

Annex XVII: Accreditation assessment of Applicant 027 (APL027)

I. Introduction

1. Applicant 027 (APL027), the African Development Bank (AfDB) headquartered in Côte d'Ivoire, is an international entity established in Africa during the 1960s with the objective of supporting the economic development and social progress of countries in Africa by promoting investment of public and private capital in projects and programmes that aim to reduce poverty and improve living conditions. The applicant's strategy for 2013–2022 focuses on two objectives: improving the quality of Africa's growth; and the transition to green growth. As part of its objective to transition to green growth, the applicant has undertaken important initiatives to address climate change in Africa through the implementation of a five-year climate change action plan from 2011 to 2015, including the mobilization to date of approximately US\$ 6.5 billion including from external sources, resulting in over 80 climate-resilient projects and almost 90 low-carbon development projects in Africa. The applicant has committed to invest US\$ 9.6 billion for climate finance in Africa by the end of 2015. Its adaptation activities includes activities relating to agriculture, rural living conditions, water resources and forests, while its mitigation activities focus on sustainable transport, renewable energy and energy efficiency, and sustainable land-use systems. The applicant seeks to contribute to the objectives of the GCF by: catalysing impact beyond a one-off investment; ensuring environmental, social and economic co-benefits, as well as gender and youth-sensitive development impacts; addressing vulnerability; and being country-driven and country-owned.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 12 January 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:** international access;
- (b) **Track:** fast-track under the Global Environment Facility (GEF) and Adaptation Fund;
- (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
- (e) **Environmental and social 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 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, 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

II. Accreditation assessment

3. The applicant is eligible for, and applied under, the fast-track accreditation process as a GEF agency and an accredited entity of the Adaptation Fund. Its application has been assessed against the standards of the GCF 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 are 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 are considered to have been met by way of fast-track accreditation.

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

7. 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**

8. The applicant has well-documented governance structures and publicly available procedure manuals for its management of grant award mechanisms. The grant award mechanism managed by the applicant generally follows its established rules and procedures which include: rules and procedures for the procurement of goods and services; a policy on information disclosure; guidelines for preventing and combating corruption and fraud; environmental policy; and rules and procedures of the applicant's independent review mechanism. The eligibility criteria for the grant programmes are well documented and grant award decisions are taken accordingly.

9. The applicant provided evidence of managing grant award mechanisms and a track record of grant programmes on behalf of a diverse group of donors. The applicant also provided evidence of leveraging impacts of its grant operations in support of lending to projects and programmes. It provided evidence of the programmes being advertised for a wide reach and transparency; grant programme applicants are kept informed of the progress of their applications and are advised accordingly if unsuccessful.

10. The applicant has a track record of a number of grant programmes and the evidence reviewed shows that it has applied lessons learned in respect of programme design and has incorporated these into new structures as they are developed.

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

include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

11. The applicant has a well-established track record of on-lending and blending of its own resources and of others. Its operations are guided by its overarching policies, processes and procedures. These processes include project appraisals, reviews by internal operational committees and final approval by the applicant's board. The applicant's operational guidelines provide for a process which includes detailed fiduciary assessments across its diverse portfolio. Information on the on-lending policies and procedures, operations and projects it finances is easily accessible through its website.
12. The applicant provided evidence of the entire value chain of its project cycle, including the monitoring of the projects it finances. Projects financed by the applicant provide for results frameworks and these are monitored for budget, adherence to covenants and progress. The applicant provided information in respect of climate change related projects.
13. The applicant's debt servicing handbook provides information on its instruments and the terms of its lending. Its operational on-lending framework is subject to on-going reviews and amendments, to adapt to its operating environment. Information on the applicant's track record on blending with both the public and the private sector has been provided.
14. The applicant has been rated 'AAA' by all three major rating agencies (Moody's, Standard & Poor's and Fitch) with a stable outlook and its financing operations are guided by its credit policy. The continued growth and concomitant risks associated with the applicant's private sector operations have been highlighted for their potential effect on future ratings if not adequately managed. The applicant has pro-actively been addressing this risk by developing various policies and procedures to provide structure and guidance to its private sector window. Moreover it has established various review committees to support the risks emanating from these operations. The applicant has adopted a flexible approach to its private sector engagement and this will require diligent management for purposes of transparency and equitable treatment. This has been recognized by the applicant in the structuring of its approval/review processes.
15. It should be noted that some private sector operations and specifically private equity, do not systematically incorporate all the fiduciary oversight associated with a large institution's corporate governance structure. In this regard, the applicant's audit/review processes to facilitate oversight of these and similar structures should be enhanced to allow for annual audits.
16. The applicant has an asset liability committee, which oversees its substantial portfolio, and has provided evidence of its functioning. The applicant also provided evidence of a track record in respect of its guarantee instruments.

