

Annex XIX: Accreditation assessment of Applicant 029 (APL029)

I. Introduction

1. Applicant 029 (APL029), the International Finance Corporation (IFC) headquartered in the United States of America, is an international organization with a strong global presence and focus on development, primarily in the private sector. Established in the 1950s, the applicant works in over 100 developing countries through the private sector, with a special focus on infrastructure, manufacturing, agribusiness, services and financial markets. The applicant's own climate investment portfolio has reached US\$ 13 billion, with a track record in wind and solar projects globally. Its experiences in leveraging, mobilizing and intermediating climate funds and programmes for green growth has allowed it to help unlock private climate investment using blended finance. In addition to investments in climate projects, the applicant also provides technical assistance or advisory services to private and public sector clients to promote sound environmental, social, governance and industry standards; catalyse investment in clean energy and resource efficiency; and support sustainable supply chains and community investment. With its experience in investing, mobilizing and intermediating climate finance to promote private sector projects at scale for both mitigation and adaptation in developing countries, the applicant seeks accreditation to the GCF to contribute its experience and capacity to deliver to support the mandate of the GCF to promote a paradigm shift towards low-emission and climate-resilient development.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 11 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:** international access;
- (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;
 - (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 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 standards of the GCF by the Accreditation Panel (AP).
4. As a 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. The applicant has a well-established governance and oversight structure that includes the appropriate mechanisms to ensure effective governance and control. The applicant's governance structure includes a board of directors, a board audit committee, independent integrity and evaluation units, as well as an independent internal audit function. The applicant has provided information that demonstrates the effectiveness of its governance bodies.
6. The financial statements of the applicant are audited annually and prepared in accordance with United States Generally Accepted Accounting Principles. Furthermore, both the external auditor and the applicant's management have provided assurance statements regarding the effectiveness of internal control over external financial reporting.
7. The applicant has a procurement policy in the form of procedural guidelines, which provide detailed guidelines for the procurement of goods and services. Furthermore, the internal audit department and the integrity oversight units periodically review the procurement function to ensure that the established guidelines are followed and that mismanagement of procurement processes is avoided.
8. The applicant's internal control and financial management policies, as well as the effective functioning of the oversight units, provide assurance regarding the appropriate management of the applicant's assets.
9. The applicant has established guidelines and procedures for the preparation of strategic plans and annual budgets, as well as the required mechanisms for appropriate follow-up of its plans.

2.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

10. The applicant has an ethics code and a disclosure policy, which are communicated to all of its staff. The applicant has established units, policies and procedures to undertake investigations of allegations of misconduct. The ethics unit is responsible for cases involving the applicant's staff, and the investigations unit is responsible for allegations of misconduct at the level of the applicant's investments. Also, the applicant reflects investigations undertaken by the oversight bodies in publicly available annual reports. The applicant's complaints mechanism and procedures are available on its website.
11. The applicant has specific policies and procedures for ensuring appropriate due diligence of its counterparties. The applicant's anti-money laundering (AML) and countering the financing of terrorism (CFT) programme and activities are coordinated by its AML/CFT division housed within the risk vice-presidency. The applicant's AML/CFT programme includes staff training, automated screening, and client and project due diligence.
12. If, during the course of the due diligence exercises, integrity risks are detected, the applicant's project teams can consult with a centralized unit that provides institution-wide

internal guidance on assessing specific integrity risk issues, and case-by case advice regarding AML/CFT issues and risks.

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

13. The applicant has developed policies supported by templates and specific guidelines that are implemented throughout the entire project cycle, including business development, appraisal and due diligence, investment review, supervision, monitoring, evaluation and closing. The applicant provided key operational and investment policies and procedures, as well as project documents that demonstrate compliance with and effective use of these policies and procedures.

14. Within the appraisal process, the investment team assesses whether the proposed investment is financially and economically sound. If it complies with the applicant's environmental and social safeguards, the applicant then examines the potential client's credit risk rating and analyses how the applicant can help the client further improve project sustainability. The applicant has a risk assessment process and risk mitigation strategies in place. Management approval – required before reaching financial close for all investment projects – is conducted at the investment review meeting, for which the designated staff prepare documentation regarding due diligence information on the prospective project (including, where relevant to the project, on-lending and/or blending information), environmental and social (E&S) risks and, when relevant, climate change mitigation and adaptation-related outcomes.

15. Information on all projects under development, including project objectives, amount of financing, total project costs, technical characteristics and E&S aspects, is available on the applicant's website. The applicant provided a number of examples of the project and programme appraisal reports demonstrating its experience in climate change mitigation and adaptation projects, including those in energy-efficiency upgrades, concentrated solar power plants, and advisory programmes on agribusinesses.

