

## Annex V: Accreditation assessment of Applicant 035 (APL035)

### I. Introduction

1. Applicant 035 (APL035), the Banque Ouest Africaine de Développement (West African Development Bank, BOAD), is a regional financial institution with a mandate to promote development in West Africa and foster economic integration within the subregion. The applicant delivers on its mandate by contributing towards the mobilization of domestic resources in its member state countries, outsourcing foreign capital through loans as well as providing funding through equity investments, loans, guarantees, and interest rebates. The applicant uses the financial resources that it mobilizes to invest in public and private sector projects and programmes aimed at building basic and modern infrastructure, improving rural livelihoods, generating energy, and climate change adaptation and mitigation.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 30 January 2015. The Stage I institutional assessment and completeness check was completed on 18 November 2015 and was progressed to Stage II (Step 1), accreditation review, which was concluded on 26 May 2016. The applicant has applied to be accredited for 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 from Burkina Faso and Niger;
- (b) **Track:** fast-track under the Adaptation Fund (AF) and the Global Environment Facility (GEF);
- (c) **Maximum size of an individual project or activity within a programme:** medium;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - 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
- (e) **Maximum environmental and social risk category:** medium risk (Category B/Intermediation 2 (I-2)).<sup>3</sup>

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “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 USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (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. Stage I institutional assessment and completeness check

3. The applicant is eligible for, and applied under, the fast-track accreditation process as an AF entity and subsequently as a GEF agency. Its application has been assessed by the Secretariat during Stage I in accordance with the requirements and gaps identified in decisions B.08/03 and B.10/06.

### 1.1 Legal status, registration, permits and licences

4. The Secretariat reviewed the information provided by the applicant regarding its legal status as well as relevant and applicable registrations, permits and licences.

### 2.2 Institutional presence and relevant networks

5. The applicant's membership includes eight countries in Western Africa: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. All of its member countries, with the exception of Côte d'Ivoire, belong to the group of the least developed countries. The applicant's headquarters is based in Lomé, Togo, and it is represented in other member countries by resident missions.

6. The applicant seeks accreditation to the GCF in order to continue its activities by accommodating the development needs of its member countries with climate constraints. The applicant intends to improve the participation of the private sector and municipalities, and to facilitate the access of financial resources to fund projects related to climate change adaptation and mitigation.

### 2.3 Track record

7. The applicant provides funding for both public and private sector projects in:

- (a) Rural development, food security, climate and the environment;
- (b) Industry and agro-industry;
- (c) Basic infrastructure and modern infrastructure (roads, telecommunications, airports, ports, energy and railways); and
- (d) Transport, hospitality, finance and other services.

8. As at 31 September 2015, the applicant's total net commitments were estimated at USD 6.713 billion spent over 736 projects. In terms of climate change, the applicant's activities include providing solutions in reducing greenhouse gas emissions; strengthening the resilience of the population to climate hazards; supporting vulnerable people and poor populations with an emphasis on supporting women, youth and children; and strengthening the country ownership of its operations. Some climate change activities include:

- (a) USD 42.7 million in crop insurance to reduce the vulnerability of farmers in Senegal and Benin;
- (b) USD 43 million in the rehabilitation of hydroelectric facilities in Mali; and
- (c) USD 17 million in hydro-powered agricultural development in Niger.

### III. Stage II accreditation review assessment

9. The applicant is eligible for, and applied under, the fast-track accreditation process as an AF entity and as a GEF agency. Its application has been assessed by the Accreditation Panel (AP) during Stage II (Step 1) against the standards of the GCF in accordance with the requirements and gaps identified in decisions B.08/03, B.10/06 and B.12/30.
10. As part of this assessment, the AP consulted the applicant's website and various third-party websites to complement the information provided in the application.
11. Additionally, the AP requested and conducted a site visit to the applicant's headquarters in January 2016.

#### 3.1 Fiduciary standards

##### 3.1.1 **Section 4.1: Basic fiduciary standards: key administrative and financial capacities**

12. As per paragraph 9 above, the basic fiduciary standards concerning key administrative and financial capacities is considered to have been met by way of fast-track accreditation.

##### 3.1.2 **Section 4.2: Basic fiduciary standards: transparency and accountability**

13. As per paragraph 9 above, the basic fiduciary standards concerning transparency and accountability has been met by way of fast-track accreditation.