2.2 Environmental and social safeguards

2.2.1 Section 6.1: Policy

17. The applicant's first environmental policy was adopted in 1990, and has gone through several revisions. The last iteration was issued as an integrated environmental and social (E&S) management system in late 2013, and was developed based on experience from applying previous environmental and social safeguard (ESS) policies, as well as from consolidating them with cross-cutting and sector policies. In 2014, implementation procedures and guidance materials were issued. The E&S policy and operational safeguards are consistent with the interim ESS of the GCF.
18. The policy also defines the roles and responsibilities of different departments of the applicant, as well as its clients with respect to implementation of the policy. The policy recognizes the diversity of its client base capacity to anticipate and manage E&S risks from

investments, and the applicant is committed to providing support to its clients to ensure alignment with international good practices.

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

19. The guidance materials issued in 2014 contain a project screening procedure and an E&S risk and impacts categorization tool comparable to that of the GCF. The guidelines also address categorization for programme-based lending, sector lending and financing through intermediaries. Procedures for validation of the categorization are also described. The applicant shows a track record of implementing projects with high and medium E&S risk characteristics, and project documentation indicates consistent utilization of project screening and categorization tools.

20. In addition, the applicant has introduced climate screening procedures that support its newly developed climate safeguards system, designed to ensure climate resilience to its investments in the region. The climate screening procedure and tools complement the environmental and social impact assessments (ESIA) and are intended to provide input to the project design phase.

2.2.3 **Section 6.3: Management programme**

21. The roles and responsibilities for implementation of the E&S policy and procedures are clearly defined throughout the project cycle. Borrowers and clients are responsible for the preparation of strategic assessments at the country and sector levels, in addition to the project-level ESIA, and in the preparation of plans to mitigate possible impacts. Oversight and capacity-building are extended by the applicant to borrowers and clients to ensure conformance with the applicant's safeguard requirements. The applicant provided documentation demonstrating the use of standard report formats addressing E&S issues, both for project implementation and for project completion reports.

22. A new project tracking system has been developed as a mechanism to manage information on compliance with the integrated safeguards. The applicant provided evidence that demonstrates that the system is functional.

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

23. The integrated safeguard system is enforced through a number of units. A compliance and safeguards division monitors compliance with the requirements of the E&S policy framework and implements the climate risk management and adaptation strategy. The division is located within a department tasked with quality assurance and oversight of results. Responsibility for implementing the E&S requirements lies with the operational departments. This involves working with public and private clients to ensure that they fulfil their roles and responsibilities at the project level. In addition, a division focused on environment, energy and climate change matters provides due diligence and advisory services on climate change and the environment for the applicant's infrastructure, private sector, and regional integration sector operations portfolio, and serves as a climate finance platform managing and implementing a number of climate and environment related funds. In total, the applicant has over 100 personnel assigned to manage and provide technical expertise related to ESS and climate change. The job descriptions and curriculum vitae of staff indicate solid in-house capacity.

24. Since the issuance of the integrated safeguard system in 2013, the applicant has conducted a series of training programmes for staff at its headquarters and country offices to ensure sufficient capacity to apply the applicant's procedures and tools. Training programmes are also offered in regional hubs, with participation of staff from different units, as well as external partners.

2.2.5 **Section 6.5: Monitoring and review**

25. The applicant has several systems for monitoring, which involve reviews of country portfolio performance, and project-level reviews and supervision missions. Clients are also expected to submit quarterly progress reports, which include progress on E&S commitments. In addition, since 2010, the applicant has conducted annual E&S audits of selected high- and medium-risk projects. Audits are used as a management tool to help ascertain the level of internal performance and compliance with current ESS requirements and to obtain lessons learned regarding ESS implementation.

