

## Annex XIV: Accreditation assessment of Applicant 014 (APL014)

### I. Introduction

1. Applicant 014 (APL014) is an international commercial bank with extensive experience and a presence in Africa, Latin America and the Asia-Pacific and Caribbean regions. The applicant has a well-established track record in implementing private sector investment opportunities in climate change adaptation and mitigation. In particular, it has managed investment funds which have been used in sustainable development initiatives in the areas of renewable energy, energy efficiency and agriculture, all of which overlap with the results area of the Green Climate Fund (the Fund). In the past year, the applicant has financed renewable energy projects worth EUR 4.3 billion, which includes investing EUR 1 billion of its own capital. Bringing with it its progressive experience, the applicant seeks accreditation to the Fund in order to contribute to the Fund's objectives by mobilizing funds through a variety of instruments, including loans, equity and guarantees, for implementing scalable, innovative climate change adaptation and mitigation projects, including through local small and medium-sized enterprises in developing countries. By leveraging its global partnerships, the applicant offers the Fund a unique opportunity through which to raise additional resources from private sector sources, under diverse modes of engagement, such as structured joint financing arrangements and specialized investment funds.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 28 January 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. While not required, the applicant additionally received a national designated authority or focal point nomination for its accreditation application;
- (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;
  - (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 (1-2)).<sup>3</sup>

<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".

## II. Accreditation assessment

3. The applicant has been assessed against the Fund's standards by the Accreditation Panel (AP).
4. As a part of this assessment, the AP has consulted the website of the United Nations Environment Programme Financial Initiative<sup>4</sup> (of which the applicant is a member), as well as the websites of specialized investment funds in which multilateral financial institutions have invested with the applicant, as sources of third-party evidence.

### 2.1 Fiduciary standards

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

5. The applicant has a well-established organizational and corporate governance structure which demonstrates and assures that key administrative and financial capacities are in place. It has internal control systems appropriate for the size and scope of the organization. Evidence has been provided for a clear definition of internal control roles and responsibilities of business and oversight units and their effective functioning.
6. At the executive level, there is a clear definition of the organizational units and an appropriate segregation of functions among the different departments, including an independent internal audit function.
7. APL014 has implemented the required technology to provide timely information for the effective management of risk, and for internal, regulatory and external reporting. This ensures that the applicant has appropriate management oversight and control over its activities.
8. The applicant's internal control framework is designed based on the guidelines of the Committee of Sponsoring Organizations of the Treadway Commission, as per the Fund's basic fiduciary standards. The responsibilities for following specific internal controls and detailed procedures are clearly defined.
9. Its external auditor certified that the International Financial Reporting Standards (IFRS) are adhered to, as per the Fund's basic fiduciary standards. The adherence to IFRS guarantees that periodic, complete, timely and accurate financial statements and information are available. Furthermore, the external auditor confirmed that the review of the applicant's financial statements has not led to any reservations.
10. APL014, as a global organization, has mature and well-developed procurement processes that ensure appropriate controls to prevent mismanagement and ensure cost efficiency. The applicant's global procurement organization is responsible for all third-party expenditure on goods and services. Utilizing the global organization's processes ensures that there is business and budget approval for all procurement activities. The following policies provide additional guidance for procurement activities: the code of ethics, the anti-fraud policy, and the organization's sustainability principles.

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

11. The applicant has published a code of business conduct and ethics that is communicated throughout the organization, which clearly defines the conduct expectations of the organization and applies to every staff member.

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<sup>4</sup> Available at <<http://www.unepfi.org/>>.

12. APL014 has an established policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by staff members and other parties associated with the applicant. Its code of business conduct and ethics supports this policy. Furthermore, the applicant has implemented policies that ensure the proper management of resources in a financial institution. Additionally, it has a published investigation policy, which is enforced by an independent investigations unit.

13. The applicant is committed to the highest standards of anti-money laundering (AML) and countering the financing of terrorism (CFT). Moreover, as a global organization, it is subject to several advanced AML/CFT regulations. Therefore, the applicant has developed advanced mechanisms for AML/CFT. However, recent history of regulatory fines evidences deficiencies in assuring entity-wide compliance with the required guidelines. The applicant can benefit from improving the mechanism to assure compliance with the applicable guidelines and regulations.

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

14. APL014's processes for project identification, preparation and appraisal are defined in the context of new product development, with both applicant-wide guidelines, and product specific requirements, incorporated in the defined processes. Project identification, preparation and appraisal are based on a mature project screening process, a comprehensive due diligence process and clearly defined approval authorities.

15. When a new product involves project management, a framework by which to manage the associated risks is developed. This framework assigns clear roles and responsibilities to adequately manage projects and will ensure compliance with applicant-wide internal risk management policies and external regulatory requirements.

16. To monitor and evaluate projects, the applicant utilizes three main tools:

- (a) A project plan established at the beginning of each fiscal year (the business plan includes annual budgets and specific performance targets);
- (b) Key performance indicators to ensure that the project is attaining the desired results; and
- (c) Specialized reports to evaluate project performance.

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

17. The applicant is seeking accreditation for grants and/or funding allocation mechanisms in order to enhance specific products that it offers through the provision of technical assistance support.

18. The funding allocation processes established by the applicant assign the responsibility for overseeing these funds to a technical assistance (TA) manager who is responsible for receiving and processing TA requests, which are approved by a TA committee. For each assignment, the TA committee approves the respective scope of work, budget and the procurement method, before the TA facility manager can start disbursement.