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

14. As per paragraph 9 above, the specialized fiduciary standard for project management is considered to have been met by way of fast-track accreditation.
15. It is noted that the fast-track accreditation process associated with the GEF contained certain conditions and that these conditions would apply to GCF accreditation.

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

16. The applicant initiated a grant request-for-proposals process in January 2015 with the intent of facilitating access by both private and public sector clients to alternative sources of funds. As drafted, specifically this mechanism will target projects with a focus on climate and the environment. The structure, policies and procedures of the on-granting mechanism meets with GCF requirements for the specialized fiduciary standard for grant award and/or funding allocation mechanisms. While an overarching institutional framework to support the mechanism exists across the applicant's operations, it should be noted that the mechanism has not yet been implemented.

17. The applicant generally leverages grants to buy down the cost of debt and therefore the impact of the proposed grant mechanism could significantly contribute to the reach of its interventions. In addition, the applicant intends to tailor the mechanism according to the various stages of the project life cycle to ensure that proposals can be evaluated for conformity.

18. Given that the applicant's track record in implementing stand-alone on-granting activities are limited and aligned to specific donor requirements, this assessment recommends a lower size category than the applicant applied in terms of the size of on-granting activities funded by the GCF.

19. The applicant has provided information in support of its project monitoring capabilities. Its framework for monitoring the development outcomes of projects is significantly developed. This framework is in its early stages of being proven and the effectiveness of the initiative will

be proven over time. However, the applicant's monitoring of compliance with its own standards requires some attention.

20. A new department, the Climate Change Department, has recently (mid-2015) been established to manage the climate change related activities of the applicant. Its activities will require integration/mainstreaming with that of the rest of the organization. Given the size category of the project or programme being requested, it is recommended that additional resources either in the form of relevant permanent staff or external expertise be considered for implementation. This is especially relevant given the anticipated increase of deal flow from its engagement with the AF, the GEF and by way of this recommendation, the GCF.

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

21. The applicant's on-lending and blending operations are conducted through its concessional and commercial (market rate) windows. In this regard, its concessional window provides for the blending of grant/donor resources with its own resources to buy down the cost of its financing activities. It has a demonstrated track record of these operations. However the applicant, in its strategic plan for 2015 to 2019, alluded to its financing model reaching its limits, and that in order to grow its operations it has to refocus its resource mobilization plan. The strategic plan also includes a review of its debt regulatory framework to strengthen its debt capacity.

22. The implementation of the resource mobilization strategy commenced in 2015 by obtaining a first time foreign and local currency issuer credit rating of Baa1 from Moody's Investors Service in May 2015 and in June 2015 a BBB rating for long-term issuance from Fitch Ratings. On 6 May 2016, the applicant issued its first international United States dollar-denominated bond. The USD 750 million bond has attracted the same rating guidance. In support of its strategic plan and its resource mobilization process, the applicant embarked on a revision of its risk management framework and it is envisaged that this will evolve in line with international standards.

23. Although the applicant requested accreditation against the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees, during the site visit the applicant amended its application for loans and guarantees. The applicant provided its manual of procedures for guarantee operations. The guarantee operations provided for are associated with financial market transactions and include: (a) guarantees for bond issues, (b) guarantees for interbank loans, and (c) the guarantee of negotiable receivables. The applicant has submitted evidence of a track record with guarantees for bond issues.

24. During the site visit, the applicant clarified its due diligence processes, including appraisal reports, stages and processes of approval, supervision and monitoring and ex-post evaluation. These are aligned with other multilateral financial institutions. The applicant has provided evidence of these processes. Audit information suggests that the applicant would benefit from enhanced monitoring of its clients' compliance with the applicant's standards/conditions.

25. The access to information for projects financed by the applicant as evidenced by the extent of documentation to be found on its website is not on par with other development finance institutions, including the GCF specialized fiduciary standard for on-lending and/or blending. The applicant has recognized information disclosure as a key component of its activities and to this end has established a committee to consider information disclosure. A recommendation to improve its information disclosure is included in this assessment.

