

Annex XII: Accreditation assessment of Applicant 022 (APL022)

I. Introduction

1. Applicant 022 (APL022), the Ministry of Finance and Economic Cooperation of the Federal Democratic Republic of Ethiopia (MOFEC), formerly known as the Ministry of Finance and Economic Development, based in Ethiopia, is a national entity located in a least developed country in Africa. Its mandate is to oversee the planning and implementation of development programmes, including those that address climate change. Its activities in climate-resilient development pathways, valued at over US\$ 400 million, include mitigation and adaptation projects and programmes in a variety of sectors, particularly agriculture, water, energy, forestry, buildings, industries and transport. Some of its key activities in these sectors include natural resources management through watershed management, afforestation and reforestation, energy generation and access, and low-carbon transport systems. The applicant houses and has created, jointly with another public sector entity focused on the environment, a designated special purpose facility that will channel its climate investments into the country. Accreditation to the GCF is an opportunity for the applicant to continue developing a climate-resilient economy through the delivery of projects and programmes by working with national and subnational actors. While building its own capacity, the applicant also intends to use its partnerships with regional organizations to share its experiences with other developing countries to prepare them to access climate finance.

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. It has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, national. The applicant received a national designated authority or focal point nomination for its accreditation application;
- (b) **Track:** normal track;
- (c) **Size of an individual project or activity within a programme:** large;¹
- (d) **Fiduciary functions:**²
 - (i) Basic fiduciary standards; and
 - (ii) Specialized fiduciary standard for project management; and
- (e) **Environmental and social risk category:** medium risk (Category B/Intermediation 2 (I-2)³).

¹ As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "large" is defined as "total projected costs at the time of application, irrespective of the portion that is funded by the GCF, 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 (annex I to document GCF/B.07/11), 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".

II. Accreditation assessment

3. The applicant has been assessed against the standards of the GCF by the Accreditation Panel (AP).
4. As a part of this assessment, the AP has consulted the applicant's website as well as the websites of relevant regulators 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. The applicant prepares medium-term strategic plans and there is a system in place for review and reporting on the implementation of these plans. Furthermore, the applicant prepares financial statements in accordance with the requirements established by national laws and regulations.
6. The financial statements prepared are appropriate and are in line with the procedures for a government ministry. The applicant's financial statements are audited annually by the national government auditor and the audit reports provided as supporting evidence contain an unqualified opinion on the financial statements. The applicant has a functioning internal audit unit; the applicant provided evidence that it undertakes adequate action to address observations and recommendations resulting from internal and external audits.
7. The applicant provided satisfactory evidence for a functioning internal control framework. While it does not have a stand-alone cohesive documented internal control framework with specific roles and responsibilities identified therein, the applicant does have the necessary functions and activities comprising internal control systems in line with the national regulations that are embedded in different entities and functions within the national government, including the applicant itself. However, the internal control functions with respect to asset management may be further improved through an overarching documented framework for internal controls that include the items previously mentioned.
8. The applicant follows the national procurement policy and regulations as established by national legislation. An independent government agency responsible for public procurement conducts the audit of procurement activities undertaken by the applicant. In the last audit report of the procurement activities, no major irregularities were reported.
9. The applicant has indicated that all projects and programmes are currently executed, and are also likely to be executed in future, by public sector bodies only, and hence such activities would fall under the purview of the independent government public procurement agency. Therefore, there is currently no provision for oversight or the audit of procurement by executing entities which are not public sector bodies.

2.1.2 Section 4.2: Basic fiduciary standard: transparency and accountability

10. The applicant follows the national code of ethics and has an ethics liaison unit within a ministry for federal ethics and an anti-corruption commission at the highest level for handling issues of ethics and investigation. The investigation function handled by the ethics liaison unit is set up as an independent body. While the applicant has an investigation function, the avenues and tools for reporting suspected ethics violations, misconduct and other kinds of malpractices may be further improved.