19. The applicant has experience in managing alternative funding mechanisms in the form of grants on behalf of external donors.

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

20. The applicant has demonstrated, as evidenced by its track record, that it has developed the capacities required in order to appropriately engage in on-lending and/or blending

operations, as well as equity investments and issuing guarantees. It has the policies, procedures, managerial skills and experience to effectively manage external funds.

21. As a global financial institution, subject to regulatory requirements in different jurisdictions and aligned with sound banking practices, the applicant has implemented the processes and procedures, enabled by an advanced technological platform, to provide assurance of effective control (at a global level) over the external funds it receives.

22. The applicant's processes for financial and risk management, as well as its due-diligence processes, are well developed and supported by a strong technological infrastructure and well-defined investigation and audit functions.

23. The applicant has been rated with an investment grade rating by all three major rating agencies (Moody's, Standard & Poor's and Fitch).

## 2.2 Environmental and social safeguards

### 2.2.1 Section 6.1: Policy

24. The applicant has an overarching risk principles framework, which includes E&S principles. This is underpinned by additional policies and procedures that provide more granularity, especially with regard to high-risk sectors, and guide staff in decision-making. The applicant has experience in implementing the Fund's environmental and social safeguards (ESS) on a variety of projects and has committed to continuing this practice on all projects financed by the Fund.

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

25. APL014's risk principles framework defines the risk criteria under which projects are to be elevated for additional review and decision. This policy is supported by operational guidelines which provide further instruction to the applicant's staff on how to identify risks and impacts, and templates, checklists and tools so as to ensure consistent practice.

26. The applicant's E&S risk categorization system is comparable to that used by the Fund. The initial categorization is assigned by the relevant business unit and is also reviewed and verified through a system of checks.

### 2.2.3 Section 6.3: Management programme

27. The applicant has documented the processes, tools and templates in place in order to guide staff to systematically manage E&S risks and impacts at the institutional and investment levels. At the institutional level, E&S risk management is embedded in the overall risk management function and is supported by checks and balances which can escalate E&S risk review. The sustainability control function and the audit function also evaluate E&S risk on a portfolio basis to identify emerging trends in order to better provide advice to the business unit and to update the E&S management system (ESMS) and supporting tools, as needed.

28. At the investee level, business unit staff may be supported by the sustainability control function or by a regional independent external compliance adviser to assist with E&S risk identification and mitigation development and management. Support to the investee may include technical assistance to establish an ESMS within the investee's organization in order to ensure that the investee can manage identified risks and impacts, and implement the time-bound environmental and social action plan established for the investment, if applicable.

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

29. The applicant has recently updated its sustainability training such that all business unit staff who are in charge of implementing the applicant's ESMS at the investment level are trained on: sustainability trends; sustainability across various industry sectors, types of executing entities and ESMS; and knowledge-sharing through case studies. The business unit staff are supported organizationally both by regional consultants and by internal staff in the sustainability control function who report to a managing director and group sustainability officer.

#### 2.2.5 **Section 6.5: Monitoring and review**

30. The applicant has a mature mechanism for monitoring and reviewing safeguard implementation in its operations. All project aspects are reviewed on a quarterly basis, annual monitoring of reporting requirements is embedded in investment legal requirements and site supervision visits are conducted. Moreover, key performance indicators are included in monitoring reports to ensure that investment impact reaches beneficiaries.

#### 2.2.6 **Section 6.6: External communications**

31. APL014 has an external communication mechanism that allows the public to make comments or ask questions via its website. In addition, a written protocol is applied to individual investment funds so as to ensure that these funds have an external communications channel, which includes designating a responsible person to address the complaints or grievances received.

### 2.3 Gender

32. The applicant does not have a specific gender policy. At the institutional level, its commitment to gender-related matters is captured across a number of documents, which include diversity guidelines, a hiring policy, and a procedural commitment to monitoring and fostering female representation in senior management and the wider workforce which is supported by training programmes. At the investment level, through the application of the Fund's ESS, gender benefits will accrue but it does not have a focused investment strategy for gender or perform a gender assessment or project screening for gender sensitivity on investment projects.

## III. Conclusions and recommendation

### 3.1 Conclusions

33. Following its assessment, 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. However, the applicant is required to:
  - (i) Provide the Fund, through the Secretariat, with a letter of comfort executed by the appropriate authority within the applicant entity stating that it is taking the necessary actions to strengthen its internal controls related to compliance with relevant regulations, including, but not limited to, risk management,

- management of operational risk and anti-money laundering and countering the financing terrorism; and
- (ii) Provide the Fund, through the Secretariat, with its annual reports that disclose information on regulatory compliance.
- (b) It fully meets the requirements of the Fund's interim ESS in relation to the high E&S risk Category A/I-1; and
- (c) While the applicant has demonstrated that it has elements contained within its existing and applied policies and procedures consistent with the Fund's gender policy, 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

34. The AP recommends, for consideration by the Board, the applicant (APL014) 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-2<sup>5</sup> and Category C/I-3<sup>6</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 conditions are:

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<sup>5</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>6</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".

- (i) The applicant shall meet the requirements indicated in paragraph 33 (a) (i) and (c) (i) above prior to the first disbursement by the Fund for an approved project/programme to be undertaken by the applicant; and
  - (ii) The applicant shall meet the requirements indicated in paragraph 33 (a) (ii) on an annual basis. This condition is not required to be met prior to the first disbursement by the Fund for an approved project/programme to be undertaken by the applicant.
35. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 34 above, and agrees to the recommendation.