

## Annex XIII: Accreditation assessment of Applicant 013 (APL013)

### I. Introduction

1. Applicant 013 (APL013) is a regional entity established through a public-private partnership to serve Africa, particularly providing financing solutions to address infrastructural needs in the region. With the view of achieving its mandate, the applicant has established strategic partnerships with other regional financial institutions that also prioritize development and the financial impact of their investments. The applicant has an investment portfolio worth about US\$ 2 billion, and a track record of making climate change adaptation and mitigation investments that enhance livelihoods through renewable energy generation (e.g. hydropower and wind), sustainable transport and low-emissions projects, by employing equity and loans. Leveraging its well-established partnerships and successful track record in the African region, the applicant seeks accreditation to the Green Climate Fund (the Fund) in order to continue, through instruments such as loans, equity and guarantees, to implement projects that address the region's infrastructural gaps whilst promoting low-emission and climate-resilient development pathways.

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

- (a) **Access modality:** International access;
- (b) **Track:** Normal track;
- (c) **Size of project/activity within a programme:** Large;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management; and
  - (iii) 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).<sup>3</sup>

### II. Accreditation assessment

3. The applicant has been assessed against the Fund's standards by the Accreditation Panel (AP).

<sup>1</sup> 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".

<sup>2</sup> Decision B.07/02.

<sup>3</sup> 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".

4. As a part of this assessment, the AP consulted the applicant's website and a variety of reliable, robust third-party websites as part of the assessment process.

## 2.1 Fiduciary standards

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

5. The applicant's executive management committee is responsible for assessing its financial performance and financial risk. This oversight is operationalized through subcommittees of management, such as the asset and liability committee, the risk committee, the valuation committee and the investment committee.
6. The audit and compliance committee of APL013's board oversees the internal audit function, thus ensuring independence and effective execution of the internal audit responsibilities, which are operationalized in documented audit plans.
7. The applicant demonstrated that it has a reliable financial reporting function, which is supported by the required technological platform. It prepares yearly financial statements in accordance with the International Financial Reporting Standards. In addition to the appropriate preparation of required financial statements, the applicant has a system of management reports that ensure the availability of information for effective decision-making.
8. It demonstrated that it has a mature internal control system. Furthermore, it has implemented board-sanctioned policies and operating procedures to ensure that operations are carried out efficiently, and that inherent risks are mitigated effectively. The applicant's internal control framework relies on clearly established responsibilities assigned to divisional and departmental managers, and on the oversight responsibilities of the risk management department and the internal audit department.
9. The applicant has a procurement manual, which governs its internal procurement practices and procurement in respect of projects where it is agreed that the applicant's procurement processes will be used. Controls are in place to provide assurance that the procurement function has appropriate oversight.
10. APL013 has a well-defined payment and disbursement system to ensure that appropriate controls are in place. These controls are based on a suitable segregation of functions and are supported by the required technology.
11. The applicant's code of ethics establishes the professional conduct expected of all staff members, including the disclosure of conflicts of interest.

### 2.1.2 Section 4.2: Basic fiduciary standards: Transparency and accountability

12. Regarding the applicant's investigation function, its chief internal auditor reports periodically to the audit and compliance committee and to the chief executive officer on key control issues, including fraud risks. The investigation function is adequate for receiving and processing internal complaints, however no mechanisms are in place to receive third-party complaints.
13. Furthermore, there is an ethics phone line, which is independently operated by a large international audit firm, to enable the applicant's staff to report any form of misconduct, which is subsequently investigated by executive management.
14. The applicant has an approved anti-money laundering and countering the financing of terrorism policy (AML/CFT policy). This policy mandates that "know-your-customer" (KYC) due diligence be undertaken for all the applicant's executing entities. The KYC questionnaire is

standardized and included in the AML/CFT policy. The applicant does not execute electronic payments on behalf of third parties, nor does it accept deposits from the public, and this significantly reduces potential AML/CFT risks.

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

15. APL013 applies a structured and effective project management process for all the projects in which it invests. Its project approval process includes an initial eligibility assessment, a preliminary investment proposal and a final investment proposal. The final investment proposal is reviewed and approved by the risk committee.

