects approved in accordance with the paragraph 28 provisions for expanded access to GEF financing must comply with all relevant monitoring and evaluation policies and operational guidelines for GEF projects.

ANNEX 1: GEF FIDUCIARY STANDARDS

I. Core Principles

1. 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 in accordance with published guidelines and/or standards based, where available, on internationally recognized professional standards.
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 and ensure 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.

2. These core principles apply across the board, in the design and implementation of standards in each of the covered areas.

II. Recommended Minimum Fiduciary Standards

3. This section specifies the recommended minimum fiduciary standards approved by the GEF Council in June 2007. The first subsection comprises overarching audit, financial management and control areas: (1) external financial audit, (2) financial management and control frameworks, (3) financial disclosure, (4) code of ethics, and (5) internal audit. The second subsection covers the project/activity cycle: (1) project appraisal standards, including safeguards, (2) procurement processes, (3) project monitoring and project-at-risk systems, and (4) evaluation. The final subsection comprises the investigation function, including hotline and whistleblower protection.

A. Audit, Financial Management and Control Framework

1. External Financial Audit

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

a) The agency has appointed an independent external audit firm or organization.
b) The work of the external audit firm or organization is consistent with recognized international auditing standards such as International Standards on Auditing (ISA).
c) Financial statements are prepared in accordance with recognized accounting standards such as International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards 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 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 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. 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*

5. An internal control framework, as defined by internationally recognized frameworks such as COSO, Cadbury and CoCo, is a risk-based process designed to provide reasonable assurance and feedback to management regarding the achievement of objectives in the following categories:

a) Effectiveness and efficiency of operations
b) Reliability of financial reporting and financial management frameworks
c) Compliance with applicable policies and procedures.

i. 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.
ii. The control framework covers the control environment ("tone at the top"), risk assessment, internal control activities, monitoring, and procedures for information sharing.
iii. The control framework has defined roles and responsibilities pertaining to accountability of fiscal agents and fiduciary trustees.
iv. 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.
v. The control framework guides the financial management framework.
vi. Procedures are in place for identifying internal controls and assessing controls details annually in core financial management areas, including:
    a. Budgeting;
    b. Accounting;
    c. Internal control;
    d. Funds flow (including disbursements, cash management, unused fund close-out);
    e. Financial reporting; and
    f. Auditing arrangements.
    g. 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. Financial Disclosure

6. The financial disclosure policy delineates the process surrounding mandatory financial disclosures of possible or apparent conflicts of interest by identified parties.

a) A documented financial disclosure policy covering identified parties defines conflicts of interest arising from personal financial interests that require disclosure, including actual, perceived and potential conflicts.
b) The policy specifies prohibited personal financial interests.
c) The policy describes the principles under which conflicts of interests are reviewed and resolved by the agency. It describes sanction measures for parties that do not self disclose where a conflict of interest is identified.

d) Parties covered by the policy are provided a way to disclose personal financial interests annually to an administrative function within the agency.
e) The policy establishes 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.

4. *Code of Ethics*

7. A code of ethics for agency staff promotes responsible governance and ethical behavior.

a) A documented code of ethics defines ethical standards to be upheld, including protecting agency and trust fund assets. The code lists parties required to adhere to the standards including 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, including distributing the code, monitoring compliance, and authority to refer alleged violations to the agency's investigation function.
c) Multiple avenues for confidentially reporting compliance and/or other business conduct concerns such as a hotline and contact information for functional/department options (e.g. human resources and internal audit) are readily available (e.g. on the agency's intranet and external websites).

5. Internal Audit

8. Internal auditing is an independent, objective activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

a) Internal audit activity is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors (IIA).
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 independent and objective in the execution of its respective duties. There is an officer designated to head the internal audit 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 a documented terms-of-reference/charter that outlines its purpose, authorized functions, and accountability.

e) The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan. The audit plan outlines the priorities of the function and is consistent with the agency's goals.
f) The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) to ensure proper coverage and 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.

B. Project/Activity Processes and Oversight

1. Project Appraisal Standards

9. Project appraisal functions include the establishment of standards and appropriate safeguards that are used to determine whether projects and activities will 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, fiduciary, environmental, social, institutional and/or other relevant criteria, including GEF-mandated criteria, 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:
c) Policies and risk-assessment procedures are in place specifying the criteria and circumstances under which environmental, social, institutional and/or fiduciary assessments must be conducted to incorporate environmental, social or other relevant considerations into a proposed project or activity.
d) 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 focal goals; and is aligned with scientifically sound principles.
e) 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.

f) Appropriate fiduciary oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.

2. Procurement Processes

10. 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 fraud, corruption and waste.

a) Specific agency directives promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability, and authority to take procurement actions.
b) Specific procurement guidelines are in place with respect to different types of procurement managed by the agency, such as consultants, contractors and service providers.
c) Specific procedures, guidelines and methodologies of assessing the procurement procedures of beneficiary institutions are in place.
d) Procurement performance in implemented projects is monitored at periodic intervals, and there are processes in place requiring a response when issues are identified.
e) Procurement records are easily accessible to procurement staff, and procurement policies and awards are publicly disclosed.

3. Monitoring and Project-at-Risk Systems

11. The GEF monitoring and evaluation policy, adopted by the Council in February 2006, 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 consistent with the requirements of the GEF monitoring and evaluation policy have been established.
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 managerial 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 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 during implementation.
f) This process or system is subject to independent managerial oversight

4. Evaluation Function

12. 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 provide accountability in the achievement of agency objectives, and to learn from experience. The GEF monitoring and evaluation policy, adopted by the Council in February 2006, establishes minimum requirements based on widely recognized, best practice norms and standards for monitoring in the GEF, 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 monitoring and evaluation policy.
b) The evaluation function follows impartial, widely recognized, documented and professional standards and methods.
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 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.
d) An evaluation disclosure policy is in place. Evaluation reports are 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.

C. Investigations

1. Investigation Function

13. The investigation function provides for independent, objective investigation of allegations of fraud and corruption in agency operations, and of allegations of possible agency staff misconduct.

a) The investigations function has publicly available terms of reference that outline the purpose, authority, and accountability of the function.

b) To ensure independence, the investigations function is headed by an officer who reports to a level within the organization that allows the investigation function to fulfill its responsibilities objectively.
c) 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.
d) The investigations function has a defined process for periodically reporting case trends. 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.

