

54th GEF Council Meeting

June 24 – 26, 2018

Da Nang, Viet Nam

Agenda Item 12

**IDENTIFICATION OF ISSUES RELATED TO ANTI-MONEY LAUNDERING AND
COMBATING THE FINANCING OF TERRORISM**

Recommended Council Decision

The Council, having reviewed document GEF/C.54/09/Rev.01, *Identification of Issues Related to Anti-Money Laundering and Combating the Financing of Terrorism*, takes note of the issues identified.

The Council requests the Secretariat, in collaboration with the Trustee, to present for Council consideration at its 55th meeting in the Fall of 2018 a proposal to update the Minimum Fiduciary Standards to close any immediate gaps related to anti-money laundering and combating the financing of terrorism (AML/CFT) in accordance with the principles stated in Paragraph 14 of this document.

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INTRODUCTION

1. Participants to the seventh replenishment of the GEF Trust Fund (GEF-7) requested that “the on-going review of the minimum fiduciary standards take into account international standards related to anti-money laundering and counter terrorism finance and that the Secretariat in collaboration with the Trustee propose any updates to the minimum fiduciary standards, as necessary, for Council consideration”¹.
2. This document describes the ways in which the risks associated with money laundering and the financing of terrorism are currently addressed in the management of GEF funds, and identifies an area for improvement in the context of the on-going review of the GEF’s minimum fiduciary standards.

BACKGROUND

3. The Council, at its 53rd meeting in November 2017 and having reviewed document GEF/C.53/08, *Rationale and Plan to Review the GEF’s Fiduciary Standards*², agreed that “the 2007 GEF policy GA/PL/02, *Minimum Fiduciary Standards for GEF Partner Agencies*³ should be reviewed in light of evolving best practice” and requested the Secretariat in collaboration with the Trustee to present the findings of such a review at the 55th Council meeting in the Fall of 2018⁴.
4. As noted in the November 2017 Council paper, some Council members have observed that the GEF’s policies do not explicitly address anti-money laundering actions or measures to combat the financing of terrorism (AML/CFT). Several international institutions, including several GEF Agencies, already had in place rules to ensure that their resources are not used for money laundering or the financing of terrorism. Accordingly, it was proposed that the review of the minimum fiduciary standards consider whether further work is needed to strengthen such safeguards across the GEF Partnership.
5. At the November 2017 Council meeting, it was also discussed that the Secretariat consider ways to address issues related to AML/CFT on an accelerated timeline compared to the complete review and update of the minimum fiduciary standards. Echoing that request, Participants to the GEF-7 replenishment requested that the Secretariat present for Council consideration in June 2018 an “[i]dentification of issues related to [AML/CFT] in the minimum fiduciary standards, and any updates to address these”⁵. This paper responds to that request.

¹ GEF/C.54/19, Summary of the Negotiations of the Seventh Replenishment of the GEF Trust Fund

² (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.53.08_Fiduciary_Standards_1.pdf)

³ (http://www.thegef.org/sites/default/files/documents/GA.PL_02_Minimum_Fiduciary_Standards_0.pdf)

⁴ *Joint Summary of the Chairs, 53rd GEF Council Meeting, November 28–30, 2017*

(http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.53_Joint_Summary_of_the_Chairs.pdf)

⁵ See Figure 1 in [Reference and link to the GEF-7 package that will be presented to the Council for endorsement]

EXISTING MEASURES TO PREVENT THE USE OF GEF FUNDS FOR MONEY LAUNDERING AND THE FINANCING OF TERRORISM

6. Notwithstanding the lack of an explicit policy on AML/CFT, the GEF Partnership has robust measures in place to ensure that GEF funds are used in line with their intended purpose, i.e. in support of the objectives of the projects and programs for which they are provided. These measures are set out in the Instrument⁶, the Trustee's policies and procedures, the existing minimum fiduciary standards⁷, Agencies' financial procedures agreements with the Trustee⁸, as well as the Agencies' own policies, procedures and practices. Taken together, these existing policies, procedures, practices and systems represent three lines of defense against money laundering and the financing of terrorism:

- (a) Trustee's screening of donors as well as due diligence to become a donor for contributions paid into GEF-managed trust funds;
- (b) Trustee's screening of the Agencies of any trust fund transfers; and
- (c) Agencies' screening and/or due diligence on third party recipients.

