

## **Workstream IV: Monitoring and Evaluation**

### **Background note: Overview of minimum fiduciary standards in selected funds**

1. This background note describes the different approaches adopted with regard to minimum fiduciary standards. To that end, the standards used by the Adaptation Fund, the Global Environment Facility, the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Multilateral Fund for the Implementation of the Montreal Protocol were compared. The factsheet below provides a comparison of the similarities and differences between these entities' approaches to fiduciary risk management.
2. There is no set of agreed internationally recognized minimum fiduciary standards for these types of funds. However, there is a common understanding that there must be a minimum required level of functions to ensure accountability and transparency.
3. Different jurisdictions regard fiduciary duties in different lights. There are more expansive views of fiduciary obligation, while other jurisdictions have developed more conservative approaches. For private investors, filing with an acceptable regulator in a specific jurisdiction would automatically imply compliance with minimum fiduciary standards.
4. When elaborating these minimum standards it is important to consider the differences between the contexts in which a specific fund/organization operates. However, once this context is defined, the minimum standards shall apply across all types of operations/projects. Further, it has to be defined at which organizational levels the fiduciary standards are targeted. In the models described below, all the levels (Board, Secretariat, Trustee, implementing entity and executing agency/project) were described.
5. Across the reviewed funds, the implementing agencies have to demonstrate equivalency with minimum standards and procedures required.
6. A review of the selected funds shows that initial and periodic reassessment concerning the compliance with minimum fiduciary standards is made. In some funds, part of this assessment is done with internal staff and parts are outsourced to independent bodies/companies.

	<b>Adaptation Fund (AF)</b>	<b>Global Environment Facility (GEF)</b>	<b>Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)</b>	<b>Multilateral Fund for the Implementation of the Montreal Protocol (MF)<sup>1</sup></b>
<b>1. Main target of fiduciary standards</b>	<ul style="list-style-type: none"> <li>• Multilateral, regional, sub-regional and national implementing entities (MIEs/NIEs)</li> <li>• Same standards apply to all implementing agencies</li> <li>• Fiduciary standards cover: financial integrity and management, institutional capacity and transparency, self-investigative powers and anti-corruption measures</li> </ul>	<ul style="list-style-type: none"> <li>• Traditionally MIEs using GEF funds</li> <li>• In May 2011 it was decided to allow national project agencies to be accredited; same fiduciary standards apply as for MIEs</li> <li>• Fiduciary standards cover: financial management and control framework, project/activity process, and oversight and investigations</li> </ul>	<ul style="list-style-type: none"> <li>• National or civil society entities (Principal Recipients (PRs))</li> <li>• Fiduciary standards cover financial management and institutional capability</li> <li>• Fiduciary standards are adapted as much as possible to in-country systems; however, minimum standards defined by the Board have to be ensured</li> </ul>	<ul style="list-style-type: none"> <li>• MF does not set out its own fiduciary standards, as it relies on those of its implementing agencies</li> </ul>
<b>2. Fund level (Board, Secretariat and Trustee)</b> <ul style="list-style-type: none"> <li>• External/internal audit</li> <li>• Control framework</li> <li>• Code of ethics</li> <li>• Financial disclosure</li> <li>• Monitoring</li> <li>• Evaluation</li> <li>• Investigation</li> </ul>	<ul style="list-style-type: none"> <li>• Sound financial management established as principle for the Adaptation Fund Board (AFB), including the use of international fiduciary standards (decision 5/CMP.2)</li> <li>• Oath of service to be signed by Board member with regard to confidentiality and conflict of interest (decision 1/CMP.4, annex I, chapter VII)</li> <li>• Code of conduct of the AFB<sup>2</sup></li> <li>• Review of institutional arrangements, including performance review of the Secretariat and Trustee at the sixth session of the AFB</li> </ul>	<ul style="list-style-type: none"> <li>• GEF Assembly shall review and evaluate the operation of the Facility on the basis of Council reports (Article 14 of the Fund's instrument)</li> <li>• GEF Council shall review the operation, work programme and availability of funds of the Facility (Art. 15, 20 of the Instrument)</li> <li>• GEF Council shall arrange for periodic financial and performance audits of the Secretariat and the implementing agencies (Art. 20 of the Instrument)</li> <li>• GEF Secretariat shall oversee the implementation of the</li> </ul>	<ul style="list-style-type: none"> <li>• The Board establishes the framework for the monitoring and periodic independent evaluation of the performance and financial accountability of activities supported by the Fund (Article 7.4 of the Fund's By-Laws)</li> <li>• The Board establishes conflict of interest policies for the Board, the Technical Review Panel, the Secretariat staff and others, as appropriate (Article 7.4 of the Fund's By-Laws)</li> <li>• The Secretariat commissions the Technical Review Panel</li> </ul>	<ul style="list-style-type: none"> <li>• MF operates under the authority of the Parties to the Montreal Protocol</li> <li>• Its operations are overseen by an Executive Committee</li> <li>• Inter alia, the Fund Secretariat is in charge of monitoring the expenditures and activities of the implementing agencies, and the review and assessment of investment projects, country programmes and the business plans and work programmes of the implementing agencies</li> <li>• The regular Secretariat monitoring includes implementation delays,</li> </ul>

<sup>1</sup> <<http://www.multilateralfund.org/files/Policy62.pdf>>.

