

Annex XI: Accreditation assessment of Applicant 011 (APL011)

I. Introduction

1. Applicant 011 (APL011) is a regional financial institution established in the late 1960s, located in the Latin American and Caribbean regions and focuses on the promotion of sustainable development and green economies in over 15 countries in the region through supporting the technical and financial structuring of projects. It offers a wide variety of financial products and services, including loans, equity and guarantees. The applicant's partnerships with public and private sector organizations have allowed it to play an active role in the promotion of projects and programmes that generate environmental benefits and to address climate change impacts. Over US\$ 800 million has been invested in green energy and greenhouse gas emissions mitigation projects. Such projects have focused on energy efficiency, renewable energy solutions, sustainable transport and climate change adaptation through disaster risk reduction and ecosystem services. APL011 seeks accreditation to the Green Climate Fund (the Fund) in order to continue developing climate change projects and programmes together with its partners that will reduce the impacts of climate change in its region.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 17 March 2015. Stage I, Institutional assessment and completeness check, and Stage II (Step 1), Accreditation review, were concluded at the end of May 2015. 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 three national designated authorities or focal points nominations for its accreditation application;
- (b) **Track:** Fast-track under the Adaptation Fund;
- (c) **Size of project/activity within a programme:** Large;¹
- (d) **Fiduciary functions:**²
 - (i) Basic fiduciary standards;
 - (ii) Specialized fiduciary standard for project management;
 - (iii) Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
 - (iv) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Environmental and social (E&S) risk category:** High risk (Category A/Intermediation 1 (I-1)).³

¹ As per Annex I to decision B.08/02, "large" is defined as "total projected costs at the time of application, irrespective of the portion that is funded by the Fund, of above US\$ 250 million for an individual project or an activity within a programme".

² Decision B.07/02.

³ As per Annex I to decision B.07/02, Category A is defined as "Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented" and Intermediation 1 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

II. Accreditation assessment

3. The applicant is eligible for, and applied under, the fast-track accreditation process as an accredited entity of the Adaptation Fund. Its application has been assessed against the Fund's standards by the Accreditation Panel (AP) in accordance with the requirements and gaps identified in decision B.08/03.

4. As a part of this assessment, the AP has consulted the applicant's website and Standards & Poor's credit rating of the applicant as additional sources of information to complement the information provided by the applicant in its application.

2.1 Fiduciary standards

2.1.1 Section 4.1: Basic fiduciary standards: Key administrative and financial capacities

5. As per paragraph 3 above, the basic fiduciary standards concerning key administrative and financial capacities is considered to have been met by way of fast-track accreditation.

2.1.2 Section 4.2: Basic fiduciary standards: Transparency and accountability

6. As per paragraph 3 above, the basic fiduciary standards concerning transparency and accountability, with the exception of item 4.2.4, investigation function, has been met by way of fast-track accreditation.

7. Regarding item 4.2.4, the applicant is assessed to meet the Fund's basic fiduciary standards in this respect. APL011 provided a set of guidelines for ethical behaviour, and procedures to handle complaints/inquiries regarding possible ethics cases. It also provided evidence of cases that have been processed and closed in the past three years. The guidelines and contact mechanism are available to all employees through the entity's intranet, and contact information for filing complaints with its ethics committee of management is available on the entity's website. In cases where the complaints are related to projects that the applicant participates in or that are related to financial mismanagement, the ethics committee will refer the case to another committee formed by four high ranking officers who will analyse the case and recommend a course of action to the entity's Executive President.

2.1.3 Section 5.1: Specialized fiduciary standard for project management

8. As per paragraph 3 above, the specialized fiduciary standard for project management is considered to have been met by way of fast-track accreditation.

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

9. The applicant has emphasized that it is seeking accreditation for grant awards and/or funding allocation mechanisms to further enhance its capacity to provide technical assistance on climate change matters in its region of operation. APL011 states that it is limited in its ability to maintain a physical presence in every country of the region; therefore, it considers technical assistance funding as a viable mechanism by which to enhance the scope and impact of its climate change efforts. The strategy proposed is to provide support for the enhancement of climate change expertise at the local level through national capacity-building.

10. Within the context of the applicant's strategy, grants are defined as a funding allocation mechanism that will provide resources in order to fund technical assistance initiatives. The applicant has well-established and transparent processes for evaluating, selecting and awarding

technical assistance funding based on the capacity-building needs of the particular countries within its region.