16. The applicant's investment committee monitors and evaluates project performance periodically, based on standardized reports that include assessments of the projects' key performance indicators, compliance with financing agreement covenants, risk factors, mitigation actions and key follow-up items.

17. The applicant engages independent external technical advisers for both project assessment, and monitoring and evaluation (M&E).

18. To ensure that project M&E activities are appropriately prioritized, the applicant's risk management unit manages a project risk rating mechanism. This mechanism assigns a watch status or downgrades the rating of projects, where necessary.

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

19. 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**

20. The applicant's capacity for managing on-lending and/or blending activities is validated by its successful issuance of securities in the international Eurodollar market. The successful completion of the approval, registration and issuance process, and furthermore the market acceptance of these securities (as demonstrated by investor demand) provide external validation of the adequacy of the applicant's financial management capacity.

21. APL013 received an international investment grade credit rating from a leading international rating agency for both the applicant's general credit risk and for the risk specific to the securities that it issued in the international financial markets.

22. The applicant has demonstrated a strong on-lending track record. It has secured credit facilities in excess of US\$ 1 billion from both development finance institutions (DFIs) and global commercial banks. The applicant's on-lending framework and capacity consists of incorporating the applicable requirements of the credit facilities into its robust and detailed project identification, appraisal and monitoring processes.

23. Its on lending and/or blending effectiveness is supported by the structured approach to project assessment and approval previously described. Project approval by the investment committee provides clear guidelines for on-lending and/or blending activities for loans and equity investments.

24. The applicant's credit risk policy provides guidance for the entire investment process, including origination, technical assistance, appropriate financial structure, appropriate funding sources (including debt and/or equity) and final approval. Compliance with the applicant's credit risk guidelines is ensured by the required investment committee approval.

25. APL013 has financed projects that are aligned with the Fund's objectives, such as renewable energy projects, including a hydroelectric power plant and a wind power farm. In

these projects, the applicant demonstrated its ability to finance jointly with both private banks and DFIs.

## 2.2 Environmental and social safeguards

### 2.2.1 Section 6.1: Policy

26. The applicant has, over the past two years, systematically implemented an environmental and social management system (ESMS), which is strategically derived from its overarching environmental and social policy. The policy's key principles are typical of a private sector organization that invests across a diverse set of infrastructure asset classes.

27. Over the course of implementing its ESMS, the applicant has worked with external experts and an international development finance institution to develop and codify its policies and procedures, the process of which culminated in approval by its board of its policy and ESMS in the first quarter of 2015.

28. APL013 has a policy and manual that guides its environmental and social safeguards (ESS) approach. While both documents were recently board-approved, the principles of the policy have been piloted over the past year and were subjected to an audit based on key performance indicators. With the implementation of the policy, the applicant intends to adhere to international standards and international best practice in the assessment and management of E&S risks. The policy is being implemented under the guidance of its risk department at an executive level.

29. The key principles of the policy have been developed to:

- (a) Reflect the applicant's stated intent in respect of its management of E&S risk. This recognizes the necessity to identify, manage, monitor and mitigate, on an ongoing basis, E&S risks across all areas of its business activities;
- (b) Accommodate flexibility where the applicant is a lender participating in project finance transactions; and
- (c) Require its E&S standards to apply from the commencement of its participation in the project or provide for an adoption of its E&S standards over time where the project's financing structure (e.g. equity or project development) and project itself necessitates this approach.

30. This fit-for-purpose approach described above has been considered the most effective tool by which to facilitate the applicant's participation in markets where E&S standards are in various stages of development. Moreover, it has ensured that the governance structure used to affect the desired ESS outcome is firmly entrenched in its processes. The applicant has recognized that its sphere of influence in respect of E&S standards may differ from project to project and its level of participation; therefore, to mitigate E&S risk, it has codified a structured and pragmatic approach.

31. The applicant's policy also provides for an exclusion list.

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

32. The applicant's standards in respect of the identification of risks and impacts fully meet the Fund's ESS and in order to establish this practice, the applicant's E&S risk identification, assessment and management has been integrated and codified into its entire investment process from feasibility phase to exit. Implementation of the policy is the responsibility of the risk department at an executive level.

