

Annex XIV: Accreditation assessment of Applicant 024 (APL024)

I. Introduction

1. Applicant 0024 (APL0024), the Development Bank of Southern Africa (DBSA) based in South Africa, is a national entity, specifically a development finance institution, with a mandate to finance both private and public sector activities at national and regional levels in Africa. The applicant provides sustainable infrastructure project preparation, finance and implementation support in order to improve the population's quality of life, accelerating the sustainable reduction of poverty and inequity, and promoting broad-based economic growth and regional economic integration. The applicant primarily focuses on the water, energy, transport, and information and communication technology sectors. It offers secondary services at the local level in the health, education and housing sectors. Its environment and climate change portfolio for the financial year 2014/2015 is worth approximately US\$ 530 million and includes renewable energy, energy efficiency, biodiversity and sustainable land management projects. The applicant in partnership with the national environmental affairs department has established and manages a special fund as a national mechanism that aims to provide catalytic finance to facilitate investment in high-impact and sustainable green initiatives in the country in which it is based, as well as to support poverty reduction and job creation. The applicant seeks accreditation to the GCF to support, as a co-financier and provider of technical capabilities and support, the GCF in acting as a key contributor to innovative and risk-sharing approaches in projects that contribute towards low-carbon and climate-resilient development.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 26 April 2015. Stage I, institutional assessment and completeness check, and the Stage II (Step 1), accreditation review, were concluded. It has applied to be accredited against the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, regional. The applicant received a national designated authority or focal point nomination for its accreditation application;
- (b) **Track:** fast track under the Global Environment Facility (GEF) and the Directorate-General for International Development and Cooperation of the European Commission (DG DEVCO);
- (c) **Size of an individual project or 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

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.

- (e) **Environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)³).

II. Accreditation assessment

3. The applicant is eligible for, and applied under, the fast-track accreditation process as a GEF agency and Directorate-General for International Development and Cooperation of the European Commission entity. Its application has been assessed against GCF standards by the Accreditation Panel (AP) in accordance with the requirements and gaps identified in decisions B.08/03 and B.10/06.
4. As part of this assessment, the AP has consulted the applicant's website and third-party websites 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 4.2.5, anti-money laundering (AML) and countering the financing of terrorism (CFT) policies, have been met by way of fast-track accreditation.

7. Regarding item 4.2.5, the applicant has comprehensive AML/CFT policies, which are required under the country's laws. To combat money-laundering and the financing of terrorism, the applicant carries out 'know-your-customer' (KYC) due diligence on all of its prospective and existing clients. The applicant's KYC due diligence procedures are set out in its AML/CFT policies. The KYC due diligence process involves the verification of the beneficiary legal entity, its directors, and the beneficiaries' shareholders with a shareholding of more than 25 per cent, as well as verification of the residential address for the individual client. Additionally, the applicant's compliance unit conducts a sanctions screening using the Dow Jones system to verify whether the beneficiary, shareholders or its directors are listed on any of the sanction lists. In addition to KYC due diligence, the applicant routinely monitors electronic funds transfer in collaboration with the country's central bank, specifically its departments responsible for financial surveillance and intelligence. Furthermore, the applicant verifies the beneficiary's banking details by requesting a stamped letter from the bank confirming the beneficiary's banking details. Sample copies of recent reports on KYC due diligence undertaken were provided as evidence of the applicant implementing its policy.

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.

³ As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), 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".

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

9. As per paragraph 3 above, the specialized fiduciary standard for grant award and/or funding allocation mechanism is considered to have been met by way of fast-track accreditation.

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

10. The applicant has a proven track record, institutional experience and capacities for on-lending and blending with resources from international or multilateral sources. The applicant has well-documented policies, guidelines and procedures with clearly defined institutional roles and responsibilities for its on-lending and blending operations. The examples of due diligence reports on on-lending and blending operations provided clearly show effective use of and compliance with the established policies and procedures.

11. The applicant has suitable investment management policies, guidelines and procedures in place, which:

- (a) Ensure sound investment management, including analysis of the lending portfolio of the intermediaries to which it provides resources; and
- (b) Aim to provide assurance that the GCFs provided by the applicant are channelled transparently and used effectively.

12. The applicant has also demonstrated sound financial risk and management policies, procedures and governance/organizational structures that ensure appropriate segregation of duties of the treasury function and operations. In relation to its systems for providing the general public with access to information on its on-lending and blending operations, the applicant publishes information on beneficiaries, as well as the results of the projects and programmes it finances.

2.2 Environmental and social safeguards

2.2.1 Section 6.1: Policy

13. The applicant has a well-established environmental and social management system (ESMS) in place, the development and approval of which was based on the experience gained and lessons learned by other international development organizations. As a part of its ESMS, the applicant has a well-developed environmental and social safeguards (ESS) policy based on a set of the comprehensive ESS standards and sector-specific guidelines. The policy commits the applicant to ensure that it has the necessary systems in place to implement its ESS and that it periodically updates and revises the safeguards. The policy is well communicated to all staff in the organization and is publically available on the applicant's website. The ESS policy is fully consistent with the interim ESS of the GCF.

14. The ESS policy is complemented by the institutional and social appraisal guidelines, which are employed to ensure that the applicant promotes sustainable development throughout its operations by conducting environmental and social (E&S) project appraisals in a consistent manner.