11. In order to ensure efficient management of the technical assistance funds, the applicant has established a dedicated unit to manage all technical assistance fund awards. The process to assess, select, award and monitor technical assistance funding is defined in the applicant's manual for managing special funds and in its guidelines for preparing and undertaking technical cooperation operations. The policies in place clearly define activities eligible for technical assistance, clear selection processes and criteria, levels of authorization required for disbursement and eligible expenses (items subject to funding).

12. Taking into consideration the applicant's emphasis on funding allocation mechanisms for technical assistance, it complies with the Fund's specialized fiduciary standard for grant award and/or funding allocation mechanisms.

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

13. The applicant has over 25 years of experience of working with international sources of funds for on-lending and blending.

14. It has investment grade credit ratings from the three major global rating agencies, which highlight the applicant's sound financial position.

15. The applicant has contributed over US\$ 800 million to green energy and the mitigation of greenhouse gas emission projects, and financing for other green projects. These projects were funded mainly through loans, however technical assistance funding, concessional loans and equity instruments were also utilized as funding mechanisms.

16. APL011's credit manual provides guidance on effective credit management policies. It includes guidance on credit origination (including due-diligence assessment), monitoring and evaluation, and problem loan management. The quality of the applicant's loan portfolio management guidelines is evidenced by an external credit rating report, which highlights the quality of its loan portfolio.

17. Considering its controls, management practices and experience with on-lending and blending operations, the applicant meets the Fund's specialized fiduciary standard for on-lending and/or blending related to loans, equity and guarantees.

2.2 Environmental and social safeguards

2.2.1 **Section 6.1: Policy**

18. The applicant has considerable experience with environmental and social safeguards (ESS) implementation across a wide spectrum of projects and E&S risk categories. Its overarching environmental policy is well established, while technical guidelines continue to be strengthened and updated. It established an environmental strategy in 2007, which describes the guiding axis, principles, methodologies and objectives of the applicant's environmental activities. The strategy describes 14 ESS, which are in line with the Fund's ESS, except for some aspects of performance standard 2 on labour and working conditions. The applicant provided substantial documentation demonstrating its experience in various aspects of project-specific performance standards 2 to 8 in the projects which it finances.

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

19. APL011's operations are guided by an environmental and social management system (ESMS) that is supported by an E&S risk matrix and a geographical information system utilized

from the very early stages of project origination. The E&S matrix accommodates the characteristics of the proposed project as well as the sensitivity of the environment (physical and social) in which it is located. Whereas the geographical information system is a tool that assists in the identification of sensitive or vulnerable geographic areas. The applicant's E&S risk categorization system is comparable to that used by Fund. APL011 presented a brief paper comparing its risk categorization system with that used by the Fund. The applicant has also presented documentation related to its projects showing different risk categories (from low to high), evidencing its significant experience in managing projects with different E&S risk characteristics.

2.2.3 Section 6.3: Management programme

20. The applicant's E&S strategy document has been elaborated in a set of guidelines and manuals that ensure sound practices from project origination to ex-post evaluation. The guidelines also ensure that executing entities provide the necessary human resource and budget allocations to implement E&S mitigation plans. The guidelines also call for the incorporation of contractual conditions in loan agreements. Project documentation demonstrates the application of the system, including project E&S reports and environmental audit reports.

21. However, there is a new draft guideline (consolidated blueprint on E&S) that has not been finalized nor approved. This is expected to take place by October 2015. The applicant needs to ensure the finalization of the guideline, approval of the consolidated blueprint and its institutionalization in the organization and its executing entities.

2.2.4 Section 6.4: Organizational capacity and competency

22. The applicant's E&S management system is handled by its environment and climate change division, the director of which reports to senior management (Executive President). The division is divided into three units, with one unit (with seven officers) being responsible for ensuring that environmental and social safeguards are adhered to. While the other units are in charge of green business programmes (forestry and biodiversity) and climate change programmes (adaptation and mitigation). A manual that describes the operational modality of the division was provided. The curricula vitae provided for technical staff indicate sound competency in this field.

23. APL011 has commenced a capacity-building programme for its staff, located in various offices, with the Global Environment Facility (GEF), which covers ESS as well as gender mainstreaming. The schedule for the training courses was provided, showing that courses are planned for 2015, 2016 and 2017, to cover all of the GEF's Minimum Standards on Environmental and Social Safeguards topics.