26. The applicant has provided evidence of the size of projects for which it is seeking accreditation.

## 3.2 Environmental and social safeguards

### 1.1.1 Section 6.1: Policy

27. The applicant's environmental and social safeguards (ESS) policy initially adopted in 2003 has been updated four times since then. The policy, in combination with its operational policies and guidelines, covers performance standards 1 to 8 in the GCF interim ESS. The applicant provided project examples to demonstrate its application and capacity to implement and manage the ESS requirements. The applicant has a strategy for 2015 to 2019 on the environment and climate, affirming its regional leadership role in environment and climate issues. The applicant's energy portfolio has over time integrated a larger proportion of renewable energies.

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

28. The applicant has adequate procedures to screen for and identify project risks and impacts, categorizing projects as A (high), B (medium), C (low), D (no impacts) or IF (intermediary). If the screening procedure triggers a performance standard, then the applicable guidelines and procedures are applied. There is also a procedure to check that projects/programmes are correctly categorized. Identified environmental and social (E&S) risks are entered into a project portfolio for subsequent follow-up. The applicant provided a list of projects undertaken between 2013 and 2015, showing significant experience with both Category A/Intermediation 1 (I-1) and B/I-2 projects/programmes.

### 1.1.3 Section 6.3: Management programme

29. The applicant has updated its environmental and social management system (ESMS) three times, based on international standards. There are guidelines to review all environmental and social impact assessments (ESIAs) (both in the case of direct financing and financing through intermediaries). The applicant demonstrates a continuous-improvement mentality and also a willingness to adapt to new requirements and expectations, as needed.

30. The quality of the clients' ESIAs, and environmental and social management plan (ESMP) documents has varied, but has shown positive improvement over time, with the occasional request by the applicant for additional information to supplement an ESIA in order to overcome any shortcomings identified. The most recent ESMS procedures implemented by the applicant better ensure that E&S risk and impact mitigation budgets are integrated into project contracts. ESMS implementation is with the country client for direct financing, or is the responsibility of the intermediary (who must report to the applicant). The applicant supervises the implementation of its Category A/I-1 projects biannually and Category B/I-2 projects annually.

### 1.1.4 Section 6.4: Organizational capacity and competency

31. The organizational capacity has been strengthened over time. In 2005, there was one E&S member of staff. Now there is an environment and climate directorate with seven staff members (four for the environment and three for climate). The curricula vitae of staff and external consultants were provided, showing capacity to cover performance standards 1 to 8 and gender. The responsibility to cover each performance standard is explicitly allocated to a specific staff member, usually in combination with one external consultant. The current structure and size is appropriate to the projects that are now being undertaken (40 to 50 projects per year). Of note, it is a condition of the GEF programme to hire additional experts for implementation. Similarly, the extra work associated with any GCF activities would require additional experts and resources.

32. In line with its 2015 strategy for the environment and climate, the applicant has an E&S capacity development plan. Training reports were provided to show the E&S capacity development activities from 2007 to 2013. The applicant is also committed to developing the ESS capacity of its clients and intermediaries, where necessary.

33. The applicant is currently preparing projects for the AF and the GEF. This project-preparation capacity is relevant to the GCF, but additional resources will be needed to prepare GCF projects.

#### 1.1.5 Section 6.5: Monitoring and review

34. The applicant has a 2014 policy on E&S monitoring, implementation manuals to supervise projects, and manuals to prepare project completion reports for projects having direct financing and for intermediaries. The monitoring unit and the environment and climate directorate (with support from consultants, as needed) track the E&S mitigation measures and indicators during project execution on a biannual basis. The supervision/audit reports are reviewed and approved by the project's operational unit and then submitted to senior management for further action. Annual and three-yearly monitoring reports are also submitted to senior management, allowing learning across all projects.

35. The applicant provided examples of E&S auditing missions covering performance standards 1 to 8, gender and compliance with country legal frameworks. Corrective actions were identified, where needed. Non-compliance to corrective actions has led to a small number of project terminations. The applicant provided an example of where the implementation of corrective actions by a client was delayed due to not having a mitigation budget and an example of when the applicant did not conduct its annual monitoring. The latter indicates the need to check more closely for mitigation budgets and to further strengthen the applicant's capacity to monitor clients.

36. The overall monitoring system now relies on a sound logical framework system, making the monitoring system an excellent resource for project preparation in the future.