2. *Hotline & Whistleblower Protection*

14. Agency policies provide avenues for reporting suspected ethics violations and protections for individuals reporting such violations.

e) A hotline or comparable mechanism is in place to ensure the capacity to take in reports of suspected unethical, corrupt, fraudulent or similar activity as defined by agency policy.
f) An intake function coordinates the reporting of hotline information, compliance and/or other business concerns from internal and external sources. The intake function maintains an appropriate level of autonomy from the investigations function.
g) A whistleblower protection policy specifies who is protected and defines protected disclosures (such as violations of law, rule or regulation, abuse of authority, gross waste of funds, gross mismanagement or a substantial and specific danger to public health and safety). The policy defines the standard of protection from retaliation (such as placing the burden on the agency to provide evidence that alleged acts of retaliation would have taken place absent the protected disclosure).
h) Policies are in place to ensure due process, confidentiality and/or anonymity, as requested, of whistleblowers, informants and witnesses, such as by using appropriate hotline technology and preserving anonymity in reporting processes).
i) Procedures are in place for the periodic review of whether hotline, whistleblower and other reported information is handled effectively.

ANNEX 2: ANALYSIS OF PROS AND CONS OF TYPES OF EXECUTING ENTITIES

1. The participants of the Fifth Replenishment of the GEF requested that the Secretariat's proposal on broadening the GEF partnership through the further operationalization of paragraph 28 "include analysis of the pros and cons for each type of institution and detail the modalities for the engagement of such institutions."

2. The discussion below first describes each type of entity and offers some examples of such entities. This is followed by an analysis of the pros and cons of each type of entity. The types of entities are listed in the order that they appear in the *Instrument*.

I. **Multilateral Development Banks:** The five leading multilateral development banks[8] are already GEF agencies. There are, however, smaller regional and sub-regional development multilateral banks that have experience partnering on GEF funded projects that might wish to access GEF resources directly. The Caribbean Development Bank and Corporacion Andina de Fomento (CAF) are two examples.

Pros:

- Co-financing: Would better leverage these institutions capital bases.
- Mainstreaming: Engagement with GEF would help mainstream global environmental concerns into their operations.
- Regional and Sub-regional Reach: GEF would gain from their established regional networks, contacts, and legitimacy. By partnering with them directly, the GEF could build greater capacity at the regional and sub-regional level.

Cons:

- Given the limited number and scope of such agencies, it would have to be seen whether they would be able to generate a substantial number of GEF project proposals.

II. **United Nations Specialized Agencies and Programmes:** This includes several U.N. Agencies and programmes that have a history of engaging with the GEF, including by serving as GEF project executing agencies, such as the United Nations Educational, Scientific, and Cultural Organization (UNESCO), U.N. Habitat, the World Health Organization (WHO), and the World Food Programme.

[8] The African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.

Pros:

- Specialized Expertise: Would bring to the GEF unique expertise in the particular GEF focal areas in which they operate.
- Networks/Contacts: Would bring new networks of experts and in-country contacts that the GEF might not otherwise have.

Cons:

- One UN Reform: There is a discussion on reform of the UN system. Should this reform come to more definitive conclusion, the GEF will have to reassess how it engages with UN agencies.

III. **Non-Governmental Organizations** Now called "civil society organizations" within the GEF, this group would include both international NGOs/CSOs and NGOs at the regional, national, and local levels.

Pros:

- Providing direct access for civil society organizations would provide a clear signal of the GEF's dedication to its already deep partnership with CSOs.
- Co-financing: would further stimulate already rich co-financing of GEF projects.
- Networks/Contacts: Would be able to further leverage their networks of collaborators in countries where they operate. For instance, national and international CSOs would have particularly strong networks of contacts among sub-national CSOs.
- Specialized Expertise: Would be further motivated to bring their expertise and knowledge, to bear in delivering global environmental benefits through GEF projects.

Cons:

- It might prove to be difficult for a large number of CSOs to meet the GEF's fiduciary standards and project management requirements.

IV. **Other International Organizations** This would include international organizations that are not part of the United Nations system, both at the global and regional levels. Some such organizations have gained significant experience in working on GEF projects, including the World Conservation Union (IUCN), the Organization of American States (OAS), and the South Pacific Regional Environment Programme.

Pros:

- Specialized Expertise: Would bring to the GEF unique expertise in particular GEF focal areas in which they operate.

- Regional and Sub-regional Entities: GEF would gain from their established regional networks, contacts, and legitimacy. By partnering with them directly, the GEF could build greater capacity at the regional and sub-regional level.

Cons:

- In some cases, there might be overlap with other, similar organizations at either the regional or global levels.

V. **Bilateral Development Agencies**: This category includes the agencies of the government of one GEF Participant that provides development assistance to one or more GEF recipient country. Almost all such agencies would be from the governments of Participants that contribute to the GEF Trust Fund.

Pros:

- Networks/Contacts: Would bring new networks of experts and in-country contacts that current GEF Agencies might not otherwise have.
- Co-financing: Would likely motivate these agencies to increase their co-financing of GEF projects.
- Mainstreaming: Engagement with GEF would help mainstream global environmental concerns into their operations.

Cons:

- Might be perceived to engender a lower degree recipient country ownership compared to national institutions directly.
- In previous discussions, some Council Members have stated that the Council would need find a way to mitigate the conflict of interest inherent in having one agency of a donor government receive funding from the GEF, which is also receiving money from that government.

VI. **National Institutions** This includes national and sub-national (e.g. provinces and states) government agencies in recipient countries.

Pros:

- Enhanced Country Ownership: This would be a powerful way for the GEF to deliver on the principles of the *Paris Declaration on Aid Effectiveness* that donor agencies enhance country ownership.
- Sustainability: Giving national government agencies an even greater stake in projects might enhance project and outcome sustainability.

- Alignment with Country Priorities: Would ensure that GEF funding is aligned with country priorities for the generation of global environmental benefits as contained in country strategies.
- Capacity Building/Strengthening of Country Systems: Would be a powerful means to strengthen country systems as countries take on higher levels of responsibility to lead and manage GEF projects and programs. Would provide a powerful incentive for countries to improve their country systems further. It would also deliver on a key commitment of the *Accra Agenda for Action*, whereby donor agencies agreed to promote greater use of "good quality country systems."
- Mainstreaming: Would provide for greater mainstreaming of global environmental considerations at the country level as GEF project goals would be more effectively imbedded in the operations and strategies of national government entities.

Cons:

- Diminished Independent Oversight: Might be difficult to find agencies able to become part of the GEF system under direct access.
- Independent Evaluation: Similarly, the ten GEF Agencies are able to independently evaluate the national projects supported by the GEF. Projects to be implemented by national institutions with direct access to the GEF Trust Fund will have to be carefully structured to ensure that the evaluation function is conducted in an independent manner.

VII. **Academic Institutions:** This includes colleges, universities, research centers, and think tanks engaged in environmental issues, including those domiciled in both donor countries and recipient countries. While some such entities have participated in GEF projects, few have acted as GEF executing agencies.

Pros:

- Specialized Expertise: Would bring to the GEF unique expertise in particular GEF focal areas in which they operate. They might be able to assist with targeted research and training activities.

Cons:

- Except for some targeted research and training, it is not apparent that academic institutions would be able to provide the range of necessary services.
- Not clear they would be able to raise sufficient co-financing for GEF projects.