2.2.5 Section 6.5: Monitoring and review

24. The applicant's guidelines and manuals establish a continuum of actions for the monitoring and review of E&S risk and impact management. At the formalization stage, the applicant ensures that loan agreements clearly state the executing entity's obligations for E&S mitigation and monitoring. One obligation is for the executing entity to engage external experts/auditors in order to verify compliance with requirements established in the project's E&S studies or documents, licences and loan agreements. At the project implementation phase (administration and disbursement phase), verification of E&S compliance is conducted through field visits, which result in a technical criteria document that highlights findings to be followed up by the executing entity. Samples of reports were provided as evidence that the monitoring and review system is functioning.

25. For the GEF projects, the applicant has indicated that it will apply a GEF project management manual, which describes a results-based management approach and a performance measurement framework to be applied to projects prior to completion. The framework is intended to improve decision-making, transparency and accountability. For each project, performance indicators are developed to measure the achievement of outputs, outcomes and targets. Quarterly or biannual reports, as well as mid-term and final evaluation reports are to be publicized on the applicant's website. Additionally, the applicant has stated that its GEF portfolio will undergo an external audit in order to determine the applicant's compliance to GEF ESS requirements as well as its own. As no GEF projects have been implemented, there were no audit reports submitted for this assessment.

26. The project documentation indicates some inconsistency, however, in the practice of monitoring and follow-up of actual environmental impacts and risks. It is expected that the new consolidated blueprint will play an important role in strengthening the applicant's ESMS and performance.

2.2.6 **Section 6.6: External communications**

27. The applicant has set up a grievance and complaint response mechanism for GEF projects, and an ethics committee to receive complaints and reports on possible fraud activities or acts of corruption related to projects from other sources (non-GEF). The method for contacting the applicant regarding any such complaints or grievances is provided on the applicant's website.

2.3 Gender

28. The applicant has recently published guidelines on gender equity that follow up on a gender agenda from 2013. APL011 has established a gender affairs committee comprising senior officers, and has assigned an executive to be responsible for implementing and mainstreaming the strategy, and monitoring and reporting on gender outcomes. It also has a gender action plan that provides a preliminary framework for mainstreaming gender into its operations. The applicant does, however, lack a track-record on gender and climate change, and is encouraged to build up its project and programme experience in line with its guidelines and action plan.

III. Conclusions and recommendation

3.1 Conclusions

29. Following its assessment and noting that the applicant has applied under the fast-track accreditation process, the AP concludes the following in relation to the application:

- (a) The applicant fully meets the requirements of the Fund's basic fiduciary standards, specialized fiduciary standard for project management, specialized fiduciary standard for grant award and/or funding allocation mechanisms, and specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees. The applicant's current investigations structure could be enhanced by the implementation of a formal independent investigations function that integrates the investigative functions currently undertaken by the ethics committee and the special committee that investigates cases of financial mismanagement;
- (b) APL011 substantially meets the requirements of the Fund's interim ESS in relation to high E&S risk Category A/I-1. The applicant is required to:

- (i) Ensure that the project-specific performance standard 2 is fully aligned with the Fund's ESS when it is applied in projects, and to strengthen its monitoring and review of E&S risks and impacts, as part of its ESMS; and
- (ii) Approve by senior management the consolidated blueprint for E&S management and to communicate the blueprint within the organization and to its executing entities; and
- (c) The applicant has demonstrated that it has policies, procedures and competencies which are found to be consistent with the Fund's gender policy.

3.2 Recommendation on accreditation

30. The AP recommends, for consideration by the Board, the applicant (APL011) for accreditation as follows:

- (a) **Accreditation type:**
 - (i) **Size of an individual project or activity within a programme:** Large (including micro, small and medium);
 - (ii) **Fiduciary functions:**
 1. Basic fiduciary standards;
 2. Specialized fiduciary standard for project management;
 3. Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
 4. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
 - (iii) **Environmental and social risk category:** High risk (Category A/I-1) (including lower risk (Category B/I-2⁴ and Category C/I-3⁵)); and
- (b) **Conditions:** The applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition. The AP will thereafter assess whether the condition has been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes. The conditions are:
 - (i) The applicant shall meet the requirements indicated in paragraph 29 (b) (i-ii) above prior to the first disbursement by the Fund for an approved project/programme to be undertaken by the applicant.

⁴ As per Annex I to decision B.07/02, Category B is defined as "Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures" and Intermediation 2 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

⁵ 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".

31. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 30 above, and agrees to the recommendation.

3.3 Additional remarks

32. The applicant is encouraged to seek readiness and preparatory support to assist it with:

(a) Meeting the conditions identified in paragraph 30 (b) (i) above.