16. The applicant has a portfolio management framework for all of its projects under implementation, including donor-supported investment and advisory initiatives. At the project level, it actively monitors compliance with investment agreements, visits sites to evaluate project status, and helps to identify solutions to address potential problems. The applicant tracks and monitors E&S and financial performance, development and results.

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

17. The applicant is a well-established organization with several decades of experience in providing development finance to developing countries. The applicant has various projects in almost all sectors, mostly co-financed, and generally does not engage in stand-alone projects with third-party resources. The grant resources mainly come from the applicant's net income and are also supplemented by funds received from bilateral donors and multilateral facilities.

18. The grant funding is used to provide advisory services to companies, industries and governments for developing their projects in the emerging markets, typically in conjunction with loans and other forms of financing that the applicant offers. Through advisory services offerings, the applicant helps companies to improve their corporate governance, strengthen risk management and become more sustainable. Some of the grant funds are also used to support domestic financial intermediaries in developing their capacities to provide services to sustainable domestic private enterprises.

19. The grant award mechanism implemented by the applicant is transparent with formally documented procedures for assessing and approving grant proposals, as well as for

implementation and monitoring. The grant award activities for technical assistance and advisory services are subject to transparent procurement rules and annual external audit. Documentation and supervision reports to implement advisory services and technical assistance projects were provided as evidence of implementation of the policies and procedures.

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

20. The applicant has a mature set of policies and procedures that establish: governance for on-lending and blending operations; the role of the structuring unit working on the deployment of concessional funds; reporting to the applicant's board of directors; sourcing funds for blended finance; results management and learning; monitoring and evaluation; and risk mitigation strategies. The policies require the applicant to exercise the same standard of care when investing on behalf of donor partners as it does in activities that the applicant itself administers and manages for its own affairs, including the use of qualified staff, the application of E&S safeguards and integrity due diligence.

21. The applicant has a strong track record, experience and capacities for on-lending and blending from international and multilateral sources and global trust funds, as well as with resources from its own funds, investing several billions of United States dollars from its own account in climate change related projects. The applicant has established a special unit with an aim to deploy funds received from donors. The GCFs can be deployed as concessional loans, guarantees, equity and grants.

22. The applicant exercises the same standards when investing on behalf of donor partners as it does with respect to the administration and management of its own funds, maintaining a series of control frameworks, due diligence checks and risk management procedures.

23. The applicant publishes case studies and reports of donor-supported projects on its website. It also has a separate independent evaluation unit in place that prepares annual evaluation reports. The applicant periodically reviews its entire portfolio globally and annually reports on portfolio performance to its board. Additionally, dedicated project teams conduct portfolio stress test analyses of potential scenarios and work with operational teams to prevent and mitigate risks.

24. The applicant is an 'AAA' rated entity (Standard & Poor's and Moody's) with a superior track record in credit and financial management.

2.2 Environmental and social safeguards

2.2.1 **Section 6.1: Policy**

25. The applicant has a well-developed environmental and social safeguards (ESS) policy supplemented by a series of manuals and sources to guide implementation. ESS apply to all of the applicant's projects, both investment and advisory. The policy requires the applicant to undertake E&S assessments of potential projects and programmes in order to ensure that they are environmentally and socially sound and sustainable, and sets out operational procedures for whom and how the policy is implemented. The applicant's ESS policy is equivalent to that of the GCF. The applicant's ESS have become the basis for other standards and are utilized by a large number of financial institutions around the world.

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

26. The applicant's ESS are equivalent to those of the GCF. The system for E&S risk and impact identification is also consistent with that of the GCF. The applicant's ESS and corresponding guidelines not only provide a system for risk and impact identification, but also

provide a comprehensive description for managing mitigation measures and actions stemming from the E&S risk identification process. This is consistent with the project-level performance standards (2–8) of the interim ESS of the GCF. As per the applicant's procedures, the lead E&S specialist supported by a project team is responsible at the appraisal stage for leading and managing the E&S review and risk identification and categorization of a proposed investment.

27. To demonstrate the application of the E&S risk identification and categorization process, the applicant provided a list of illustrative projects, their E&S risk categories and information on how they were identified and categorized.