11. The applicant, as an entity within a government system, has provisions for handling anti-money laundering (AML) and countering the financing of terrorism (CFT) in line with national regulations. It is linked to the national financial intelligence centre, an autonomous legal entity, which has been established as a dedicated public body to handle AML/CFT issues. Furthermore, given the nature of operations of the applicant, it does not receive any funds from unidentified sources and only engages with bilateral and multilateral agencies. Also, no money transfers are made directly by the applicant itself; such transfers are undertaken through the country's central bank and/or commercial banks designated by the central bank. As the banks are legally required to report transactions above a certain level to the financial intelligence centre, this provides sufficient control in respect of AML/CFT.

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

12. The applicant has a lengthy track record in managing projects and programmes in close cooperation with multilateral and bilateral organizations. The applicant has worked with these organizations to design and appraise projects and programmes with total costs up to a size equivalent to the GCF large size category, for which evidence has been provided. On the basis of the experience gained, the applicant has recently developed a project design and appraisal framework to process its own projects and programmes through its climate change-focused facility, but it has yet to demonstrate its capability and competence to undertake detailed project design and appraisal using the new framework for projects other than those equivalent to the GCF micro⁴ size category.

13. Based on the evidence provided, while the applicant has significant experience of designing, planning and implementing programmes and projects in close partnership with multilateral and bilateral agencies, it has only recently undertaken some micro-sized projects on its own. Accordingly, its capacity to handle small, medium,⁵ and large-sized projects independently has not been demonstrated.

14. Similarly, the applicant's past experience in monitoring and evaluation (M&E) of projects relates to large-sized projects undertaken in cooperation and collaboration with multilateral and bilateral agencies. To enhance its M&E capacity, the applicant has recently developed a new project M&E framework that will be applied to projects and programmes independently undertaken by the applicant, including those funded by the GCF. This newly developed framework builds on the experience gained and indicates that the applicant is currently still in the process of building its project management capacity to independently plan and implement M&E of larger-sized projects.

15. Considering the applicant's past experience of undertaking medium and large-sized projects and programmes with international organizations and the micro-sized projects that the applicant is independently managing and implementing under its climate change-focused facility, it is concluded that projects of the size not exceeding small should initially be targeted to enhance the applicant's independent project management capacities and gain more practical experience in the application and integration of its frameworks.

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

⁴ As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including US\$ 10 million for an individual project or an activity within a programme".

⁵ As per annex I to decision B.08/02, "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above US\$ 50 million and up to and including US\$ 250 million for an individual project or an activity within a programme".

16. 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**

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

2.2 Environmental and social safeguards

2.2.1 Section 6.1: Policy

18. The applicant has in place an environmental and social safeguards framework (ESSF) for its designated special purpose facility that will channel its climate investments in the country. This framework is newly endorsed and builds upon the applicant's previous experience in managing bilateral and multilateral climate finance measures. The ESSF is based on the national environmental policy, including sectoral environmental policies, and this is aligned with the interim environmental and social safeguards of the GCF with respect to accreditation.

19. The ESSF has undergone a review and stakeholder consultation, and the applicant is in the process of safeguard implementation, as well as familiarization and capacity-building activities for its facility personnel. Roles and responsibilities of specialized units, for example a technical team and a financial team who collectively ensure the conformity of operations with the applicant's environmental and social (E&S) approach, have been assigned. The applicant provided evidence (completion reports of donor-funded projects) to demonstrate its capability to handle projects in line with the GCF medium E&S risk, Category B/1-2.

2.2.2 Section 6.2: Identification of risks and impacts

20. The ESSF provides the E&S risk and impact identification and categorization procedure, and outlines the roles and responsibilities for the safeguard implementation. Project risk categories under the applicant's process comprise three categories, Schedule I to III. Based on its national framework, projects categorized as Schedule II (comparable to GCF medium E&S risk, Category B) require a limited environmental impact assessment (EIA) procedure.

