

**Climate Risk and Early Warning Systems**  
***Clarifying the Financial Management Responsibilities of the CREWS Key Partners***  
***With respect to the Use of CREWS Resources***

(Note prepared by the World Bank as CREWS Trustee)

## **Introduction**

The Climate Risk and Early Warning Systems (CREWS) Initiative was officially launched at the UNFCCC COP21 in Paris as part of the Solutions agenda in December 2015. The Initiative aims to raise USD 100 million by 2020 to strengthen Multi-Hazards Early Warning Systems in Least Developed Countries and Small Island Developing States. CREWS projects are implemented by the World Bank (WB)<sup>1</sup>, World Meteorological Organization (WMO) and United Nations Office for disaster Risk Reduction (UNDRR, formerly known as UNISDR). WMO provides Secretariat services, and the World Bank serves as Trustee.

## **Background**

At the 8<sup>th</sup> CREWS Steering Committee meeting in Geneva on May 10, 2019, some donors raised an issue of the “...*perceived liability gap in the current CREWS Governance Document under paragraph 19, responsibilities of the Trustee and Secretariat.*”<sup>2,3</sup> and requested clarification of the roles and responsibilities of parties in the CREWS initiative and available mechanisms that would be applicable if CREWS project funds are not used as intended by the Implementing Partners (IPs). In response to this concern, the Steering Committee requested “...*the Trustee to prepare a summary note on the mechanism for addressing misuse of funds and submit to Members through the Secretariat ahead of the next meeting.*”<sup>4</sup> This note is in response to this request.

## **Overview of the current structure of CREWS**

The CREWS Initiative is a partnership comprised of separate, independent entities who have agreed to a common governance structure and framework specific to the operations of CREWS. It has a governance structure consisting of a Steering Committee, a Secretariat, a Trustee and the IPs. Under the existing arrangements, the three CREWS IPs – WB, WMO, and UNDRR – may implement projects, using available funds held by the Trustee in the CREWS Trust Fund. Upon approval by the CREWS Steering Committee, the Trustee makes a financial commitment to the IPs (through a “Commitment Letter”), enabling the IPs to make project commitments to countries or other recipients, proceed with internal approvals and processes, etc. The Commitment Letter also permits the IPs to request cash transfers from the Trustee for

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<sup>1</sup> Managed by the World Bank’s Global Facility for Disaster Reduction and Recovery (GFDRR).

<sup>2</sup> Climate Risk and Early Warning Systems Governance Document, adopted on 12 September 2016 and amended on 9 November 2016, 14 June 2018, and 10 May 2019.

<sup>3</sup> “Eighth Meeting of the Climate Risk and Early Warning Systems (CREWS) Steering Committee”; paragraph 52, pg. 9; 10 May 2019; Geneva, Switzerland.

<sup>4</sup> “Eighth Meeting of the Climate Risk and Early Warning Systems (CREWS) Steering Committee”; Decision 8, pg. 9; 10 May 2019; Geneva, Switzerland.

implementation/execution of project activities as and when such cash transfers are needed. Implementation by the IPs generally involves project identification, preparation of project concept, appraisal, preparation of detailed project document, project approval, project supervision, and project completion and evaluation, in accordance with the respective policies and procedures of the relevant IP, which is accountable to the Steering Committee for the use of CREWS resources made available to it. Execution generally includes the management and administration of the day-to-day activities of projects 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. The responsibilities of each of the CREWS' key actors are described in the CREWS Governance Document.

### **Responsibilities of CREWS Steering Committee and the Secretariat**

The Steering Committee serves as the decision-making body of the CREWS Initiative and oversees the overall activities funded by the CREWS Trust Fund. The Secretariat is established to support the work of the Steering Committee and is accountable to the Steering Committee for the performance of its functions. Under the provisions of the CREWS Governance Document<sup>5</sup> and relevant Steering Committee decisions, both parties undertake their respective responsibilities assigned to them, including developing CREWS monitoring and evaluation (M&E) framework and reporting guidelines, in connection with monitoring and evaluation of the implementation of project activities by the CREWS IPs.

### **Responsibilities of the Trustee**

The role and fiduciary responsibilities of the Trustee are set forth in paragraphs 17-19 of the CREWS Governance Document. Those responsibilities include “*Commitments and transfers of the Trust Fund funds to the Implementing Partners...pursuant to the Financial Procedures Agreements.*”<sup>6</sup> Pursuant to authority provided under the Governance Document, the Trustee entered into Financial Procedures Agreements (FPAs) with the Implementing Partners. Section 5 - “Use of Funds” - of the FPAs provides the following:

*“If any Trust Fund resources transferred to the Implementing Partner are not used in accordance with the terms of this Agreement, the Implementing Partner shall take necessary actions within its control to address the matter, including, in accordance with its policies and procedures, using reasonable efforts to recover, and return to the Trustee, the funds that were misused; for avoidance of doubt, if any such funds were misused due to the action of a third party without gross negligence or willful misconduct on the part of the Implementing Partner, the Implementing Partner shall not be required to return any such funds which are not recovered by the Implementing Partner notwithstanding its reasonable efforts in accordance with its policies and procedures.”*

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<sup>5</sup> Climate Risk and Early Warning Systems Governance Document, adopted on 12 September 2016 and amended on 9 November 2016, 14 June 2018, and 10 May 2019; paragraphs 13 and 15.