26. The applicant provided evidence that senior management and, where necessary, the board of directors become involved in projects that have received complaints from affected communities or other stakeholders. Documentation shows paper trails of management responses, independent reviews, and preparation of action plans and monitoring of the progress of action plan execution.

27. The applicant's documentation also shows that it has learned from its experience in implementing its previous ESS policies and procedures. The current integrated ESS and its operational procedures have been built on such lessons, which address the application of its ESS across the diverse countries in its region.

2.2.6 Section 6.6: External communications

28. The applicant revised its disclosure and information access policy in 2012. The revised policy is aimed at maximizing information disclosure to benefit the applicant and its activities and strengthen engagement with stakeholders. Project E&S assessments and management plans are among the documents that the applicant proactively discloses. The policy provides for a two-step appeals process to deal with what the applicant identifies as legitimate appeals for access to information. In addition, the applicant recently established an independent review mechanism, through which persons adversely affected by projects financed by the applicant can request compliance reviews.

29. Complaints related to projects are managed by the applicant's dedicated unit for compliance review. Complaints and responses from the applicant are logged in a register, which is available on the applicant's website. Evidence of registers related to various projects was reviewed in this assessment.

30. As part of its effort to enhance mechanisms for participation and coordination with civil society, the applicant established, in 2012, a framework for engagement with civil society organizations (CSOs). A CSO forum is held annually, attended by organizations from various parts of the region, as well as international organizations active in Africa. Since channels of communications with CSOs have been strengthened, the applicant has received fewer complaints regarding projects, as CSO inputs are considered in the project design phase.

2.3 Gender

31. The applicant issued its first-generation gender policy in 2001, which has since been revised and updated. The focus of the current gender strategy (2014–2018) is to strengthen gender mainstreaming in all the applicant's operations and strategies for its clients and in the region, as well as to improve its internal work environment. The applicant prepares country gender profiles of its member countries to build a knowledge base and inform work on gender equality and women's economic empowerment, which are fed into country strategies prepared by the applicant.

32. Gender issues are also addressed in the operational safeguards and tools for integrated ESS throughout the project cycle. Project appraisal reports contain a section on gender that defines gender commitments and actions for the project. In addition, the applicant produces

annual reports on gender, poverty and environment covering the region. The reports provide updates on key indicators used in its member countries.

33. The applicant has implemented initiatives designed for women, such as one that empowers women in business. A project recently received international recognition for its gender-related work in a post-conflict area. For conventional projects, the applicant ensures that women's participation is enhanced and that women benefit from projects/programmes funded by the applicant.

III. Conclusions and recommendation

3.1 Conclusions

34. 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 and specialized fiduciary standard for grant award and/or funding allocation mechanisms. The applicant partially meets the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees. The applicant's private sector operations would benefit from an enhanced oversight process. This includes structured audits to support the anticipated growth and concomitant risks associated with new and potentially complex structures;
- (b) The applicant meets the requirements of the interim ESS of the GCF in relation to the high E&S risk, Category A/I-1. The applicant demonstrates sound experience with ESS matters, and can be regarded as a leader in the region in which it operates; and
- (c) The applicant has demonstrated that it has competencies, policies and procedures by which to implement its gender policy, and has also demonstrated that it has experience with gender and climate change.

3.2 Recommendation on accreditation

35. The AP recommends, for consideration by the Board, applicant APL027 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;

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".

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) Condition(s) to be met for an approved project/programme that has an equity structure to be invested in by the GCF to be undertaken by the applicant:
 1. Prior to the first disbursement from the GCF to the equity issuer, submit draft terms of reference for the annual audit, which has to be included in the constitutional document of the equity issuer, for review and approval by the GCF; and
 2. Undertaking in the funded activity agreement to provide the GCF on an annual basis for the first three consecutive years with annual audit reports and information on the status of recommendations that may arise from such reports. After the first three years, the GCF will review the need to extend this condition.
36. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 35 above, and agrees to the recommendation.

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”.