2.2.2 Section 6.2: Identification of risks and impacts

15. The applicant has a well-developed and comprehensive E&S risk and impacts the identification and categorization process that is fully consistent with the interim ESS of the GCF. The risk identification and categorization process was outlined in the applicant's procedures for implementing its ESS standards, environmental appraisal framework, and social and institutional guidelines. These standards are supported by a number of sectoral guidelines and

terms of reference for particular sectors, such as ecosystem, forest, water and land resource, water and waste utilization, and pest management, among others. Evidence of the applicant's experience in conducting E&S risk and impact assessment and categorization was provided in the form of appraisal reports on specific projects and programmes that were developed within the past three years. The applicant's senior management reviews each integrated appraisal project report to ensure the quality of input and consistency of categorization. The E&S risk and impact identification process set out in the environmental assessment document is consistent with the interim ESS of the GCF related to accreditation (performance standard 1) and the project/programme level (performance standards 2 to 8).

2.2.3 **Section 6.3: Management programme**

16. Mitigation measures for identified project or programme E&S risks and impacts are managed using clearly established procedures that include the assignment of roles for responsible staff. The E&S risk mitigation measures and actions are part of the E&S management plans that are developed and implemented for each project through supervision by managers of the corresponding units.

17. The applicant also provided evidence of its ESMS implementation and of the effectiveness of its E&S management programme in the form of project portfolio documents that contain the assessment of E&S risks, which are in line with the interim ESS of the GCF, E&S issues identified in project monitoring during implementation site visits, and recommendations and actions taken to address these issues. Unit managers are ultimately responsible for the implementation of the applicant's ESS in the applicant's projects and programmes, and the divisional managers and the group executive manager sign the final reports on the implementation of the E&S management programme.

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

18. The applicant has a clear organizational structure with respect to E&S management and the information provided on the executive management responsible for overseeing the implementation of ESMS, ESS policy and ESS standards. The applicant's E&S team consists of qualified, skilled and experienced energy, social and environmental analysts and country risk analysts. The environmental analysts and social specialists attend various training workshops on the ESS continuously, climate change mitigation and adaptation projects, sustainable land-use planning, international environmental law and E&S management tools.

19. The applicant ensures that the E&S risk and impact categorization of projects is completed by social and environmental analysts, who conduct regular training programmes for staff responsible for E&S management issues, including the implementation of ESS standards.

2.2.5 **Section 6.5: Monitoring and review**

20. The applicant has a mature monitoring and evaluation policy framework, which defines the principles that guide E&S monitoring for projects or programmes implemented. The applicant has demonstrated that the monitoring sections of E&S management plans provide comprehensive analyses of the technical details of monitoring E&S risk mitigation measures, and incorporate methods to identify particular E&S issues, including corrective actions. The implementation of the monitoring guidelines was demonstrated through third-party annual E&S reports on the capital funds managed by the applicant, which contain a description of the applicant's portfolio companies and recommendations for E&S management improvements for these companies, as well as the evidence that the E&S management has implemented corresponding corrective actions.

2.2.6 **Section 6.6: External communications**

21. The applicant has recently established a grievance procedure on managing and responding to complaints received related to the implementation of projects or programmes funded or implemented by the applicant. Complaints can be reported electronically on the applicant's website, via e-mail or in writing. The designated focal point will acknowledge receipt of the complaint and inform the complainant of the process that will be followed in order to address the issue. In the event that the feedback is found to be unsatisfactory, the complainant has the option of escalating the complaint to the manager of the applicant's stakeholder relations department.
22. The applicant is in the process of putting in place a provision on its website to receive and register external communications, which will include the establishment of a complaints register, as well as the necessary infrastructure to begin implementing its grievance procedure.

2.3 Gender

23. The applicant has a comprehensive gender policy in place that encourages gender sensitivity in the appraisal and financing of projects. The guidelines provide a gender-sensitive approach for conducting a gender analysis, based on scientific models of projects at the appraisal stage. The applicant's approach towards gender mainstreaming is fully consistent with the gender policy principles of the GCF. The gender policy, as along with corresponding guidelines and tools, are continuously updated.
24. In addition, the applicant provides training on its gender policy and project-level gender analyses to relevant staff, such as project managers, environmental analysts and others. The applicant requires that the individuals who are responsible for gender-related activities attend thematic workshops and training sessions that are organized by other organizations.
25. The applicant tracks the implementation of gender-sensitive approaches for particular projects and programmes. It has reported on the benefits that were obtained by women in projects that it implemented by providing site visit reports for several projects related to electricity generation, agricultural development and waste management.

III. Conclusions and recommendation

3.1 Conclusions

26. 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 meets the requirements of the GCF basic fiduciary standards, specialized fiduciary standard for project management, specialized fiduciary standard for grant award and/or funding allocation mechanisms, and the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees;
 - (b) The applicant partially meets the requirements of the interim ESS of the GCF in relation to high E&S risk, Category A/I-1; and
 - (c) The applicant has demonstrated that it has competencies, policies and procedures in order to implement its gender policy, which is found to be consistent with the gender policy of the GCF, and has demonstrated that it has experience with gender consideration in the context of climate change.

3.2 Recommendation on accreditation

27. The AP recommends, for consideration by the Board, applicant APL024 for accreditation as follows:

- (a) **Accreditation type:**
- (i) **Size of an individual project or activity within a programme:** large (including micro,⁴ small⁵ and medium⁶);
 - (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-2⁷ and 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 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) Conditions prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
 - 1. Develop an external communications mechanism, which provides a system to receive, document and respond to questions or complaints from the general public.

28. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 27 above, and agrees to the recommendation.

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, “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”.

⁶ 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”.

⁷ 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”.

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”.

3.3 Remarks

29. The AP notes that the applicant has well-developed internal E&S training programmes for its employees. The applicant is encouraged to share such experience with the financial institutions in the region in this regard.
30. The applicant is encouraged to seek readiness and preparatory support to assist it to:
 - (a) Meet the conditions identified in paragraph 27(b) above.