



GEF/C.41/06/Rev.01
November 3, 2011

GEF Council Meeting
November 8 – 10, 2011
Washington D.C.

Agenda Item 11

**GEF Minimum Fiduciary Standards:
Separation of Implementation and Execution Functions
in GEF Partner Agencies**

(Prepared by the Trustee)

Recommended Council Decision

The Council having reviewed GEF/C.41/06/Rev.01, *GEF Minimum Fiduciary Standards: Separation of Implementation and Execution Functions in GEF Partner Agencies*, decides that Section A.2 (g) of the GEF Minimum Fiduciary Standards be revised to address separation of implementation and execution functions for all GEF Partner Agencies, as detailed in paragraph 7 of the document.

GEF Minimum Fiduciary Standards: Separation of Implementation and Execution Functions in GEF Partner Agencies

1. This paper pertains to the need for updating one aspect of the GEF Minimum Fiduciary Standards, namely, the segregation of duties under Section A.2 (g) of the Standards. The objective is to address potential risks arising from the lack of a clear separation of GEF project implementation and execution functions, especially where those functions are carried out in a GEF project by the same GEF Partner Agency¹.

2. Over the past year, and as part of a new Framework for Financial Intermediary Funds (FIFs) that is being developed in consultation with FIF partners, the International Bank for Reconstruction and Development (IBRD) has been examining a range of issues and challenges associated with the functions of IBRD as trustee of such FIFs and the accountability of agencies involved in the use of FIF resources transferred to them by IBRD as trustee. An important control function includes the clear separation of project supervision (sometimes referred to as implementation) functions from project execution functions. Such separation helps to ensure that there is appropriate oversight of the resources received by agencies involved. In general, an agency responsible for project supervision has different obligations from the entity or entities undertaking project execution. Project supervision entails oversight of project execution to ensure that the project is being carried out in accordance with agreed standards and requirements. The preferred practice in this respect is an arm's length relationship between two independent entities: the agency that undertakes project execution reports and is responsible to the agency that carries out project supervision, with the latter overseeing the executing entity and having responsibility to the FIF governing body. If the same entity undertakes both activities, the two functions should be well defined and separately managed.

3. In the GEF context, the separation of functions as good practice was noted by the Trustee² at the May 2011 Council meeting as part of the discussion on the expansion of the GEF Partner Agencies beyond the existing multilateral development banks and UN development agencies to include new agencies ("GEF Project Agencies") (see Box 1 for a description of GEF Partner Agencies). The pilot expansion presents both opportunities and risks for the GEF, which need to be managed. The increasingly diverse group of institutions that could potentially become involved in carrying out the implementation and/or execution of GEF projects warrants a comprehensive review of the GEF Minimum Fiduciary Standards (the "Standards"), which were approved by the Council in 2007.

¹ As noted in GEF Council Document GEF/39.8/2, *Accreditation Procedure for GEF Project Agencies*, (approved November 2010), the term "GEF Partner Agency" refers to any of the agencies eligible to request and receive GEF resources directly for the design, implementation, and supervision of GEF Projects. The term encompasses both the ten existing GEF Agencies including the three Implementing Agencies (i.e., International Bank for Reconstruction and Development, the United Nations Development Programme, and United Nations Environment Programme); the seven expanded opportunities Agencies (the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Food and Agriculture Organization of the United Nations, the Inter-American Development Bank, the International Fund for Agricultural Development, and the United Nations Industrial Development Organization) and any future GEF Project Agencies which become accredited under paragraph 28 of the GEF Instrument. See also Box 1.

² Please refer to the following Council documents: *Agency Progress on Meeting the GEF Fiduciary Standards*, GEF/C.40/Inf.10 and *Trustee Report: Global Environment Facility Trust Funds*, GEF/C.40/Inf.17.

Such a review is planned for 2013³. However, in the near term, and to support the pilot expansion, the Trustee and the Secretariat recommend revising one aspect (Section A.2 (g)) of the Standards as described below. At present, the Standards specifically address the segregation of duties in the context of the management of financial transactions, but they do not include details on the separation of functions and accountabilities in the GEF project cycle.