21. The E&S due diligence occurs throughout the project cycle, guiding the process of the screening and categorization of projects, scoping, impact assessment, review, implementation, monitoring, auditing and reporting for facilities' investments. This work will be supported by an environmental and social specialist, to be hired by the applicant to ensure the quality and consistency of the environmental and social due diligence within the teams of the facility's secretariat.

22. Under the auspices of a management committee, the applicant through the facility's secretariat has the overall responsibility for the operation of the project, including the E&S aspects in the projects supported by the applicant.

2.2.3 Section 6.3: Management programme

23. The applicant provided its EIA guideline document to show the process, procedures, and action plans it has in place to manage mitigation measures and the identified E&S risks. The EIA process is covered in the guidelines, and sector-specific environmental issues and recommendations for environmental management have been provided. The applicant provided sample reports as a reference for environmental and social performance audits, including environmental and social management plans.

24. The national environment ministry, which functions as the technical team of the facility within the applicant, is the national institution responsible for technical review and environmental audits for projects implemented under the applicant's facility.

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

25. The organizational structure of the applicant is explained in its ESSF defining the roles and responsibilities for implementing its E&S policy and procedures. The core responsibility for E&S issues lies with a designated secretariat within the applicant, which is responsible for the overall management and coordination of all projects financed via the applicant's facility. The facility is coordinated by the applicant and is comprised of two special teams for project support.

26. Utilizing donor funds, the applicant has conducted in the past and will conduct in the future training sessions to foster E&S safeguards implementation, as well as its M&E capacity.

2.2.5 **Section 6.5: Monitoring and review**

27. The monitoring process to systematically track the completion of mitigation and performance improvement measures is laid out in the applicant's ESSF. As the framework is newly endorsed, the applicant provided M&E spot check reports to evidence periodic reporting for projects undertaken by the applicant through its facility. In addition, the applicant has provided further evidence that outlines the project completion M&E process.

2.2.6 **Section 6.6: External communications**

28. The applicant does not have provisions in place to systematically receive and register external communications, but plans to set up a web-based project register as an avenue for public comments. So far, reports such as EIA, including stakeholder consultation have been posted on the applicant's website or the websites of its line ministries as a means of information disclosure.

29. Going beyond the interim environmental and social safeguards of the GCF related to accreditation (performance standard 1), the applicant's ESSF contains a grievance redress mechanism that intends to seek public comments and resolve complaints raised in its project initiatives. However, such a process has not been implemented so far under the applicant's facility.

2.3 Gender

30. The gender policy, as part of the national legislation to which the applicant is required to adhere, provides the policy, legal and institutional framework to safeguard gender equality, and to address and mitigate risks for both women and men. The national constitution and the national policy on women affirm equality between women and men, and integration of a gender perspective into sectoral policies and development programmes. Overall, there is political commitment, legal support and institutional arrangements to mainstream gender.

31. The applicant provided project examples that integrated a gender perspective into the planning and implementation of projects and programmes. The project examples indicate benefits for women and target women's access to the projects.

III. Conclusions and recommendation

3.1 Conclusions

32. Based on the above, it is concluded that the applicant and the various bodies through which it implements projects and programmes, have experience in handling projects of various sizes, on its own (mainly micro) and in cooperation with bilateral and multilateral organizations

(mainly medium and large), in which the external organizations undertake a substantial role with respect to both planning and implementation of the projects. These projects have been categorized as having E&S risks and impacts in accordance with GCF medium and low E&S risks, categories B and C. The applicant is now in the process of building appropriate competencies and capacities so as to handle larger projects completely independently with a clear focus to ultimately manage all sizes of projects on its own. At the same time, the applicant has established its own special-purpose facility to channel and disburse funds to projects and programmes that specifically address climate change. The applicant (through this facility) has recently developed a project management framework as well as a newly endorsed ESSF to streamline all aspects of project management. However, the applicant still needs to build more competencies and gain practical experience in the application and integration of these frameworks via its facility. Given its past experience it is felt that initially this can be done through primarily implementing small-sized projects and activities within a programme. Following its assessment, the AP therefore concludes the following in relation to the application:

- (a) The applicant partially meets the requirements of the GCF basic fiduciary standards. The applicant partially meets the specialized fiduciary standard for project management;
- (b) The applicant partially meets the requirements of the interim ESS of the GCF in relation to the medium E&S risk, Category B/I-2; and
- (c) The applicant has demonstrated that it has competencies, policies and procedures to implement its gender policy; it has also demonstrated that it has experience with gender and climate change.

