

## Annex VII: Accreditation assessment of Applicant 004 (APL004)

### I. Introduction

1. Applicant 004 (APL004) is an impact investment fund<sup>1</sup> with almost 15 years' experience in small and medium-sized enterprises (SMEs)<sup>2</sup> that serve low-income communities in developing countries primarily in Africa and the Asia-Pacific region. The applicant has a successful track record in sourcing and executing equity investment opportunities in the clean energy, agriculture and health-care sectors, which provide environmental and livelihood impacts. The results of its activities overlap with the results areas and impacts of the Green Climate Fund (the Fund) in the areas of reducing carbon dioxide emissions from energy efficient products (appliances); improvements in the livelihoods of vulnerable populations through the provision of improved agricultural inputs, services and information; and increased access to health-care products and services that treat diseases and conditions related to the negative effects of climate change and emissions from polluting fuels. The applicant's activities, for example, include the distribution of: solar lanterns, solar home systems, smoke-free cook stoves (energy) and formal financial services, such as providing home improvement micro loans for low-income women and families in developing countries in Africa and the Asia-Pacific region. Leveraging its well-established track record investing in companies via equity and loan instruments, the applicant seeks accreditation to the Fund as an opportunity to further assist more people in the low-income communities in which it operates.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 15 January 2015. Stage I, Institutional assessment and completeness check, and Stage II (Step 1), Accreditation review, were concluded. The applicant has applied to be accredited for the following parameters under the Fund's fit-for-purpose approach:

- (a) **Access modality:** Direct access, regional. The applicant received a national designated authority or focal point nomination for its accreditation application;
- (b) **Track:** Normal;
- (c) **Size of project/activity within a programme:** Micro;<sup>3</sup>
- (d) **Fiduciary functions:**<sup>4</sup>
  - (i) Basic fiduciary standard;
  - (ii) Specialized fiduciary standard for project management; and
  - (iii) Specialized fiduciary standard for on-lending and/or blending;
- (e) **Environmental and social (E&S) risk category:** Minimal to no risk (Category C/Intermediation 3 (I-3)).<sup>5</sup>

<sup>1</sup> The Global Impact Investing Network defines Impact Investments as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return". Available at <<http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html>>.

<sup>2</sup> International Finance Corporation, "Interpretation note on small and medium enterprises and environmental and social risk management", 1 January 2012. Available at <[http://www.ifc.org/wps/wcm/connect/de7d92804a29ffe9ae04af8969adcc27/InterpretationNote\\_SME\\_2012.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/de7d92804a29ffe9ae04af8969adcc27/InterpretationNote_SME_2012.pdf?MOD=AJPERES)>. The applicant is considered an SME as per the definition contained in this document.

<sup>3</sup> As per Annex I to decision B.08/03, "micro" is defined as: "maximum total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of up to and including US\$ 10 million for an individual project or an activity within a programme".

<sup>4</sup> Decision B.07/02.

<sup>5</sup> As per Annex I to decision B.07/02, Category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and Intermediation 3 is defined as "When an intermediary's

## II. Accreditation assessment

3. The applicant is seeking accreditation to the Fund to expand its support for local companies that are in their initial stages of development in a several developing countries, primarily in Africa and the Asia-Pacific region. Examples of its targeted investment sectors, which present minimal to low environmental and social risks and/or impacts, include the distribution of solar lanterns, solar home systems, smoke-free cook stoves (energy) and formal financial services, such as providing home improvement micro loans for low-income women and families in developing countries in Africa and the Asia-Pacific region. The applicant has a well-established track record investing in companies via equity and loan instruments. The average investment per company, made by the applicant, is between US\$ 1 million and 3 million. The applicant's application was assessed against the Fund's standards by the Accreditation Panel (the Panel) in accordance with the standards it has applied for accreditation since the applicant has applied under the normal track.

### 2.1 Fiduciary standards

#### 2.1.1 Section 4.1: Basic fiduciary standard: Key administrative and financial capacities

4. The applicant has a well-established financial management system, which demonstrates and assures that the key administrative and financial capacities are in place. The applicant's approved investment portfolio has grown doubling from 2008 to almost US\$ 90 million in 2013. A management committee directs the management of the organization. To ensure that the applicant has appropriate management oversight and control over the companies in which it invests, regional offices that employ local talent have been established.

5. An investment committee, the members of which are appointed by the board of directors, oversees all of the applicant's investment activities.

6. This board of directors comprises several qualified members and maintains four committees of its board.

7. The applicant has a formal process to set both long-term and short-term objectives. The former are contained in a five-year plan that outlines the type of companies in which investments will be made, as well as the social and financial goals that need to be achieved. The latter are set and monitored based on specific investment reports for each company in which the applicant has an investment stake.