ANNEX 3: INSTITUTIONAL REVIEW OF FOUR UN AGENCIES

1. The GEF is poised to see further growth in its business during GEF-5 as described in Annex A: GEF-5 Programming Document of document GEF/C.37/3, Summary of Negotiations on the Fifth Replenishment of the GEF Trust Fund. In response to guidance from the conventions and demand from recipient countries, activities are expected to expand in the different GEF focal areas and cross-cutting themes, such as (i) enlarged scope in chemicals; (ii) a more aggressive approach in climate change to support both countries' efforts to adopt low-carbon development strategies and increased engagement in adaptation under LDCF and SCCF; and (iii) sustainable forest management. As the business areas expand along with the necessity to work with new stakeholders, it could be beneficial to bring on board additional expertise. Expertise is required, for example, in disaster management and prevention, health, agriculture and food security, etc, to help the GEF deal with its growing engagement in adaptation in the most vulnerable countries through the LDCF and SCCF.

2. In the above context, the GEF could benefit from the addition of new partners as Executing Entities under the Policy of Expanded Opportunities. Four candidate UN agencies can be considered: (i) World Health Organization (WHO); (ii) the United Nations Education, Science and Culture Organization (UNESCO); (iii) the World Food Programme (WFP); and (iv) the United Nations Human Settlements Programme (UN-HABITAT).

3. Any potential new GEF Executing Entities will be required to fulfill the minimum fiduciary standards, as approved by GEF Council.

Mandates and Expertise of the Four UN Organizations

4. The four UN organizations have mandates that bring strength to the GEF, and comparative advantages that are complementary to the Agencies in the GEF partnership. In addition, these organizations have extensive and, in some cases, unique field presence that is key for supporting GEF activities in recipient countries. They also have a track-record of having executed GEF-financed projects through Implementing Agencies, and hence are likely to fulfill qualifications, including meeting minimum GEF fiduciary standards, to function as GEF Executing Entities.

World Food Programme

5. The World Food Programme (WFP) is the world's largest humanitarian agency dealing with hunger worldwide. WFP has had a policy shift from being a food aid agency to a food assistance agency since 1998 and has adopted a number of strategic objectives, including Investing in Disaster Preparedness and Mitigation Measures, an objective that is directly relevant to the work of the GEF, especially with respect to the adaptation activities financed under the LDCF and SCCF. Both funds have food security/agriculture and disaster risk management as key components. WFP's goals are to support and strengthen the capacities of governments to prepare for, assess and respond to acute hunger arising from disasters; and to support and strengthen the resiliency of communities to shocks through safety nets or asset creation, including adaptation to climate change.

6. There are clear synergies in a potential partnership with the GEF, as WFP is deploying tools such as vulnerability analysis and mapping; early warning and preparedness systems; disaster risk reduction programmes; and programmes to help communities' adaptability to climate change. Moreover, over the last several years, WFP's Executive Board has approved six policy documents that address WFP's role and potential impact in a range of areas including: WFP and the Environment (1998); Enabling Development (1999); Disaster Mitigation: a Strategic Approach (2002); Safety Nets (2004); Capacity Development (2004); Engagement with Poverty Reduction Strategies (2006); and Disaster Risk Reduction (2009). Taken together, these policy documents have helped provide a foundation for WFP to establish an unparalleled field-level operational network across the globe, and to develop a wide range of capacities that are highly relevant to carry out interventions in the field of the environment. The organization has garnered considerable experience in capacity development in vulnerability analysis and mapping, disaster risk reduction. It participated in 88 joint programmes in 29 countries in 2008 and continues to be the lead agency for the logistics cluster in several humanitarian activities and emergencies.

7. WFP activities relevant to the GEF's focal areas fall into two main categories; Water conservation and management, particularly in drought-prone areas, and land rehabilitation and management to transform marginal, eroded-lands into a sustainable, livelihood-enhancing resource base. These activities address the challenges raised by climate change, such as desertification, soil erosion, floods and droughts, and therefore contribute to building resilience and adaptive capacity to climate-related shocks.

8. Considering the positive environmental spillovers of these activities and current ongoing efforts to climate proof the organization's activities, a successful partnership with the GEF would add further impetus to WFP's drive to make adaptation to climate change a central element of its recovery and development work, especially at local levels, where interventions help households and communities shift to sustainable livelihoods, improve productivity and prevent degradation of the natural resource base. Despite their diverse geophysical and social contexts, a screening of NAPA documents reveals that most Least Developed Countries have identified similar adaptation priorities in their National Adaptation Plans of Action. WFP expertise in flood simulation and natural disaster management, especially in the world's most vulnerable communities will help to take effective preventive measures and comprehensive response actions, and also to better design mitigation programmes.

United Nations Educational, Scientific, and Cultural Organization (UNESCO)

9. The United Nations Educational, Scientific, and Cultural Organization (UNESCO) plays a unique role in the UN System of promoting science, education and culture for human advancement and sustainable development. UNESCO's ability to translate cutting edge scientific knowledge into new pathways to sustainability, to mobilize and enhance local science, to bring together the academic world and the development community, represent potential key assets for the GEF. UNESCO's full participation in the GEF would substantially contribute to the technical assistance and capacity building programmes of the GEF in those areas of UNESCO's mandate. It would expand the ability of the GEF to identify and promote innovations and to create synergies with existing science networks and global and regional programmes, enhance the role and quality of science with multidisciplinary approach in its activities and projects. In addition, it

would help the GEF strengthen its ability to assess and monitor global environmental conditions and trends.

10. Since the Earth Summit, UNESCO has reoriented its programmes and priorities to address and promote sustainable development in water resources management,9 conflicts between environment issues and development issues,10 ocean environment,11 and disaster risk reduction. UNESCO's inclusion as a GEF Agency would build on its past partnership with the GEF in groundwater management, including assistance in the formulation of a conceptual framework for the GEF action on groundwater and transboundary aquifers and the establishment of a portfolio of groundwater projects. UNESCO's partnerships with recipient countries would facilitate further development of the international water portfolio. As GEF's work in the groundwater, freshwater and marine environments expand, UNESCO's hydrological programme (IHP) and the International Oceanographic Commission (IOC) with its proven expertise could provide a good anchor. In addition, UNESCO could bring to the GEF its expanded and scientific work and knowledge base in climate change and also help to support and strengthen the work of STAP with its array of scientific and technical networks.