4. GEF Project Agencies, like the existing GEF Partner Agencies, will be required to meet the GEF Minimum Fiduciary Standards that were approved by the Council in June 2007 and report to the Secretariat, for review by the Council on the compliance with the Minimum Fiduciary Standards. An Accreditation Panel, to be appointed by the GEF Secretariat, will make this assessment for each prospective GEF Project Agency. The GEF Minimum Fiduciary Standards (2007) are based on recognized international practice and are founded on five core principles: professional standards; independence; transparency; monitoring and response; and value-for-money provisions. The Standards are subject to periodic review and are meant to be dynamic and to change with the evolving needs of the GEF, so that good practice is followed in ensuring appropriate oversight and accountability in the use of GEF funds.

Box 1

GEF Partner Agencies

With the expansion of the GEF over time, the types of GEF agencies have become increasingly diverse.

- The initial three agencies are defined as “Implementing Agencies” in the GEF Instrument and include UNDP, UNEP, and the World Bank.
- Seven additional Agencies have already joined the partnership and are also now responsible for project implementation/oversight like the original Implementing Agencies. These included AfDB, AsDB, EBRD, FAO, IDB, IFAD and UNIDO.

In Document GEF/39.8/2, *Accreditation Procedure for GEF Project Agencies* (approved by Council in November 2010), the term “GEF Partner Agency” was defined to encompass the three original Implementing Agencies, the seven additional Agencies, and GEF Project Agencies. These GEF Partner Agencies are all accountable to the Council for their GEF-financed activities, including the preparation and cost-effectiveness of GEF projects, and for the implementation of the applicable operational policies, strategies and decisions of the Council (paragraph 22 of the Instrument).

5. The provision in the Standards relating to segregation of duties is Section A.2 (g) of the Standards under “Financial Management and Control Frameworks”. The current provision states that: “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 The 2013 update should address developments and updates in fiduciary standards and their compliance since 2007 for the existing ten Agencies and additional Project Agencies.

The above provision does not adequately address the separation of functions between project implementation and execution functions (see Box 2 for a description of these functions).

Box 2

GEF Implementation and execution activities

Implementation generally involves project identification, preparation of project concept, appraisal, preparation of detailed project document, project approval and start-up, project supervision, and project completion and evaluation, as further detailed in Council document GEF/C.39/9.

Execution generally includes the management and administration of the day-to-day activities of projects (from GEF/C.39/9) in accordance with specific project requirements in an agreement with the agency responsible for implementation. Execution implies accountability for intended and appropriate use of funds, procurement and contracting of goods and services.

6. Expansion of agencies may involve circumstances under which an agency undertakes both project implementation and execution. To accommodate such circumstances, within good practice, it is recommended that the Standards be revised to include a provision for a clear separation of those functions within the GEF Partner Agency. Adequate institutional arrangements would be required to ensure appropriate oversight and accountability relating to the use of GEF funds and to manage conflicts of interest that could arise where the Agency is responsible for both implementation and execution.

7. Accordingly, it is recommended that Section A.2 (g) be replaced (with the underlined text) as follows (note that GEF Partner Agencies are referred to simply as “agencies” in the Standards):

“(g) Separation of functions; Segregation of duties

“(i) The preferred practice within the GEF on separation of functions is that the agency that undertakes project execution reports and is responsible to the agency that carries out project implementation, with the latter overseeing the executing entity and having accountability to the GEF Council.”

“(ii) In cases where an agency carries out both implementation and execution of projects, the agency must separate its project implementation and execution duties and establish each of the following:

□ a satisfactory institutional arrangement for the separation of implementation and executing functions in different departments of the agency;

□ clear lines of responsibility, reporting and accountability within the agency between the project implementation and execution functions”.

(iii) Financial management segregation of duties: Duties are segregated where incompatible. Related duties are subject to a regular review by management; response is required when discrepancies and exceptions are noted; and segregation of duties is maintained between: settlement processing; procurement processing; risk management/reconciliations; and accounting.”