Trustee's Screening of Donors as well as Due Diligence to Become a Donor for Contributions Paid into GEF-Managed Trust Funds

7. In accordance with the World Bank's Relationship Agreement with the United Nations, the "Bank takes note of the obligation assumed, under Paragraph 2 of Article 48 of the United Nations Charter, by such of its members as are also Members of the United Nations, to carry out the decisions of the Security Council through their action in the appropriate specialized agencies of which they are members, and will, in the conduct of its activities, have due regard for decisions of the Security Council under Articles 41 and 42 of the United Nations Charter". The Bank carries out a due diligence process for each donor that provides funds to the Bank including when the Bank is acting as Trustee.

Trustee's Screening of the Agencies of Any Trust Fund Transfers

8. Consistent with Paragraph 7 above, the Bank also screens any transfers of funds to Agencies.

⁶ *Instrument for the Establishment of the Restructured GEF*

(http://www.thegef.org/sites/default/files/documents/GEF_Instrument-Interior-March23.2015.pdf)

⁷ *GA/PL/02, Minimum Fiduciary Standards for GEF Partner Agencies*

(http://www.thegef.org/sites/default/files/documents/GA.PL_02_Minimum_Fiduciary_Standards_0.pdf)

⁸ (<http://www.thegef.org/agency-mob-financial-procedures-agreement>)

Agencies' Screening and/or Due Diligence on Third Party Recipients

9. As of 2015, all 18 GEF Agencies are in compliance with the GEF's minimum fiduciary standards⁹. The minimum fiduciary standards encompass, *inter alia*, standards for project appraisal, procurement, external and internal audit, financial management and control, and investigation functions. By meeting the minimum fiduciary standards, the Agencies have demonstrated their ability to ensure that GEF funds are managed in an accountable manner.

10. In addition to meeting the minimum fiduciary standards, all Agencies have in place financial procedures agreements with the Trustee¹⁰. In those agreements, Agencies have agreed to use GEF funds for the purpose of meeting the costs of the activities for which they have been provided in accordance with their applicable policies and procedures.

11. In accordance with the minimum fiduciary standards and financial procedures agreements, Agencies use their own policies, procedures and practices to put in place mechanisms so that that GEF funds are not misused for the purposes of money laundering or the financing of terrorism. Based on a preliminary stocktaking, the Secretariat found that several Agencies have in place explicit, publicly available policies and procedures related to AML/CFT and, more broadly, screening procedures and/or due diligence related to procurement, co-financing and executing partners.

12. In practice, depending on the nature of each Agency's operations, Agencies' procedures may consist of screening clients and key counterparties against relevant sanctions lists, enhanced due diligence for high-risk clients and sectors, and regular monitoring for integrity and reputational risks. Several Agencies have also put in place measures to enhance internal and client capacities and awareness related to AML/CFT.

POTENTIAL ISSUES TO BE ADDRESSED IN UPDATED MINIMUM FIDUCIARY STANDARDS

13. The Trustee, in exercising its fiduciary responsibilities as set out in the Instrument¹¹, applies the World Bank's comprehensive screening procedures to all donor contributions paid to all trust funds for which the Bank is a Trustee including the GEF- trust funds, and to the transfer of GEF funds to Agencies.

14. While several Agencies have in place robust policies, procedures and practices to address risks associated with money laundering and the financing of terrorism in GEF-financed projects and programs, a preliminary stocktaking suggests that further review is necessary to identify potential risks with regard to the funds that flow from the Agencies to third parties. It is therefore proposed that the Secretariat, in collaboration with the Trustee and in consultation

⁹ GA/PL/02, *Minimum Fiduciary Standards for GEF Partner Agencies*

(http://www.thegef.org/sites/default/files/documents/GA.PL_02_Minimum_Fiduciary_Standards_0.pdf)

¹⁰ (<http://www.thegef.org/agency-mob-financial-procedures-agreement>)

¹¹ *Instrument for the Establishment of the Restructured GEF*

(http://www.thegef.org/sites/default/files/documents/GEF_Instrument-Interior-March23.2015.pdf)

with the Agencies, review those risks further and present, as necessary, a proposal to update the Minimum Fiduciary Standards to close any immediate gaps related to AML/CFT, for Council consideration at its 55th meeting in the Fall of 2018. Such an update could include the following principles:

- (a) requirement that Agencies have standard practices and procedures, on anti-money laundering and combating the financing of terrorism;
- (b) compliance with any decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, including under United Nations Security Council Resolution 1373 and related resolutions; and
- (c) requirement that Agencies inform the Council if funds are not being used or have not been used for the implementation of a project or of any illegal or corrupt practice.