World Health Organisation (WHO)

11. WHO, the lead United Nations Organization mandated to deal with health issues focuses on health and environment related linkages, and has developed expertise that is well recognized. The environment-health linkage is important for the GEF -- one-quarter of all preventable illnesses are directly caused by environmental factors, and about thirteen million deaths annually are due to preventable environmental causes. WHO's environment-health expertise covers air pollution, chemical safety, human environmental health, and environmental health in emergencies. WHO has also a robust framework for handling deliberate events attributable to environmental risk factors. These include substantial fraction of the disease burden derived from emergencies, conflicts, and disasters that happen frequently, including natural disasters, chemical or radiological incidents, complex emergencies. WHO's participation as agency in the GEF could be of special significance to support the GEF chemicals programs, including current activities such as Persistent Organic Pollutants (POPS) and elements of Sound Chemicals Management". It will also help the GEF broaden the scope of its expertise to respond to

9 The International Hydrological Programme (IHP) is an international endeavor to improve data on available water resources, both surface and groundwater, to upgrade knowledge of the global hydrological cycle, and to improve the development and management of water resources.

10 UNESCO's Man and the Biosphere Programme (MAB) addresses a worldwide network of over 300 biosphere reserves, covering the vast majority of climatic ones, ecosystems and socio-economic conditions, as well as conflicts between environment issues and development issues which involve terrestrial and coastal natural resources and studies the impact of human activities on the environment and society's response to the resulting change. It involves both the natural and the social sciences and other fields of UNESCO's expertise, notably those of education, communication and culture.

11 The Intergovernmental Oceanographic Commission (IOC) of UNESCO promotes international cooperation to foster sustainable development in and protect the marine environment and is resources. On a regional level the IOC coordinates the development of tsunami early warning and mitigation systems in the Pacific, the Indian Ocean, the North-eastern Atlantic, the Mediterranean, and the Caribbean. Through the Global Ocean Observing System, the IOC helps improve support the sustained observing needs of the UN Framework Convention on Climate Change (UNFCCC).

adaptation needs of countries to climate change, particularly on aspects related to health and sanitation.

United Nations Human Settlements Programme (UN-HABITAT)

12. UN-Habitat is the only multilateral institution whose principal mandate is housing and urban development, with an overarching goal of sustainable urbanization. In a world where 90 percent of all future urban growth will occur in developing countries, and where 1 billion people are already living in life-threatening slums, stable systems of urban development are a necessary condition for sustainable development.

13. By integrating green technology and design innovations into statutory urban planning and development control systems, well-managed urbanization can mainstream strategies for sustainable development into planning standards and building regulations. Poorly- managed urbanization spawns uncontrolled urban sprawl, pollution and unsustainable consumption of land, water and other natural resources. The result deeply undermines efforts to mitigate and adapt to climate change, particularly as unplanned settlements and slums are often located in areas most prone to natural disasters including flood plains, low-lying coastal areas, and lands vulnerable to mudslides.

14. UN-Habitat is well placed to apply know-how and mobilize partnerships for implementing the "urban dimension" of the main focal areas of the Global Environment Facility as regards climate change, biodiversity, international waters and land degradation. It can make available to governments that partner with the GEF its global policy-setting role, technical expertise, country presence and networks. The cross-sectoral approach to urban systems applied by UN-Habitat is particularly well suited for the GEF's goals of integrated low-carbon urban planning solutions for transport, energy efficiency and renewable energy, covering housing, transport and public utilities. Further, the focus of the agency on vulnerable urban populations will enable GEF to contribute more effectively to climate change adaptation programmes in urban areas, including climate-proofing urban infrastructure and services, and enhancing climate resilience of slums residents. Finally, UN Habitat's focus on "water sanitation" can provide valuable expertise to support the GEF international waters' objectives related to pollution reduction and prevention.

Other Organizational and Operation Factors Relevant to the GEF

15. All four UN organizations are uniquely positioned to work with the GEF given the depth and extent of their field presence, their extensive network and logistics capacity. Their proximity to the field is relevant for GEF-5 strategies designed to put more emphasis, among other things, on country-driven actions, cost effectiveness, refinement of the country allocation system and the need for tailored technical assistance to meet the needs of recipient countries. Equally important, by including them as Executing Entities, the GEF will be recognizing their implementation role in full, considering their experience in executing GEF projects.

16. **WFP** provides assistance in 74 countries in six regions and has an operational presence in 7 more. In many situations, WFP may be one of the few – and sometimes the only – international organization present in remote areas that often are not accessible, yet important to serve. This field base enables WFP to ensure that assistance gets to the people who need it in a timely manner. It also has tremendous operational capacity. In May 2009, 91 percent of WFP's 10,200

staff members were based in field offices, while 9 percent worked in Headquarters in Rome and in the liaison offices. WFP's expenditures distribution follows the same logic. 93 percent of WFP total expenditures were dedicated to field operations. WFP normally delivers its assistance through a vast network of partners. Non-Governmental Organizations represent a significant part of these in activities relevant for the GEF's focal areas, whether in land or water development and improvement, agroforestry, agriculture or on issues such as disaster preparedness and disaster planning. In 2008, WFP carried out environmental activities with 964 NGO's, of which 795 were national or local. WFP has joint work with GEF Agencies, including FAO, UNDP, IFAD, UNEP, and UNIDO. Its pioneering innovative work on a community-based approach that empowers communities to transform their marginal, eroded lands into a sustainable, livelihood-enhancing resource base would be helpful in GEF adaptation work, especially for the LDCF.

17. UNESCO has proven capacity in ensuring delivery and management of projects through its capillary field presence and worldwide well-established contact networks at national, regional and international levels. Besides its headquarters, there are 52 field Offices. 164 IHP National Committees, 135 IOC National Committees and 580 UNESCO Chairs. UNESCO National Commissions are operational in 191 Member and Associate States where they help provide insights and help implement many initiatives. It has 27 cluster offices, covering 148 Member States. There are also regional bureaus, liaison offices and partner organizations and scientific institutes and centers which are integral part of UNESCO.

18. UNESCO is not new to the GEF. One of its most substantive contributions to the GEF has been to fill a major gap in the GEF portfolio on groundwater and aquifers. UNESCO assisted in the formulation of a conceptual framework for GEF in this area and in the establishment of a portfolio of groundwater projects addressing key global resources and issues. This effort has progressively led to the establishment of highly successful cooperation between the GEF and UNESCO's IHP and with its long-term initiative to promote assessments and scientific collaboration on trans-boundary aquifers. Thanks to the concerted action of the GEF, its Agencies, and UNESCO, a number of highly representative projects has entered the GEF portfolio, and the GEF has become the primary funding institution in the field of trans-boundary groundwater.