3.2 Recommendation on accreditation

33. The AP recommends, for consideration by the Board, applicant APL022 for accreditation as follows:

- (a) **Accreditation type:**
 - (i) **Size of an individual project or activity within a programme:** small⁶ (including micro⁷);
 - (ii) **Fiduciary functions:**
 - 1. Basic fiduciary standards; and
 - 2. Specialized fiduciary standard for project management; and
 - (iii) **Environmental and social risk category:** medium risk (Category B/I-2) (including lower risk (Category C/I-3⁸));
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess

⁶ As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above US\$ 10 million and up to and including US\$ 50 million for an individual project or an activity within a programme".

⁷ As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including US\$ 10 million for an individual project or an activity within a programme".

⁸ 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".

whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes:

- (i) Condition(s) prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
 1. Finalize the recruitment of an E&S expert to help to oversee the project management cycle under the applicant's facility; and
 2. Develop an external communications mechanism, which provides a system to receive, document and respond to questions or complaints from the general public; and
- (ii) Conditions to be met on an annual basis for the three consecutive years, starting with the financial year 2016. All information shall be included on an annual basis within a semi-annual progress report consistent with the requirements of the GCF monitoring and accountability framework for accredited entities:⁹
 1. Report progress in respect of all projects and programmes being undertaken. The report should include information on:
 - a. Progress on activities vis-à-vis a plan with specific indicators;
 - b. Budget variances and analysis;
 - c. Major risks and issues, if any, that may or are impacting the execution of a project/programme; and
 - d. Brief qualitative write-up, including the likelihood of the project achieving its planned objectives (results, budget and schedule);
 2. Provide the annual audit reports of projects/programmes, including verification of assets, prepared by the office of the federal auditor general within four months of the close of each year to the GCF; and
 3. Provide the annual audit reports on procurement related to projects/programmes where substantial procurement has been undertaken by an executing entity, which is not a public sector body, to the GCF.

34. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 33 above, and agrees to the recommendation.

3.3 Remarks

35. The AP notes the applicant's keen interest in developing and implementing climate change projects and programmes that are medium and large in size. Recognizing that the applicant has experience in medium and large-sized projects, albeit primarily in cooperation with international organizations, the AP encourages the applicant to continue enhancing its financial, environmental and social policies and procedures, and to build capacity to allow it to independently develop and manage projects and programmes of medium and large sizes. With the possibility to apply in the future for an upgrade of its accreditation type from small to medium-sized projects and activities within a programme, the applicant should consider the provision of evidence as proof of its capability to independently manage medium-sized

⁹ Decision B.11/10.

projects/activities within a programme. This evidence may be provided in the form of an independent evaluation report for a small-sized project undertaken independently by the applicant using the project management framework recently developed for use by the applicant's facility. The evaluation should be undertaken by an independent party, which may include a consultant or consultancy firm appointed on the basis of an international tender. The evaluation should cover a reasonable project execution period, including:

- (a) Project design and appraisal;
- (b) Project planning and implementation;
- (c) Project administration and execution;
- (d) Project M&E; and
- (e) Associated corrective actions.

36. The AP would reassess the applicant's capacity to satisfactorily execute projects on the basis of this evaluation report and any other supporting evidence provided at the time. Based on a satisfactory outcome, the AP could recommend the applicant for an upgrade of its accreditation type, as defined in paragraph 33(a) above, for a higher size category (e.g. medium or large) to the Board for its consideration and decision-making.

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

- (a) Meeting the conditions identified in paragraph 33 above.