8. The applicant collects, tracks and analyses performance data from portfolio companies on a web-based, custom-built platform. Prior to the disbursement of funds with respect to any investment, the applicant works with portfolio companies in order to identify the appropriate financial, operational and social indicators and the frequency of reporting. Data is aggregated monthly and used by various staff members of the applicant, including the country directors, so as to track the progress of portfolio companies over time.

9. The applicant's external auditor certifies that the Generally Accepted Accounting Principles (GAAP) are adhered to, and the applicant recognizes losses in investment values when they are identified, in line with accounting best practices. The adherence to GAAP guarantees that periodic, complete, timely and accurate financial statements and information is available.

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existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".

10. The applicant is a small organization with approximately 100 employees. Due to the specific nature of its activities – to evaluate, invest in and monitor investee company performance – the applicant’s control framework has industry-specific characteristics. The applicant has an internal independent audit committee that oversees the investment process and ensures that the financial resources under management are properly used. This function is supported by the availability of quality accounting information and a well-developed investment and financial resource monitoring system. The audit committee ensures its independence by including in its composition some independent directors.

11. The external auditor has provided written confirmation that periodic external audits are performed in accordance with GAAP, and furthermore that the management letters provided by the applicant, and prepared by the external auditor, do not contain any material comments regarding the applicant’s internal control.

12. Based on the information provided, it is assessed that the applicant fully meets the requirements of the basic fiduciary standard related to the key administrative and financial capacities.

#### 2.1.2 **Section 4.2: Basic fiduciary standard: Transparency and accountability**

13. The applicant has a code of ethics that has been communicated throughout the organization, and which clearly defines the conduct expectations of organization from its employees.

14. The disclosure of potential conflict of interests is a best-practice component in the investment fund industry. Disclosure standards for staff are clearly defined in relation to potential or executed investments made by the applicant.

15. The applicant has functional investigation capabilities based on the initial due diligence process undertaken and on close monitoring of each investment. The applicant has been able, for example, to detect cases of financial mismanagement and unacceptable labour practices in the portfolio companies. However, to ensure that the applicant fully meets the basic fiduciary standard concerning transparency and accountability, the formalization of its investigation function should be set as a condition to be undertaken by the applicant. Given the monitoring tools and close follow-up of the portfolio companies, the applicant should have the capacity to formalize an investigation policy that fully reflects the investigation function requirements of the Fund’s standard.

16. The applicant, as a part of the laws and regulations governing its establishment, is subject to clear requirements in terms of know your customer and anti-money laundering requirements. The extensive due diligence and monitoring efforts undertaken by the applicant with respect to the investee companies provide concrete evidence that the applicant has the policies, procedures and capacity in order to implement those requirements. In accordance with the requirements, the applicant, which receives a significant amount of its funding from charitable contributions, is required to follow exhaustive procedures in terms of ensuring that all charitable contributions come from legitimate sources.

#### 2.1.3 **Section 5.1: Specialized fiduciary standard for project management**

17. In the case of this applicant, a “project” is defined as the identification of an investment opportunity, the due diligence process and the investment decision. The applicant’s project management skills in this respect are well established as demonstrated by its capacity to identify successful investment opportunities that lead to the achievement of the specified social impact and financial goals.

18. The applicant's apparent project management success is based on its investment identification and due diligence processes. The applicant performs an initial research effort in order to identify potential investment opportunities, and, once identified, a decision is made regarding which opportunities to pursue. For those opportunities that are selected, an initial due diligence process is undertaken. Based on the results of the initial due diligence, if satisfactory, a preliminary investment memo is signed, a formal due diligence is performed, the investment committee reviews the results of the formal due diligence and makes a decision regarding the investment, and finally, if approved by the investment committee, the investment arrangement is legally formalized.

19. Based on the information provided, it is assessed that the applicant fully meets the requirements of the specialized fiduciary standard for project management.

2.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

20. The applicant did not apply for assessment against this standard at this time.

2.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

21. The standard practice in the investment fund industry is that an investor (in this case, the Fund) invests resources directly in an entity (in this case, the applicant). The entity then invests the available resources in portfolio companies.

22. The applicant has established, well-defined and effective processes and procedures in order to identify investment opportunities, undertake the requisite due diligence and subsequently monitor the performance of the portfolio companies that have the potential to generate the expected financial as well as social returns.

23. The applicant has a track record of the effective management of charitable donations in terms of transparency in the use of funds, monitoring and reporting the results of the investments. Furthermore, the applicant has a successful track record of co-investing with major multilateral institutions.

24. The applicant has a specific policy regarding funds restricted to a particular purpose. In order to track the restricted funds and to ensure proper reporting, a specific process to control and monitor the use of such resources is in place. The main components of the applicant's approach in this regard are:

- (a) A monthly review and report of compliance with restrictions;
- (b) A review of appropriate accounting; and
- (c) A quarterly donor (investor) report describing the use of the restricted funds.