19. Cooperation with UNESCO is a typical case where specific expertise from additional agencies is most warranted in the GEF. Prior to initiation of systematic cooperation with UNESCO in 1999, limited successes were achieved in dealing with multi-country aquifers and groundwater. While the Operational Strategy included these ecosystems in all International Waters Operational programmes, no project relating to this very important area had ever been submitted by the GEF Implementing Agencies. The other focal areas of the GEF, with the exception of few wetland biodiversity related projects, did not include consideration of groundwater. This lack of response reflected the limited understanding and capacity within the Implementing Agencies concerning these issues. UNESCO, through its hydrological program (IHP), has acted as Executing Agency on a number of GEF projects:

a) Managing the Dinaric Karst Transboundary Aquifer System (UNDP-implemented);
b) Regional Dialogue and Twinning to Improve Transboundary Water Resources Governance in Africa (UNDP);
c) Joint Actions to Reduce PTS and Nutrients Pollution in Lake Baikal Through Integrated Basin Management (UNDP);

d) Management of the Mediterranean Coastal Aquifers, part of the GEF-UNEP-World Bank Strategic Partnership for the Mediterranean LME;
e) Development of the Methodology and Arrangements for the GEF Transboundary Waters Assessment Programme, Ground Water Component (UNEP); and
f) Enhancing the Use of Science in International Waters Projects to Improve Project Results (UNEP).

20. The total commitment of GEF funds for these ongoing UNESCO executed activities amounts to about $6 million. UNESCO has matched GEF grants with equivalent amounts of co-financing, including part from the Agency's own budget.

21. Through its International Oceanographic Commission, UNESCO has collaborated on a number of GEF marine projects. These include: Adaption to Climate Change – Responding to Shoreline and Its Human Dimension through Integrated coastal Area management (UNDP), Sustainable Management of Shared Living Marine Resources of the Caribbean LME and Adjacent regions (UNDP), Development of the Methodology and Arrangements for the GEF Transboundary Waters Assessment Program – Marine component (UNEP), Fostering Global Dialogue on Oceans, Coasts, and SIDS and on Freshwater-Coastal-Marine Interlinkages (UNEP) and promoting Ecosystem-based Approaches to Fisheries Conservation and LMEs (UNEP).

22. UNESCO has also been cooperating with STAP on issues of groundwater, including on strategic options and priorities for groundwater, review of existing portfolio from the perspective of groundwater, development of groundwater indicators. With these positive developments, consideration of the policy of expanded opportunities for UNESCO would harness additional synergies between this organization and the GEF biodiversity, climate change and land degradation focal areas.

23. More than 8000 people from over 150 countries work for the WHO in 147 country offices, six regional offices and at the headquarters. In addition to other scientists, WHO staff include experts in the fields of emergency relief. Over 800 institutions are WHO's collaborating spread in 90 countries. They form part of an international collaborative network carrying out activities in support of the organization's programmes.

24. WHO has GEF experience with execution of some 9 projects implemented by UNEP and UNDP. For example, with UNEP and the Secretariat of Stockholm Convention (SSC), WHO has supported a number of National and Regional GEF Projects to reduce reliance on DDT (one in Central America and Mexico, the other in Africa East Mediterranean and the third in Asia and Pacific regions). Other important projects include the Africa Stockpiles Programme that deals with the accumulation of obsolete pesticide stockpiles across the continent, the DSSA Malaria Decision Analysis Support Tool (MDAST): Evaluating Health Social and Environmental Impacts and Policy Tradeoffs, Demonstrating and Promoting Best Techniques and Practices for Reducing Health-care Waste to Avoid Environmental Releases of Dioxins and Mercury and Demonstration of Sustainable Alternatives to DDT and Strengthening of National Vector Control Capabilities in Middle East and North Africa. WHO has naturally executed projects that are clearly within its purview and for which there is compelling evidence of its leadership that no other GEF Agency can claim.

25. UN-Habitat has cooperation programmes and projects under execution in approximately 50 countries, of which the majority is in least developed countries. As a direct response to

increasing demands from developing countries, the organization's in-country activities have grown significantly over the last decades from expenditures totaling US$ 18.7 million in 1988 to US$ 127 million in 2009. The technical cooperation programme supports over 350 cities primarily in Africa, Asia and Latin America, facilitating partnerships among mayors, city managers, professional associations, urban poor organizations, private industries, NGOs and central governments. Technical support includes five substantive areas of urban systems management: land management and tenure security, affordable shelter, environmentally sound infrastructure, urban planning and governance, and innovative financing.

26. UN-HABITAT is currently executing a number of GEF projects in the areas of land management, house building practices, and urban transport systems. These include the GEF Project "Promoting Energy Efficiency in Buildings in Eastern Africa." The purpose of this project is to mainstream energy efficiency measures into housing policies, building codes, and building practices in East Africa to achieve considerable avoidance of CO2 emissions as a result of improved building practices. Habitat is also executing the GEF Project "Promoting Sustainable Transport Solutions for East Africa" to introduce innovative transportation systems within and among major urban centers to achieve avoidance of CO2 emissions as a result of improved transport systems while enhancing access to urban transport, particularly for the urban poor. Future project support is anticipated to assist GEF recipient countries, working with municipal authorities, to adopt environmentally-sound urban infrastructure, and to identify innovative financing mechanisms that mobilize domestic savings and capital.

ANNEX 4: RISK-BASED EVALUATION PROCESS AND SCORING METHODOLOGY

1. This section describes the proposed risk-based evaluation process. It first presents evaluation criteria and indicators for each of these evaluation criteria. It presents the proposed application scoring methodology and discusses three types of accreditations.

2. If the GEF Council decides to broaden the number of executing entities, it is suggested that there be a brief review by the Secretariat as to whether Applicants provide a good fit with the GEF strategically and add value to the partnership. The benefits desired for the expansion of Executing Entities (EEs) include increased country ownership and project sustainability, introduction of new expertise not previously available, increased engagement of civil society organizations, and building of capacity at the national and regional levels.

3. The GEF will also need an accreditation process that minimizes the following types of risk: risk that funds are not used for their intended purpose; performance risk which covers the capacity of an entity to successfully oversee and implement a GEF funded project; and financial management risk. The GEF's fiduciary standards can largely be broken down into two types of criteria: 1) performance criteria including procurement and 2) financial management. Each of these is described below.

Criteria for Review of Strategic Fit and Value Added

4. The GEF will benefit from adding entities with new expertise and skill sets, including expertise related to the GEF's focal areas and adaptation to climate change. By engaging national level entities directly, it is likely to build capacity at the national level and projects could be more sustainable. Finally, by engaging a broader range of regional and sub-regional entities, it is likely to build capacity at the regional level to address shared environmental problems.

5. The Applicant would be requested to provide a descriptive response in this regard. The Secretariat will briefly review each applicant as to whether it adds value and make an approve/reject recommendation. The Secretariat would only reject applications in those rare cases where the entity could show no expertise or involvement in environmental issues supported by the GEF. Applications from entities that could not demonstrate value added to the GEF would not move forward, but the Secretariat would report to Council on all applications received and actions taken. Criteria that would be followed in this regard include:

a) National entities with experience executing GEF projects would be deemed to qualify as their addition would help build national capacity, country ownership, and mainstream global environmental considerations at the national level.

b) CSOs and regional organizations with experience in executing GEF projects would also qualify.

c) The Secretariat will seek to maintain a balance among regions in terms of regional organizations to avoid duplication of effort.