<sup>6</sup> Climate Risk and Early Warning Systems Governance Document, adopted on 12 September 2016 and amended on 9 November 2016, 14 June 2018, and 10 May 2019; paragraph 18(a).

The FPA lays the responsibility for recovery of misused funds on the IPs. This is appropriate insofar as the Trustee has no relationship nor agreements with the recipients of the funds; these relationships are among the IP and recipient only. Nevertheless, the Trustee, upon the instruction from the Steering Committee, can suspend further transfer of funds, if the misuse of funds is not cured within 30 days. The FPA provides as follows:

*“Following consultations with the Implementing Partner, in the event that the Trustee has notified the Implementing Partner of any non-compliance with the terms of this Agreement and the Implementing Partner fails to cure such non-compliance, within thirty (30) calendar days after the notification by the Trustee, the Trustee: (a) shall consult with the Steering Committee; and (b) at the instruction of the Steering Committee (or its designee), may suspend any further commitment and/or cash transfer of Trust Fund resources to the Implementing Partner until such time as the Implementing Partner has cured (or otherwise has taken necessary steps within its control to cure, in case any action by any party other than the Implementing Partner is required) the non-compliance to the reasonable satisfaction of the Trustee in consultation with the Steering Committee (or its designee).”*

Distinct from the roles of the World Bank in other trust funds, in Financial Intermediary Funds such as CREWS, the Trustee has no operational role. It plays a limited role as fiscal agent, carrying out its duties as agreed in the governing documents and related legal arrangements. The CREWS Governance Document limits the responsibility of the Trustee in case of the misuse of funds by the IPs as follows:

*“The Trustee has, without limitation, no responsibility for (i) reviewing the appropriateness of any decision by the Steering Committee; (ii) confirming that funds transferred to Implementing Partners were used for their intended purposes; (iii) implementing, monitoring, supervising, evaluating, or providing quality assurance; (iv) collecting funds from any Implementing Partners or other entity in connection with an Allocation; (v) handling any alleged misuse or misprocurement that may arise with respect to funds transferred to Implementing Partners; (vi) or ensuring the repayment or return of any funds.”*

In sum, the Trustee’s responsibility for monitoring the use of CREWS funds is fulfilled by, and limited to, receiving required financial reports from the agencies, and suspending commitment and disbursement to IPs in protracted non-compliance with the requirements under the FPAs.

### **Accountability of Implementing Partners**

The responsibilities of CREWS IPs are spelled out in paragraphs 20-23 of the Governance Document. Three IPs were selected as CREWS partners on the presumption of having sound financial management, operational, integrity, monitoring, reporting, auditing and other systems and procedures in place. All IPs (including the WB when acting as an IP) are accountable to the CREWS Steering Committee for their CREWS-financed activities pursuant to the CREWS Governance Document, FPA Agreements, CREWS Steering Committee decisions and other policy documents approved by the Steering Committee. While the FPAs are negotiated

individually, all FPAs contain common terms and conditions that provide that the IPs will use the funds transferred to them for the purpose for which they have been provided, exercising the same degree of care and diligence in the discharge of their functions under the FPA as they exercise with respect to the management and administration of their own resources. They also agree to provide to CREWS Steering Committee through the Trustee an annual financial report audited by the IP's independent auditors on the use of the funding received. In addition, the Steering Committee reserves its right to request an IP to provide a separate external audit on an exceptional basis if circumstances warrant:

*“If the Steering Committee wishes to request a separate external audit of financial statements of specific Projects on an exceptional basis, the Implementing Partner may first consult with the Steering Committee as to whether such an external audit is necessary (including by sharing relevant financial statements or reports already audited as such audit shall have been conducted in accordance with the Implementing Partner's policies and procedures, if applicable) ...Following such agreement and approval of the proposal, the Implementing Partner shall cause financial statements of specific Projects to be audited in accordance with the Implementing Partner's policies and procedures.”*

## **Conclusion**

The provisions in the FPAs that govern the use of CREWS resources are explicit that the resources are expected to be returned by an IP in case of its non-compliance with the obligations under the FPA, including funds that have not been used by the IP for the purposes provided by decisions of the CREWS Steering Committee. The situations of non-compliance could be evidenced in several ways, including through reports provided to the Secretariat and Steering Committee, and through financial reports received by the Trustee under the FPAs. The FPAs do not include any express provision for the exercise of legal recourse by the World Bank as Trustee against an IP that does not use CREWS funding it has received in accordance with the decisions of the Steering Committee, except for the provisions for suspension of commitment and cash transfer of CREWS funds in the event of delinquency by the IPs in resolving the issues. Therefore, if an Agency does not use funds provided to it by the Trustee in accordance with the Governance Document, Steering Committee decisions, or the FPA, it is expected that the CREWS Secretariat and the Trustee would seek to resolve the issue consensually with the IP. If the issue cannot be resolved in this manner, the Secretariat would bring the matter to the attention of the Steering Committee for further action as appropriate.

These provisions to deal with potential misuse of funds have proven to be effective and sufficient in other FIFs with similar structures to which many CREWS donors also contribute (e.g. GEF, Climate Investment Funds, Global Partnership for Education, etc). The Trustee is confident that these provisions will prove to be similarly effective to deal with any such event under CREWS.