



**GREEN
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FUND**

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2021 Annual Implementation Report on the Policy on Prohibited Practices

Summary

This document reports on the progress made in the implementation of the Policy on Prohibited Practices adopted in decision B.22/19 and as amended in decision B.23/08. The report assesses and measures the actions taken to implement the Policy in the period from 01 January to 31 December 2021.

I. Policy Overview

1. The Green Climate Fund (GCF) has demonstrated its firm commitment to tackling the challenges posed by climate change, while preserving and promoting the highest integrity standards in its Funded Activities. This commitment is reflected, *inter alia*, in the Fund's comprehensive policies and procedures related to matters of accreditation¹ as well as pre- and post-approval² of Funded Activities. Among these, the *Policy on Prohibited Practices* (hereafter referred to as "the Policy") plays a crucial role in safeguarding the Fund's assets as it demonstrates the zero-tolerance approach toward Prohibited Practices. The GCF expects individuals and entities involved in Fund-related Activities to observe the highest standards of integrity, to refrain from directly or indirectly, condoning, encouraging, participating in, or engaging in Prohibited Practices. It also encourages Counterparties to take measures, where and when appropriate, to prevent and combat Prohibited Practices regarding Fund-related Activities.
2. In accordance with the paragraph 39 of the Policy, the Independent Integrity Unit (IIU) shall produce an annual report to the Board on the implementation of the Policy. This report presents a holistic overview of the activities that the Fund implemented in 2021, and it provides for recommendations on improvements in order to strengthen the integrity culture across GCF operations, while ensuring that integrity violations are readily detected and acted upon.
3. Specifically, the implementation report focuses on preventive and detective measures to effectively manage Prohibited Practices in Fund-related Activities for the calendar year 2021, providing a snapshot of measures to safeguard the interests of GCF.

II. Implementation of the Policy

2.1 Prevention of Prohibited Practices

4. The IIU recognises the importance of preventing Prohibited Practices in GCF Funded Activities and as provided in the IIU Work Programme for 2021, significant focus was placed on proactive prevention activities, as provided under the Policy. The Policy's objectives are widely communicated, both internally and externally, to all relevant stakeholders by the Fund.
5. **Training Activities.** The Fund recognises the importance of continuous training and awareness on integrity matters, and this is reflected in its strategic approach to communicating the expected conduct of staff members and consultants onboarded at the Fund. Through its internal LMS platform (hereafter referred to as "the Platform"), the Secretariat has developed a plethora of useful integrity-related modules that outline dos and don'ts for new Personnel. In particular, the Platform contains two comprehensive modules, that have been updated, on the prevention of sexual exploitation, sexual abuse, and sexual harassment (SEAH) and on money laundering (ML) and terrorist financing (TF). These modules bring greater awareness on key integrity risks, mitigation measures, and as well as reporting mechanisms, offering the newcomers the necessary insights and actions for addressing integrity risks in the execution of their duties and across GCF operations. Aside from training at the onboarding level, the Secretariat facilitates annual refresher trainings. In 2021, the Office of Risk Management and Compliance (ORMC), in collaboration with external consultants, facilitated training sessions on ML/TF, coupled with dedicated training on best practices for screening and due diligence within the external databases. Cumulatively, these two training initiatives were attended by more than

¹ *GCF Accreditation Framework*, as adopted by decision B.31/06 (paras. 19 and 20, respectively).

² *Standards for the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy*, as in Board decision B.23/15 (a), paras. 19-32.

200 staff members. The IIU continues to collaborate with the Secretariat and monitor integrity-related training initiatives while providing advice on improvement areas, as required.

6. **Operationalisation of the AML/CFT Policy and Standards.** The IIU continued to support the Secretariat in its efforts to develop the Standard Operating Procedures (SOPs) of the AML/CFT Policy and Standards. The SOPs aim to provide a consistent approach for managing ML and TF risks across Funded Activities, with clear delineation of responsibilities among the first, second, and third line of defence. As the GCF portfolio grows so too does its exposure to ML and TF risks. The SOPs will also address necessary requirements for the identification of beneficial owners, considered one of the key matters in reducing the exposure to these risks. Throughout 2021, the IIU worked in close collaboration with ORMC in drafting of the SOPs. The IIU notes the protracted nature of the SOP development process, and will work with relevant stakeholders to finalize the draft in 2023.