Performance Evaluation Criteria

6. The Performance evaluation criteria should be applied to assess each Applicant's capacity to develop, appraise, and execute successful GEF funded projects. This set of criteria includes two sub-criteria: a) performance management and b) past performance.

7. The performance management sub-criteria are based on the GEF's minimum fiduciary standards and seek to ascertain the Applicant's ability to appraise projects, perform procurement functions, and ensure on-going monitoring and evaluation of projects while these are being implemented. This sub-criteria also examines the prospective EE's capability to investigate and address any operational issues such as staff complaints and charges against management related to the EE to the project. These are in addition to the internal audit and external audit capabilities that are included in the third criteria, Financial Management and Internal Control Evaluation.

8. The second set of sub-criteria addresses the prospective EE's performance to date in delivering successful projects in a GEF-type project funding environment. The indicators in this sub-criteria are intended to ascertain and review the entity's existing capability and experience in delivering projects with integrated project development, financial management, and operational requirements. This is important as prior knowledge and experience of performing in the international arena with a variety of stakeholders, internationally accepted norms, and compliance with robust fiduciary standards will greatly assist in delivering successful GEF-financed projects.

Financial Management and Internal Control Evaluation Criteria

9. This set of criteria is governed by internal control risks, as included in the GEF fiduciary standards. These are sub-divided into two sub-criteria: Entity Environment and Internal Controls including controls on financial reporting. They are based on the GEF's fiduciary standards.

10. The entity environment is impacted by the business environment in which the entity operates and the ethical governance of the prospective EE and the GEF funded project. The focus under this criteria is the ethics permeating from the top of the organization to the lowest level. The broad measures are the stipulated code of ethics and financial disclosure policies that set expectations to emulate and follow. Checks and balances on ethical governance are provided by indicators under external audit and protection of whistle blowers. The second sub-criteria is Internal Controls, which are the checks and balances in an organization to reduce the possibility of material errors or misstatements in financial reporting, non-adherence to policies and procedures, collusion, and misappropriation. This sub-criteria includes two major measures: internal control framework and internal audit. The internal control framework is the policy definition of internal controls and the internal audit ensures implementation of this framework. The internal audit function needs to be independent to perform proper evaluations and tests to support their findings and recommendations for improvement.

Risk-Based Scoring Methodology

11. This section proposes a methodology to score and rank applications on their level of risk to the GEF. It suggests levels of risk scores below which the panel would recommend to the GEF Council "approval" for Applicant accreditation, and above which it would recommend "reject." This is only a conceptual outline of this process, and all scores and weights are for illustrative purposes only. For the strategic criteria, the Secretariat would not score applications. Those entities not deemed to add value would not be forwarded to the accreditation panel.

12. The proposed scoring methodology has five elements: (1) the indicators for each of the evaluation criteria described above; (2) score levels that measure the performance of the Applicant against each of the indicators; (3) weights for each indicator so that the relative importance of each indicator receives a weight associated with its importance; (4) a classification

system to "stratify" risk scores; (5) and mitigation measures for managing risks for those Applicants whose score places them in a moderate risk class. This would be part of the process for further assessment during the accreditation process and would be part of the consideration given in determining whether the Applicant can attain an "approve" score. If the Applicant cannot, it would be assessed a "reject" score. The Secretariat has integrated the advice from Grant Thornton in the below.

a) *Indicators.* The indicators are the specific measures within the evaluation criteria (presented above), for which the Applicant is requested to provide qualitative responses and supporting documentation.

b) *Score levels.* Three-tiered scoring system the accreditation panel uses to score the Applicants' responses to each measure, relative to GEF requirements. The three scores are: low (L), medium (M) and high (H). The low score receives 1 points, the medium score receives 2 points, and the high score receives 3 points.

c) *Weights for each measure.* Not all indicators are of equal importance in assessing the capabilities of the Applicant. Therefore, weights are assigned for each indicator, and the weighted score for each response is calculated by multiplying the score by the weight. The determination of appropriate weights may be expected to evolve over time, and lessons learned will contribute to achieving the preferred weight allocation across indicators.

d) *Risk score classification system.* The weighted scores for each application are summed to yield a total risk score. Risk scores above a designated level are classified as high risk and the accreditation panel is advised to issue a recommendation of "reject." Risk scores below a designated level are classified as low risk and the accreditation panel is advised to issue a recommendation of "approve." Risk scores between these two designated levels are classified as medium risk and the accreditation panel is advised to conduct further assessment by interacting with the Applicant to determine if mitigation strategies can be adopted by the Applicant to reduce the risk and thus move its score into the low risk category so it may attain a low risk score and be assessed "approve", or determine that no mitigation strategies can reasonably be adopted by the Applicant to sufficiently reduce the risk so that a recommendation of "reject" is assessed.

e) *Mitigation strategies.* The range of mitigation strategies that the panel may discuss with the Applicant during the accreditation process may include: adoption of new standards and practices (e.g. new procurement processes and codes of ethics), systems implementation, processes implementation and further documentation. The mitigation strategies must be immediately implementable such that the Applicant can demonstrate satisfactorily to the panel that it can increase its capabilities in those areas of weakness to attain a revised low score and thus be recommended for "approval."

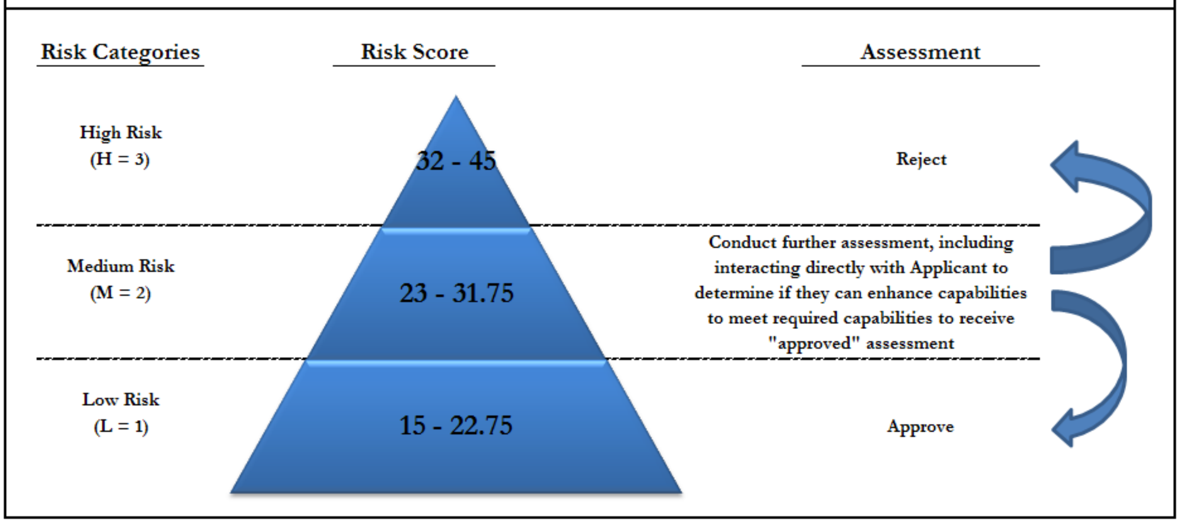
13. The accreditation panel assesses each section of the application to determine the Applicants' raw score. The raw score is the judgment the accreditation panel applies to each indicator based on the level to which the Applicant does not meet, meets, or exceeds the required GEF standards presented in the application. A "3" is a high risk score that indicates the response does not meet required GEF standards, a "2" indicates the response meets required GEF standards, and a "1" indicates the Applicant exceeds required GEF standards. Some of these judgments will be value judgments based on a descriptive response by the Applicant, others will

be factually-based judgments informed by the supporting documents (Figure 1 – "Risk Scores: Pre-Mitigation and Post-Mitigation" below).