25. Monthly post-investment control reports are also in place so as to monitor compliance by the investee company over time with the terms and conditions established in the investment agreement. The applicant has the required managerial tools in place to maintain updated information for every company in which it invests.

26. Based on the information provided, it is assessed that the applicant fully meets the requirements of the specialized fiduciary standard for on-lending and/or blending with respect to loans and equity as financial instruments.

## 2.2 Environmental and social safeguards

27. The applicant demonstrates experience in implementing environmental and social safeguard (ESS) requirements across its investment activities in various projects and programmes. Even so, the applicant is continuing to strengthen its capacity to address potential E&S risks and impacts. It is undertaking investments in several portfolio companies and in activities with minimal E&S risk, such as providing home improvement micro loans for low-income women and families and distributing emissions-free cook stoves in developing countries in Africa and the Asia-Pacific region.

28. The applicant indicated in its application that it is applying for assessment against the environmental and social risk (Category C/Intermediation 3 (I-3)), which, by definition, contains minimal to no environmental and/or social risks or impacts. The environmental and social management system (ESMS) required for Category C/I-3 is modest and simple, and will not need all of the ESMS elements required for higher risk categories. Required elements of the institutional ESMS are requested in Items 6.1 to 6.6 of the application.

### 2.2.1 Section 6.1: Policy

29. Commensurate with the fit-for-purpose accreditation approach and with the nature of Category C/I-3 as being of minimal to no environmental and social risk, an E&S policy within an institutional ESMS is not required for the Category C/I-3 level of risk. The applicant is seeking accreditation against Category C/I-3, and while it is not required for this category, the applicant has a relatively new E&S policy which has been implemented in a recent activity and is planned to be implemented across all of its future investment activities.

### 2.2.2 Section 6.2: Identification of risks and impacts

30. The applicant provided a brief description of its environmental and social management system, which is underpinned by a detailed environmental and social checklist. The checklist was first put into use in 2014 and is fully consistent with the Fund's interim ESS. If high risks are identified during the due diligence process then external experts are retained in order to assist with evaluation. The applicant is in the process of formalizing written procedures, to support its ESMS, regarding the identification of risks and impacts.

31. The applicant provided several examples of due diligence reports for its climate change mitigation and adaptation investment activities, which demonstrate appropriate risk identification and categorization using its environmental and social checklist.

### 2.2.3 Section 6.3: Management Programme

32. The applicant assesses and tracks environmental and social risks during the due diligence visits and analyses of the investee company's adherence to appropriate laws. The environmental, social and governance due diligence is intended to uncover risks, identify potential risk mitigants and/or the lack thereof, as well as to evaluate areas for potential E&S and governance improvements. Upon completion of the due diligence, an action plan is developed outlining potential mitigation actions.

### 2.2.4 Section 6.4: Organizational capacity and competency

33. The applicant designates a person to be in charge of all E&S matters related to each investment and ensures that all members of the investment team have been trained adequately with regard to fulfilling the appropriate ESS requirements. The applicant provided an organizational chart showing the responsibilities for addressing E&S requirements. The entity is

currently strengthening its organizational and staff capacity regarding its E&S policy and procedures across its investment activities.

2.2.5 **Section 6.5: Monitoring and review**

34. The monitoring and review of the investment activities is targeted at the review of the financial results and indicators, technical and construction-related issues, as well as social and environmental issues. It is undertaken on a monthly and quarterly basis and the data from the monitoring of the investment activities are submitted to the applicant by its portfolio companies and are assessed against its internal policies.

2.2.6 **Section 6.6: External communications**

35. The applicant has appropriate channels for external communication with its investment activity partners and also includes addresses and phone/fax numbers on its website for its headquarters and local offices so it is feasible for inquiries or complaints to be lodged. At present, the applicant has an ad hoc process for responding to such inquiries or complaints.

## 2.3 Gender

2.3.1 **Section 7.1: Demonstration of competencies, policies and procedures to implement the gender policy for the Green Climate Fund**

36. While the applicant does not have a gender policy, it has elements contained within its existing and applied employment and ethics policies that address gender. A select number of portfolio managers will receive gender training, particularly as it relates to the impact of portfolio companies on women, within the next 6 to 12 months.

2.3.2 **Section 7.2: Demonstration of experience with gender and climate change**

37. The applicant provided, in its application, evidence that demonstrates gender-sensitive approaches to its climate change mitigation and adaptation-related investment activities. The applicant provided evidence of its investments that specifically target women in their objectives, such as emissions-free cook stoves in developing countries in Africa and the Asia-Pacific region as well as community-based micro solar projects and health-care projects for women. The applicant is also working with a non-governmental organization to prepare a study identifying the impacts of some of its portfolio companies on women.