7. **Advisory Services.** In congruence with its responsibilities as the third line of defence within GCF's internal control framework, the IIU responded to 40 advisory requests in 2021. More than half of the requests (25) referred to integrity safeguards in contractual agreements with Counterparties, while the remaining portion was linked to conflicts of interest (nine) and the implementation/application of various integrity policies (six). IIU has provided advice/guidance to the Secretariat on integrity matters which enabled the GCF to develop mitigating measures, while managing reputational risks of the Fund.

8. **Communication and Outreach.** The IIU considers communication and outreach as one of the key pillars in advancing the integrity agenda in climate finance. 2021 has been a challenging year for IIU due to the COVID-19 pandemic. In 2021, the IIU participated in five external events, covering issues on the importance of integrity in climate action – in total, the Unit was able to engage more than 1,500 participants on these occasions. The highlight of IIU's outreach activities was its engagement during COP26 in Glasgow where the IIU organised two side events to emphasise the importance of integrity in climate financing. Other important external engagements by the IIU in 2021 are summarised in Table 1 below.

9. **Knowledge Products.** Alongside official events at COP26, the IIU developed a thematic brief entitled, *“Enhancing Integrity to Avoid Maladaptation”* which was officially launched during the IIU side event. The thematic brief provides an initial understanding of integrity risks in adaptation projects and how these risks can lead to maladaptation if left unaddressed. It also identifies potential ways forward in mitigating the possible cycle of maladaptive outcomes. The brief further strives to increase awareness on the issue and expand the discourse to diverse stakeholders. With the launch of the thematic brief, the IIU hopes to encourage further discourse on the emerging topic of maladaptation and be a catalyst to finding solutions and remediation while ensuring that adaptation funds are used efficiently. The IIU also plans to drive the momentum by collaborating with stakeholders from governments to grassroots to ensure sustained commitment to addressing integrity gaps that may lead to maladaptation in climate projects.

Table 1. External Engagements and Partnerships of the IIU

Event Title & Theme	Organiser/Host	Participants
10th Asia-Pacific Water Forum Webinar <i>Strengthening Integrity: Crucial in Advancing Water Security in Asia Pacific</i>	Asia-Pacific Water Summit	153



Event Title & Theme	Organiser/Host	Participants
Stockholm World Water Week <i>The Role of the Financier in Mitigating Integrity Failures and Maladaptation</i>	Independent Integrity Unit & Water Integrity Network	304
COP26 Green Climate Fund and Global Environment Facility Pavilion Event <i>Launching of Thematic Brief and Panel Session on Enhancing Integrity to Avoid Maladaptation</i>	Independent Integrity Unit	150
COP26 Green Climate Fund and Global Environment Facility Pavilion Event <i>Climate Finance Accountability: Evaluation, Integrity, and Redress at the GCF</i>	GCF Independent Units	Information Unavailable
2021 Caribbean Conference on Corruption, Compliance, and Cybercrime <i>Corruption and Climate Financing: Lessons for the Caribbean</i>	Caribbean Development Bank	1,000

10. With respect to building strategic partnerships, the IIU successfully concluded the negotiations of 18 Memoranda of Understanding (MoUs) with Accredited Entities (AEs), which constitutes a significant jump of 125% from the previous reporting year. The results are a testament to IIU's continuous strategy to join hands with international organisations in combatting corruption and other Prohibited Practices.

2.2 Reporting, Investigation, and Remediation

11. Covered Individuals and Counterparties continued to fulfil their responsibilities to report Prohibited Practices and other suspected Wrongdoing in relation to Fund-related Activities during the reporting period. A total of eight cases³ were filed to the IIU in 2021, out of which two reports were submitted by GCF Personnel, one report was communicated by an AE, and five reports were made by third parties.

12. There was a significant drop (of 81 per cent) in staff misconduct cases in 2021 relative to the previous year (2020), which coincided with the introduction of the internal grievance mechanism and informal conflict-resolution channels to GCF Personnel. In addition, this decrease in reported cases may be attributed to internal workshops/trainings with GCF Personnel on a range of integrity matters.

13. In 2021, IIU logged five project-related cases, which represents a slight increase from the previous reporting year (2020), when four such cases were registered.

³ As of 03 February 2022, of the total eight cases received in 2021, five cases were closed (unsubstantiated) by the IIU; one case was referred to an Accredited Entity for their review and investigation in accordance with GCF contractual obligations; one case was reported to the IIU by an Accredited Entity, which is concluding their investigation; and one case is pending closure by the IIU.

14. As detailed in Table 2 below, half of all the reported cases concerned Prohibited Practices and were related to the implementation of GCF projects/programmes by Counterparties.