14. The accreditation panel then multiplies the raw score by the pre-determined section weight, which is the distribution of weight across all evaluation criteria and sub-criteria to obtain the pre-mitigation score. In the example presented in Figure 1 below, the strategic evaluation criteria receives less weight (1) than each of the other two evaluation criteria which both receive a weight of 2.

Figure 5 –Risk Scores: Pre-Mitigation and Post-Mitigation

Evaluation Criteria	Raw Score	Section Weight	Pre-Mitigation Score	Post-Mitigation Score	Change
1. Strategic Evaluation Criteria					
1. Balanced entity portfolio	2	0.5	1	1	↔
2. Country support	2	0.5	1	1	↔
2. Performance Evaluation Criteria					
1. Performance management	3.75	1	3.75	2	↓
2. Past performance	7	1	7	7	↔
3. Financial Management and Control Evaluation Criteria					
1. Internal controls	7	1	7	6	↓
2. Entity environment	5.25	1	5.25	5.25	↔
			25	22.25	



15. The accreditation panel reviews the Applicant's pre-mitigation scores against the risk levels presented in the risk categories. Applicants who receive a low risk score at or below 22.75 are assessed "approve" for accreditation, while Applicants who receive a high score at or above 32 are assessed "reject" for accreditation. Those Applicants whose scores fall in the medium risk range of 23 – 31.75 are further assessed by the Accreditation panel to determine if they can immediately implement mitigation strategies to the extent that their post-mitigation scores can be assessed in the low risk range.

16. To conduct this further assessment, the accreditation panel will interact directly with the Applicants to determine their willingness and ability to institute suggested mitigation strategies. The accreditation panel may suggest mitigation strategies that include: submission of further documentation providing evidence of sufficiency; hiring experienced personnel in financial

management, procurement management, program management or project management; implementation of systems or processes. The accreditation panel will complete their assessment within a specified accreditation timeframe. If the Applicant can demonstrate its ability to implement these mitigation strategies such that their post-mitigation score is at or below 22.75, the accreditation panel will recommend the Applicant for “approval” to the Council. If not, the accreditation panel will offer a recommendation of “reject.”

17. This would complete “Step 3: Application Evaluation” in the accreditation cycle described in Annex 5

ANNEX 5: APPLICATION AND ACCREDITATION PROCESS

Accreditation Cycle

1. Below is a detailed explanation of the recommended 7 step accreditation cycle for applicant Executing Entities.

2. The accreditation cycle would be initiated with submission of a letter to the GEF CEO endorsing the application of an EE by the Operational Focal Point of a GEF recipient country. After verification of the endorsement letter by the GEF Secretariat, the Applicant proceeds to complete an application form and submit it to the GEF Secretariat. The GEF Secretariat ensures the applications are completed before directing the Applicant to pay for, and receive, accreditation services. The accreditation panel would conduct a risk-based evaluation of the application in accordance with the guidelines and methodology agreed by the GEF Council. If the panel deems that further, progressive review is necessary, an estimate of the required additional fee is provided to the Applicant, and upon payment of the supplemental fee, the further review is undertaken. Upon completion of the evaluation, the Accreditation Entity writes an assessment and accreditation recommendation which is then submitted to the GEF Secretariat, to be forwarded to the GEF Council. The GEF Council reviews the Accreditation Entity's assessment on all applications and makes the final decision on accreditation status for each candidate EE. The GEF CEO and Chairperson provides notification of the Council's decision to the Applicant. The Secretariat and Trustee then begin the process of incorporating the newly accredited EE into the GEF system through the negotiation of an MOU with the GEF Council and a financial procedures agreement with the GEF Trustee.

3. The steps of the Accreditation Cycle are presented below.

Step 1: Endorsement of Applicant Endorsement

4. The operational focal point of a GEF recipient country submits a letter to the GEF CEO endorsing an entity to apply for accreditation as a GEF executing entity.

   a) Given that there are a great number of national entities that might wish to apply, it is suggested that the each operational focal point be limited to endorsing only one or two entities during an initial time period to be set by Council. The GEF Secretariat would clearly communicate to the GEF Operational Focal Points that they should consider providing endorsements to only the most qualified of their national entities.

   b) The Council should reassess this limit after an agreed time period has passed – perhaps a four year time period that would match GEF replenishment cycles.

   c) As the number of regional, bilateral, and international/global entities is already more limited, it is not recommended that there be limits on the number of endorsement letters for such entities.

5. The GEF Secretariat would review the endorsement letter and confirm its authority, such as whether it is from the valid operational focal point from that country. The Secretariat would enter the Applicant in an established tracking system.

6. In the event that the GEF Secretariat receives endorsement letters for more than two national entities in one country, the GEF Secretariat will contact the country operational focal point that endorsed these entities, and request that it select no more than two entities. The GEF Secretariat will then: 1) continue those two entities through the accreditation process.

7. The GEF CEO would then write to the endorsed entity, copied to the operational focal point, confirming receipt and acceptance of the endorsement letter and directs entity that it can apply for status as a GEF Executing entity. Information would be conveyed directing the Applicant to relevant information sources to access the application form and application process steps. Relevant information sources may include the GEF Secretariat web-site, staff personnel, or an information package sent to the Applicant by mail. The GEF Secretariat enters into their tracking system date of the verification letter.