33. Moreover, the applicant has acquired a tool for the E&S risk categorization of projects, which includes detailed guidelines for the identification and categorization of E&S risks and impacts. The applicant fully meets the Fund's ESS in this regard.

#### 2.2.3 Section 6.3: Management programme

34. APL013 has recognized that E&S risk identification in the early due diligence phase is key to ensuring that management of E&S risks and impacts are adequately provided for in its management programme. For all high E&S risk Category A/I-1 projects, the assistance of an external expert is mandatory. The applicant's ESS is a reportable item in all its investment committee decisions and the applicant has codified the management of E&S risk in all stages of project development and/or project operations. Training material has been developed and the ESMS procedures and processes have been communicated to its entire staff.

#### 2.2.4 Section 6.4: Organizational capacity and competency

35. The applicant's executive risk officer (ESMS manager) maintains responsibility for the organization's adherence to its policy and ESMS. A suitably qualified ESMS officer is responsible for the day-to-day implementation of its ESMS. The ESMS manager takes the lead on matters relating to planning, implementation, developing, educating, training and liaising with internal and external stakeholders. In addition to its in-house competency, the applicant will, for all high E&S risk Category A/I-1 projects, employ the services of an external expert to assist with the implementation of the ESMS process as envisaged in its manual.

#### 2.2.5 Section 6.5: Monitoring and review

36. APL013 has codified the monitoring and reporting mechanism in great detail in its ESMS, and the roles and responsibilities involved are sufficiently documented with clear requirements for site visits, including the designation of the persons concerned. It has prepared thorough reporting templates and reporting on its ESS is mandatory, including to its investment committee. High E&S risk Category A/I-1 projects receive specific emphasis in this regard. The applicant has developed an audit protocol for the purpose of internal audit.

#### 2.2.6 Section 6.6: External communications

37. The applicant has published its policy on its website and highlights E&S responsibilities in its annual report. External communications, in general, are the responsibility of its vice-president of communications, however the applicant does not make provision for receiving external communications on its website. Communication from external parties would normally be sent to a general website address and all such information is generally kept for a period of 12 months.

## 2.3 Gender

38. The applicant does not have a gender policy applied at an investment level. It does, however, provide for the equal treatment for all its employees across all of its operations as part of its staff policy.

### III. Conclusions and recommendation

#### 3.1 Conclusions

39. Following its assessment, the AP concludes the following in relation to the application:
- (a) The applicant substantially meets the requirements of the Fund's basic fiduciary standards and fully meets the requirements for the specialized fiduciary standard for project management and the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees. It is recommended that the applicant complement its investigations function with a mechanism, such as a link on its website, in order to receive and process third-party complaints that arise from projects financed by the applicant;
  - (b) The applicant substantially meets the requirements of the Fund's interim ESS in relation to the high E&S risk Category A/I-1. Having incorporated the fundamental elements of a well-managed ESMS and policy in its business operations, it is recommended that the applicant seek external assistance so as to further develop its E&S policy and its application as appropriate for the type of activities for which it will seek finance from the Fund; and
  - (c) While the applicant has demonstrated that it is an equal opportunity employer as far as its own operations are concerned, it has not provided evidence that gender considerations, consistent with the Fund's gender policy, are part of its investment policies or procedures. It is required that the applicant:
    - (i) Develop a gender policy consistent with the Fund's gender policy to be applied in projects and programmes funded by the Fund.

#### 3.2 Recommendation on accreditation

40. The AP recommends, for consideration by the Board, the applicant (APL013) 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; and
      3. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and

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- (iii) **Environmental and social risk category:** High risk (Category A/I-1) (including lower risk (Category B/I-2<sup>4</sup> and Category C/I-3<sup>5</sup>));
- (b) **Conditions:** The applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the conditions. The AP will thereafter assess whether the conditions have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes. The condition is:
- (i) The applicant shall meet the requirements indicated in paragraph 39 (c) (i) above prior to the first disbursement by the Fund for an approved project/programme to be undertaken by the applicant.
41. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 40 above, and agrees to the recommendation.

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<sup>4</sup> 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”.

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