## III. Conclusions and recommendation

### 3.1 Conclusions

38. Following its assessment and noting that the applicant has applied under the normal track accreditation process, the Panel concludes as follows in relation to the application:

- (a) The applicant is a private sector SME that has a demonstrated track record in climate change mitigation and adaptation-related activities in developing countries, primarily in Africa and the Asia-Pacific region, through equity investments. As a potential private sector partner, a key feature is the potential to promote a transformative and paradigmatic shift in climate finance at the level of global climate funds through new business models. The applicant's activities and direction are aligned with the Fund's

mission and objectives, allowing the Fund's resources to be channelled to a diversity of geographical regions and sectors defined in the applicant's strategic objectives;

- (b) APL004 substantially meets the requirements of the Fund's basic fiduciary standard, and fully meets the specialized fiduciary standard for project management and the specialized fiduciary standard for on-lending and/or blending for loans and equity. In order to fully meet the Fund's basic fiduciary standard, improvements relating to the investigation function for the purpose of transparency and accountability (Item 4.2.4 of the application for accreditation) are required as described in paragraphs 37 (b) (i) – (iv) below. The applicant currently has adequate investigative capacities which it can leverage in order to develop a formal investigation policy, within a short time period, which fully meets the Fund's standard related to the investigation function. The requirements are:
- (i) Publishing on its website, terms of reference that outline the purpose, authority and accountability of the function;
  - (ii) Ensuring the functional independence of the responsible officer;
  - (iii) Including guidelines for processing cases, and standardized procedures for handling complaints and managing cases before, during and after the investigation process; and
  - (iv) Defining a process for periodically reporting case trends;
- (c) The applicant fully meets the requirements of the Fund's interim ESS in relation to the minimal to no E&S risk (Category C/I-3). For some items, the applicant demonstrates a greater degree of ESMS maturity than is required by the Fund's interim ESS for Category C/I-3 that the applicant is seeking accreditation against. The Panel recognizes that an effective ESMS is a dynamic and continuous process which should be appropriate to the nature and scale of the project/programme being financed, and commensurate with the associated level of E&S risks and impacts. It is recommended that the applicant seeks to deepen its knowledge of the Fund's interim ESS while further developing its relatively new ESMS processes in order to support a potential future application for accreditation against medium E&S risk level Category B/I-2. It is additionally recommended that the applicant strengthen its E&S reporting function; and
- (d) While the applicant has elements contained within its existing and applied employment and ethics policies that address gender, it does not have a gender policy. The applicant will be gaining competency through gender training received by its portfolio managers. The applicant has demonstrated that it has experience with gender and climate change. It is required that the applicant:
- (i) Develop a gender policy; and
  - (ii) Obtain the competencies required in order to implement the policy.

### 3.2 Recommendation on accreditation

39. The Panel recommends, for consideration by the Board, the applicant, APL004, for accreditation as follows:

- (a) **Accreditation type:**
- (i) **Size of an individual project or activity within a programme:** Micro<sup>6</sup>
  - (ii) **Fiduciary functions:**<sup>7</sup>
    - 1) Basic fiduciary standard;
    - 2) Specialized fiduciary standards for project management; and
    - 3) Specialized fiduciary standards for on-lending and/or blending (for loans and equity only);
  - (iii) **Environmental and social risk category:** Minimal to no risk (Category C/I-3);<sup>8</sup>
- (b) **Conditions:**
- (i) The applicant shall meet the requirements indicated in paragraphs 37 (b) (i) – (iv) and 37 (d) (i) – (ii) above prior to the first disbursement of finance by the Fund for an approved project/programme to be undertaken by the applicant. The applicant will be required to submit to the Panel, through the Secretariat, information on how it has addressed the condition. The Panel will thereafter assess whether the condition has been met. This assessment will be communicated by the Secretariat, on behalf of the Panel, to the Board.
40. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 38 above, and agrees to the recommendation.

### 3.3 Additional remarks

41. The applicant is already taking the steps required for:
- (a) Meeting the conditions identified in paragraph 38 (b) (i) above; and
  - (b) Undertaking the recommendations in paragraph 37 (c) above.

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<sup>6</sup> As per Annex I to decision B.08/03, “micro” is defined as: “maximum total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of up to and including US\$ 10 million for an individual project or an activity within a programme”.

<sup>7</sup> Decision B.07/02.

<sup>8</sup> As per Annex I to decision B.07/02, Category C is defined as “Activities with minimal or no adverse environmental and/or social risks and/or impacts” and Intermediation 3 is defined as “When an intermediary’s existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts”.