<sup>2</sup> <<http://www.adaptation-fund.org/system/files/Code%20of%20Conduct%20for%20the%20Adaptation%20Fund%20Board.pdf>>.

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	<p>(9/2011)</p> <ul style="list-style-type: none"> <li>• Strategic oversight of projects and programmes by the Board (46. OPG of the AF)</li> <li>• Ethics and Finance Committee monitors AF portfolio (46. OPG AF)</li> <li>• Overarching results framework approved by AFB (AFB 10 report, annex IV)</li> <li>• Board can suspend or cancel projects (55. OPG AF)</li> <li>• Board can suspend or cancel the accreditation of an implementing entity (36–39 OPG AF)</li> <li>• Board has right to reclaim all or parts of financial resources allocated for the implementation of projects if not found satisfactorily accounted for (59. OPG AF)</li> <li>• World Bank acts as interim trustee and is accountable to the AFB (decision 1/CMP.4, appendix)</li> </ul> <p>The AF Trust Fund is categorized as the Financial Intermediary Fund (FIF). The AF Trust Fund is included in the single audit system of the World Bank</p>	<p>programme activities (Art. 21 Instrument)</p> <ul style="list-style-type: none"> <li>• World Bank acts as Trustee (Annex B Instrument) and is accountable to the Council for the performance of its fiduciary responsibilities</li> <li>• Trustee shall have the same care in the discharge of its functions as Trustee under the Facility as it exercises with respect to its own affairs (Art. 5 Annex B)</li> <li>• The GEF Trust Fund is categorized as FIF and the World Bank provides annual audited financial statements for it</li> </ul>	<p>and ensures the independence of the review (Article 8.2 of the Fund’s By-Laws)</p> <ul style="list-style-type: none"> <li>• The Secretariat oversees the monitoring and evaluation process</li> <li>• The Foundation Board will select an external, independent auditor to annually audit the accounts of the Foundation (Article 10 of the Fund’s By-Laws)</li> <li>• The World Bank acts as Trustee</li> <li>• The GFATM Trust Fund is categorized as FIF and the World Bank provides annual audited financial statements for it</li> </ul>	<p>changes in approved technology, cost overrun/saving and making recommendations to the Executive Committee</p> <ul style="list-style-type: none"> <li>• The Fund Treasurer (United Nations Environment Programme (UNEP)) is responsible for receiving and administering pledged contributions and disbursing funds to the Fund Secretariat and the implementing agencies</li> </ul>

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<p><b>3. Implementing entity (national, multilateral, regional or sub-regional IFI) level</b></p> <ul style="list-style-type: none"> <li>• External/internal audit</li> <li>• Control framework</li> <li>• Project appraisal</li> <li>• Procurement</li> <li>• Code of ethics</li> <li>• Financial disclosure</li> <li>• Monitoring</li> <li>• Evaluation</li> <li>• Investigation</li> </ul>	<ul style="list-style-type: none"> <li>• Accreditation process for MIEs/NIEs established (33. OPG of the AF)</li> <li>• Eight MIEs and three NIEs accredited to date</li> <li>• Accreditation valid for five years (35. OPG of the AF)</li> <li>• Standards applied cover areas such as financial integrity and management, institutional capacity and transparency, self-investigative powers and anti-corruption measures (32. OPG of the AF)</li> <li>• Applicant has to demonstrate specific capability in relation to the set of deterministic fiduciary standards defined by the AFB, in particular: external/internal audit, internal control framework including disbursement and payment control, business plans and their monitoring, procurement, project preparation and approval, project implementation, project monitoring and</li> </ul>	<ul style="list-style-type: none"> <li>• The Secretariat reviews and reports to the Council on the adequacy of arrangements made by the implementing agencies (Art. 21, 22 of the Instrument establishing the GEF)</li> <li>• As at May 2011, six agencies out of 10 had met the GEF minimum fiduciary standards.<sup>3</sup> The other four agencies have established monitorable action plans for those areas where improvements are needed<sup>4</sup></li> <li>• Minimum fiduciary standards shall reflect the following core principles: professional standards, independence, transparency, monitoring and response, and value-for-money provisions (Article 4<sup>5</sup>)</li> <li>• In general, all minimum fiduciary standards apply across all types of operations where there are projects and/or activities to which they can apply sensibly. Project appraisal standards, procurement processes and</li> </ul>	<ul style="list-style-type: none"> <li>• The Country Coordinating Mechanism is the focus for programme accountability, depending on the Board's decisions regarding overall Fund accountability and fiduciary issues</li> <li>• Accreditation takes place in the context of specific grant applications and therefore with full knowledge of what the grant is likely to be used for; as such, specific institutional capabilities can be assessed in the light of the activities to be performed</li> <li>• The Global Fund's fiduciary principles rely on local stakeholders at country level to implement programmes and manage grant proceeds, to promote rapid release of funds, to monitor and evaluate programme effectiveness, and, as far as possible, to use existing in-country standards (Part 2 of the Fiduciary Arrangement for Grant Recipients)</li> <li>• The Global Fund fiduciary</li> </ul>	<ul style="list-style-type: none"> <li>• MF has legally binding agreements with four multilateral implementing agencies: the World Bank, UNEP, UNDP and UNIDO, and a number of bilateral agencies</li> <li>• MF does not set out its own fiduciary standards, as it relies on those of its implementing agencies</li> <li>• The implementing agencies apply their own financial rules that govern trust funds, except for UNEP which applies United Nations financial rules</li> <li>• Standard progress reports, including internal and external audited accounts, are submitted by implementing agencies to the Executive Committee once a year</li> <li>• MF involves National Ozone Units in each relevant country, which act as national focal points for the Montreal Protocol</li> </ul>