Table 2. Types of Cases Opened by the IIU in 2021

Type of Cases		Number of Opened Cases
Prohibited Practices	Corruption	2
	Collusion	1
	Abuse	1
Other Types of Wrongdoing	Abuse of Authority	1
	Conflicts of Interest	1
	Harassment	1
	Others	1
Total		8

15. Upon assessment/investigation, four cases were either found to fall outside the IIU's mandate or were unsubstantiated. Of those cases found to fall outside IIU's mandate, one was referred to the relevant AE.

16. In accordance with relevant provisions of Accreditation Master Agreements (AMAs) between the GCF and AEs, the IIU made referrals and/or requested AEs to provide final reports on investigation findings in three project-related cases. Under the AMAs, AEs are required to take appropriate measures to investigate allegations concerning the improper use of GCF proceeds or other GCF funds, and to provide a report to the GCF on the findings of such investigation upon their conclusion.

17. **Administrative Remedies and Exclusion (ARE) Policy.** The ARE Policy was adopted by the Board by decision B.B-2021/09. The adoption of the Policy reaffirms GCF's zero-tolerance commitment towards Prohibited Practices. The Policy establishes a regime for remedies and exclusion of individuals and entities engaged in the misuse of GCF proceeds in Fund-related Activities with the ultimate objective to ensure that GCF financing is used solely for its designated purpose. This ARE Policy was developed in accordance with clause 32 of the PPP as an administrative sanction on Counterparties.

18. In 2021, the IIU, in collaboration with the Secretariat, started the drafting of the four secondary documents that would operationalise the Policy. The four documents are as follows:

- (a) Administrative Remedies and Exclusion Guidelines for the Implementation of the Policy;
- (b) Administrative Remedies and Exclusion Procedures;
- (c) Integrity Compliance Guidelines; and
- (d) Settlement Guidelines.

19. While the GCF continued to develop the subsidiary documents to the ARE Policy to make it effective, there have been no cases where administrative sanctions decisions were made by the Board in relation to Counterparties and in the context of Fund-related Activities.

2.3 Proactive Integrity Risk Assessment

20. A proactive approach to managing integrity risks in GCF-Funded Activities is a cornerstone of IIU's strategy and is synonymous with the development and implementation of adequate preventive measures, such as the conduct of Proactive Integrity Reviews (PIRs). The

PIR is a preventative tool to identify integrity risks/red flags in ongoing GCF-funded projects. The objective of the PIRs is to proactively review the processes and procedures of the identified ongoing projects in order to identify areas for improvements. In this way, IIU will have the opportunity to work with AEs to address areas for improvement for enhanced integrity, transparency, and accountability of GCF proceeds.

21. In 2021, IIU started to develop the methodology for undertaking the PIRs by using data analytics and machine learning in the project selection for PIRs. This exercise is implemented in close consultation with the Secretariat.

III. Recommended Actions

22. Taking into consideration the activities undertaken during the reporting period and to ensure the full implementation of the PPP, the following actions are recommended:

- (a) To develop in close collaboration with the Secretariat the PIR as an innovative and fully-fledged preventative tool and to start with the launch of the full PIRs in the following years;
 - (b) As a matter of priority, the Secretariat in collaboration with the IIU should in 2023, finalize the draft SOPs for approval by the Ethics and Audit Committee (EAC) of the Board in accordance with the AML/CFT Standards. The approved SOPs will operationalise the AML/ CFT Policy and Standards and provide a consistent approach for due diligence in Funded Activities and as such would significantly raise awareness across functions and improve the existing mitigating measures. The IIU will continue engagement with the Secretariat to support operationalization of the SOPs;
 - (c) Share best practices and provide guidance to support the Fund's readiness activities. This will be undertaken through the conduct of the PIRs in consultation with the Secretariat. The succeeding PIRs will seek to include at least one readiness activity;
 - (d) Provide policy and best practice advice and support to Accredited Entities and other relevant stakeholders (National Designated Authorities, Implementing Entities, Delivery Partners, etc.) in developing and implementing their own Prohibited Practices policies and procedures regarding Fund-related Activities;
 - (e) Complement the integrity-related online training for onboarding staff with in-person training to bring awareness of the importance of integrity and their duty in contributing to a culture of integrity;
 - (f) Continue the engagement with international partners/stakeholders for joint advocacy on integrity in climate action and sharing on best practices; and
 - (g) Develop a monitoring plan on the implementation of the PPP together with the Secretariat in order to identify recommendations for changes, if necessary, for the third-year report for the EAC/Board's approval.
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