Step 2: Application Receipt and Initial Secretariat Review

8. The Applicant submits the completed application form to the GEF Secretariat, and the GEF Secretariat reviews the application for completeness against a checklist. The Secretariat would also review the entity's value added to and strategic fit with the GEF. The activities and guidelines of the GEF Secretariat in this step will include the following.

a) Entry into Tracking System: The GEF Secretariat enters the date of the receipt of the application in its tracking system as well as the dates for any requests to the Applicant for further completion of the application.

b) Review of Completeness: The Secretariat would review the application to ensure that all sections and questions were answered and that sufficient information was provided with the application.

c) Brief Review of Strategic Fit: The Secretariat would assess whether the entity would add value to the GEF partnership based on its experience, skills, and other merits. National entities with experience executing GEF projects under one of the IAs would be deemed to pass. Other types of organizations would also need to demonstrate experience in implementing GEF projects or have experience in one of the GEF's focal areas or areas of work, such as sectors relevant to the work of the Least Developed Countries Fund (LDCF) or Strategic Climate Change Fund (SCCF).

d) Application Language: The Secretariat should be equipped to perform its assessment of completeness and strategic fit in the GEF's three working languages of English, French, and Spanish. It will need to be determined whether the Accreditation Panel can work in all three languages or only in English. In the later case, applications would either need to be received in English or the applicant would need to pay the costs of translation of the application as part of its accreditation fee.

e) Limit on Reviews of Completeness to three times: For cost reasons, the Secretariat will need to limit engagement in lengthy correspondence over time to ensure only fully complete applications are reviewed for accreditation. Therefore, the GEF Secretariat would limit the number of repeat attempts to complete the application to three times before the GEF Secretariat rejects the application due to incompleteness. This would restart the accreditation cycle for that particular entity.

f) Time Frame for Review of Completeness: The Applicant has a set time frame to submit a final complete application from the date of the GEF Secretariat's initial receipt of the application. In the event that the GEF Secretariat requests further documentation to complete the application, and it is not received a response within 30 days of the initial filing, the GEF Secretariat will reject the entire application, return it to the Applicant with an explanation, and advise the Applicant that it will have to submit a new application.

Step 3: Evaluation of Applications by Accreditation Panel

9. The Secretariat would forward all complete applications with strategic fit to the accreditation panel so they can be reviewed. Applications received after the cut-off date will be assessed in the next review cycle. The accreditation panel conducts a risk-based evaluation using the methodology described in Annex 4 - Risk-Based Evaluation Process, "Risk-Based Scoring Methodology." The panel processes the application through the following sequence of activities.

10. Preliminary Assessment, and Score Each Application. The panel opens the applications at the start of the review and circulates copies of each application to each member/ accreditor. The members/accreditors independently assess each application and assign a score for each evaluation criteria based on supporting documents and qualitative responses. Members would develop weighted scores for each application, or for questions in the application assigned to them.

11. Confirm Applications that are Scored High and Low Risk. The accreditors then convene and compare assessments on applications that clearly meet evaluation criteria and determine the category in which entity belongs: "approve," "reject," "further review required" (e.g. "medium risk). The last category would include assessment of whether the Applicant can implement immediate mitigation strategies to merit a recommendation of approval. When the members/accreditors are not in agreement on the recommendation, which occurs when at least one member scores the application in the "further review required" category, the application is classified as "further review required."

12. Further Review of "Medium Risk" Applicants. The panel would then estimate the approximate amount of effort required of medium risk entities. The Secretariat would request payment of the required additional fee to the entity. If agreed and paid, the review would progress. If not, the application would be terminated. The panel would investigate further and discuss with the Applicant the areas of concern, and determine whether mitigation strategies can be immediately put in place that will reduce the risk associated with the Applicant to an acceptable level for accreditation. The outcome of this assessment will be a recommendation on these applications to "approve" or "reject,"

13. During this process, the panel or panel members may engage directly with the Applicant to request further information in the form of alternative documentation, clarification of capabilities, and identification of ability and willingness to engage in internal mitigation strategies at the request of the panel. There would be no limitations on the interaction between the panel and Applicant other than that the application cannot be changed, and the interaction is solely on receiving more information about the entity's fiduciary practices and whether the Applicant would be able to meet proposed risk mitigation requirements. This interaction will further assist the panel to make a final assessment to approve or reject the Applicant.

14. Develop Written Assessment of Each Application. The panel would develop a written report of its findings and its assessment of "approve" or "reject." Included in the assessments of

those who have been rejected is an explanation for the decision to reject. The explanation should be of sufficient depth to provide the Applicant the necessary information to improve their capabilities, such that if they choose to resubmit their application at a later date, they would be better positioned to meet the standards for approval.

Step 4: Submittal to GEF Council

15. For each application, the panel submits a cover letter with its recommendation to the GEF Council, attaches the written assessment, and submits it to the GEF Secretariat. The panel forwards this letter and written assessment to the Applicant, explaining that the GEF Council will make its decision at its next meeting. The GEF Secretariat enters the date of notification into its tracking system, and the tentative date the GEF Council will review the application. The Secretariat would schedule for discussion the Assessments received from the Panel up to six weeks prior to the next Council Meeting.

Step 5: The GEF Council Accreditation Decision

16. The GEF Council reviews the panel's report and assessment for Applicants forwarded by the Secretariat. The GEF Council makes the final accreditation decision on each Applicant. [The suggestion that the GEF Council receives only the reports and assessments on approved Applicants is based on the understanding that the role of the panel is to apply expertise to identify and remove from further consideration those Applicants who pose an unacceptable risk to the GEF as established through the accreditation process.] The GEF Council retains final decisions on approving for accreditation the Applicants who meet the accreditation standards

Step 6: Applicant Accreditation Notification

17. The GEF Secretariat records the GEF Council's decision in their Tracking System, and formally notifies all Applicants of the GEF Council's accreditation decision. For those Applicants who receive accreditation as a new EE, the notification includes contact information with the GEF Secretariat and GEF Trustee who will liaise with them on GEF related issues.

Step 7: Negotiation and Approval of MOU and FPA

18. The Trustee would negotiate a financial procedures agreement with the entity and the Secretariat would negotiate an MOU. Upon completion of both, the Council would approve the MOU and the entity would be eligible to submit project identification forms (PIFs) for grant resources from the Trust Funds managed by the GEF – the GEF Trust Fund, LDCF, and SCCF.

Accreditation Types and Fee Structure

19. In the immediate term, it is expected that there will be only one type of accreditation—new accreditation of executing entities. Over time, however, it is anticipated that there may be up to three accreditation types: new, reaccreditation, and reaccreditation after suspension. Each of these are briefly described below.

a) **New:** A new accreditation is the type of accreditation provided to entities that have not previously been accredited, and will depend on the work performed by the GEF and the accreditation panel.

b) **Reaccreditation:** A reaccreditation is the type of accreditation provided to entities that have previously been accredited and are in good standing, but need to update their accreditation. Guidelines for reaccreditation require further consideration; however, it is suggested that accredited entities in good standing undergo reaccreditation two years after their initial accreditation, and every five years after successful completion of their first reaccreditation.

c) **Reaccreditation after Suspension:** The GEF Council reserves the right to suspend accreditation of any entity because of internal or external events that effectively reduce the competencies of the entity as established during the accreditation process. Examples of these events include, but are not restricted, to: instances of mismanagement of funds, significant change in the geo-political environment that preclude the entity from effective operations, loss of in-country infrastructure to natural disaster or conflict, and loss of key personnel through death or illness (ex. chief financial officer, program manager, project manager).