<sup>3</sup> <[http://www.thegef.org/gef/fiduciary\\_standards](http://www.thegef.org/gef/fiduciary_standards)>.

<sup>4</sup> <[http://www.thegef.org/gef/sites/thegef.org/files/documents/C.40.Inf\\_10.Agency\\_Progress\\_on\\_Fiduciary\\_Standards.Final\\_.pdf](http://www.thegef.org/gef/sites/thegef.org/files/documents/C.40.Inf_10.Agency_Progress_on_Fiduciary_Standards.Final_.pdf)>.

<sup>5</sup> GEF Recommended Minimum Fiduciary Standards for GEF Implementing Agencies, July 2007.

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	evaluation, and policies and framework to deal with financial mismanagement and other malpractices (OPG, annex 2)	<p>project-at-risk systems may vary (Article 5<sup>3</sup>)</p> <ul style="list-style-type: none"> <li>• Applicant has to demonstrate that it complies with GEF minimum fiduciary benchmarks, but is allowed to have own standards and procedures in place (Article 14<sup>3</sup>)</li> <li>• Recommended GEF minimum fiduciary standards are: external financial audit, internal control framework, financial disclosure, code of ethics, internal audit, project appraisal, procurement, monitoring, evaluation function, investigation function, and hotline and whistle-blower (Articles 22 to 31<sup>3</sup>)</li> </ul>	<p>arrangements are continuously monitored and periodically evaluated to balance the above-mentioned priorities (Article 3, Fiduciary Arrangement for Grant Recipients)</p> <ul style="list-style-type: none"> <li>• Minimum requirements for country standards: efficient flow of funds to designated purpose, adequate and transparent reporting, assure transparent, competitive and effective procurement and supply management, and ensure monitoring and evaluation (Article 5, Fiduciary Arrangement for Grant Recipients)</li> </ul>	
<p><b>4. Executing entity/project<sup>6</sup></b></p> <ul style="list-style-type: none"> <li>• External/internal audit</li> <li>• Control framework</li> <li>• Procurement</li> <li>• Code of ethics</li> <li>• Financial disclosure</li> <li>• Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Executing entities are organizations that execute adaptation projects and programmes supported by the Fund under the oversight of implementing entities (Art 31 of the OPG). They are not accredited</li> </ul>	<ul style="list-style-type: none"> <li>• In the case of the accreditation of national project agencies (direct access), the same fiduciary standards as for MIEs apply (Accreditation Procedure for GEF Project Agencies, 18 November 2010)</li> </ul>	<ul style="list-style-type: none"> <li>• Principal Recipients (PR) are legally responsible for programme results and financial accountability (Article 8, Fiduciary Arrangement for Grant Recipients)</li> <li>• Minimum requirements: financial management</li> </ul>	<ul style="list-style-type: none"> <li>• MF involves National Ozone Units in each relevant country, which act as national focal points for the Montreal Protocol. These Units do not have direct access; they are funded through the agencies</li> </ul>

<sup>6</sup> The project executing level could be identical or not to the MIE/NIE. In, for example, the Senegalese project, the Centre de Suivi Ecologique acts as NIE and the Directorate of Environment of Senegal as one of the executing agencies.

<sup>7</sup> Generally LFAs are accounting firms.

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			<p>system, institutional and programmatic arrangements, procurement and supply management system, and monitoring and evaluation arrangement</p> <ul style="list-style-type: none"> <li>• Before the first disbursement, the Global Fund assesses the PR (Article 10, Fiduciary Arrangement for Grant Recipients)</li> <li>• Local Fund Agents (LFAs)<sup>7</sup> assess whether the PR complies with the minimum capacities to assume financial and programmatic accountability (Article 11, Fiduciary Arrangement for Grant Recipients)</li> <li>• The new grant architecture adopted in May 2011 foresees the single stream of funding per PR</li> </ul>	<ul style="list-style-type: none"> <li>• The standard terms of reference for these units constitute an integral part of the Institutional Strengthening project submitted to establish the Unit</li> </ul>