2.2.3 **Section 6.3: Management programme**

28. The applicant's ESS are managed through clearly established procedures and assignment of roles. The applicant operates a formal mechanism in order to manage and mitigate E&S risks and impacts, contained in an E&S review guidance document, and assigns responsibilities to the applicant's relevant units for due diligence as well as the monitoring of progress and compliance with the ESS policy. The document includes formal operational processes and procedures for describing how individual project/programmes and E&S risk mitigation activities will be documented and applied for ESS.

29. Moreover, the applicant demonstrates that it has an ESS compliance review mechanism that is followed from the project concept phase to implementation, as well as audits of third-party financial intermediaries' investments.

30. As an additional layer of E&S monitoring and compliance, the applicant has a compliance office to conduct compliance audits on projects and programmes to ensure that they are compliant with the applicant's sustainability framework. The compliance office has conducted an audit on the applicant's investments in third-party financial intermediaries and has identified issues with regard to ESS implementation. However, the applicant also provided evidence of the management response to the recommendations in the audit report, which has resulted in improvements to the applicant's ESS implementation capacities.

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

31. The applicant houses a dedicated E&S development department headed by a director and specialist staff who ensure that the institution's work is beneficial to human development and the natural environment. E&S development specialists appraise potential investment projects to identify and categorize E&S risks and enhance outcomes, ensure compliance with ESS and related guidelines, and provide training on E&S management systems to financial sector borrowers. The dedicated staff help ensure implementation of ESS by conducting due diligence on the proposed investment activity; assisting the client in defining the project's E&S risk category; developing measures to mitigate E&S impacts, monitor and document the client's E&S performance throughout the life of the applicant's investment; and disclose information about its institutional and investment activities in accordance with its information disclosure policy. The applicant conducts regular training and development programmes on ESS for its specialists.

2.2.5 **Section 6.5: Monitoring and review**

32. The applicant has a mature mechanism for monitoring ESS implementation in projects, including the submission of annual monitoring reports, action plans and periodic site visits. The investments categorized as E&S risk Categories A and B are also scored at the end of the appraisal process, and then again during supervision using the applicant's E&S risk rating system. The E&S risk rating system is an internal tool designed to indicate the project's relative level of E&S risks. Additionally, corrective and preventative actions are captured and managed through the E&S action plan tracker.

2.2.6 Section 6.6: External communications

33. The applicant's E&S guidelines describe the methodology to implement the institutional disclosure requirements in accordance with the overarching information policy. The applicant discloses information about its projects, including project-level E&S review summaries, through the designated disclosure portal. The compliance office publishes a summary of its E&S complaints cases under review, dispute resolution, and compliance in its annual report. The applicant has a designated website available in 16 languages that provides an online searchable database for complaint cases currently being handled, as well as links for filing a complaint with the compliance office. The compliance office also receives and handles complaints from affected communities in local projects with the goal of enhancing E&S outcomes on the ground.

2.3 Gender

34. In its consideration of gender-related aspects in its investment and advisory activities, the applicant adheres to the overarching gender equality policy of the larger group to which it belongs. In addition to the main policy, gender is integrated into the applicant's strategic road map for the period 2015–2017 that includes specific commitments to increase access to finance and access to markets for women entrepreneurs and to reduce gender-based barriers in the business environment. The applicant is also working within the group to develop a group-wide gender strategy, to be considered by the group's boards in December 2015. In addition, the applicant is applying the Economic Dividend for Gender Equality tool to assess its own diversity and inclusion process.

35. The applicant has an annual target of 25 per cent of all recipients of its financing to small- and medium-sized enterprises to be women-owned enterprises, and its equity portfolio commits to a target of 30 per cent of women among its nominees on company boards by 2015.

36. In its activities, the applicant builds global partnerships, develops new gender products, offers knowledge, provides training, conducts research on the business case for gender and develops tools that support gender-smart business strategies. It also demonstrated extensive in-house gender-related expertise that is headed by a senior gender operations officer.

III. Conclusions and recommendation

3.1 Conclusions

37. Following its assessment 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 specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees;
- (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; 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

38. The AP recommends, for consideration by the Board, applicant APL029 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:** none.

39. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 38 above, and agrees to the recommendation.

3.3 Remarks

40. In the course of its due diligence, the AP has been made aware that in 2011 the applicant conducted an audit of the environmental and social management system of its financial intermediaries and developed an action plan in response to the audit findings. The AP would like to request the applicant to report to the GCF on the progress made in the implementation of this action plan.

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”.

41. In the course of its due diligence, the AP has been made aware of the applicant's participation in the work on the harmonization of the E&S standards used by a number of international financial institutions. The AP encourages the applicant to further pursue this initiative among other multilateral financial institutions and inform the GCF on the progress in this process.