#### 1.1.6 Section 6.6: External communications

37. The applicant's 2013 manual on access to information outlines how the public can submit information requests as well as the procedures that the applicant applies to process information requests. There is a separate manual detailing how to register and redress grievances. Inquiries or complaints can be submitted through the applicant's website, or by telephone and regular mail. Enquiries and complaints are managed by a legal affairs directorate that reports to senior management. The applicant has not received E&S inquiries or complaints over the last three years.

38. Regarding disclosure, the applicant requires its borrowers to publicly disclose the ESIA/ESMP. In addition, the ESIA summaries are posted on the applicant's website from 30 (Category B) to 60 days (Category A) from receipt. It is noted that the European Investment Bank is currently supporting the applicant's internal and external communications, visibility and transparency with respect to its corporate social responsibility programme, E&S management, and climate change adaptation and mitigation initiatives.

### 3.3 Gender

39. Member countries of the applicant have ratified the United Nations "Convention for the elimination of all forms of discrimination against women". The applicant's gender policy adopted in 2013 requires that all projects conduct a gender analysis and commits the applicant to support low-income entrepreneurs and women producers, girls' and women's education, and women's health. Clients must implement the applicant's gender policy as a condition of receiving funds.

40. Gender mainstreaming is ongoing in-house and within the applicant's projects. The human resources department considers gender in its recruitment and career-advancement processes. The E&S capacity development plan includes a gender course. The applicant's project examples provide a track record of gender-sensitive project budgets, practices, and monitoring

arrangements and a track record of lending that has generated positive impacts on women. Going beyond the GCF gender policy, the applicant has sector-specific checklists to integrate gender into the project cycle (e.g. the gender and sanitation checklist).

41. Based on the human resources development plan, the hiring of a gender staff member is pending and necessary before taking on more gender-sensitive projects.

## IV. Conclusions and recommendation

### 4.1 Conclusions

42. 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 and specialized fiduciary standard for project management, and partially meets the specialized fiduciary standard for grant award and/or funding allocation mechanisms as well as the specialized fiduciary standard for on-lending and/or blending for loans and guarantees. It is noted that during the site visit, it was confirmed by the applicant that it would no longer seek accreditation against the specialized fiduciary standard for on-lending and/or blending for equity;
- (b) The applicant meets the requirements of the interim ESS of the GCF in relation to medium E&S risk (Category B/I-2), though various implementation capacity issues have been noted (see paras. 45 and 46 below); and
- (c) The applicant has demonstrated its policies, procedures and competencies to implement its gender policy, and it has experience with gender and climate change. Hiring an in-house gender/social expert (as the applicant has already planned) will help to ensure more systematic integration of gender and other social issues into all aspects of the project cycle.

### 4.2 Recommendation on accreditation

43. The AP recommends, for consideration by the Board, applicant APL035 for accreditation as follows:

- (a) Accreditation type:
  - (i) **Maximum size of an individual project or activity within a programme:** medium (including micro<sup>5</sup> and small<sup>6</sup>), with a condition regarding the specialized fiduciary standard for grant award and/or funding allocation mechanisms below;
  - (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 and guarantees); and

- (iii) **Maximum environmental and social risk category:** medium risk (Category B/I-2) (including lower risk (Category C/I-3<sup>4</sup>)); and
- (b) **Condition(s):** 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) prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Provide a plan for improving the monitoring of compliance with its fiduciary, E&S and gender-related standards as well as any conditions in general that it applies to its financing, including for projects financed by the GCF; and
  2. Develop a process for publicly disclosing information on beneficiaries and results of projects and programmes that are financed by the GCF; and
- (ii) Condition(s) prior to submitting a request for GCF financing of a medium-sized grant award programme:
1. Test and prove by way of having approved and successfully implemented for a minimum period of one year a small-sized grant award programme.
44. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 43 above, and agrees to the recommendation.

### 4.3 Remarks

45. Although the applicant has sound policies and practices in relation to E&S, gender and climate matters, it will need more staff in order to increase the scale and scope of its activities significantly as it has planned. In particular, it is judged that more careful project design, enhanced implementation budgets and resources, and strengthened monitoring and supervision, can help to overcome the existing capacity constraints. It is therefore recommended that the applicant addresses the staff shortcomings identified in paragraphs 19, 32 and 40 above.
46. The applicant has a wide-ranging ESMS, which is consistent with the requirements of performance standard 1 of the GCF interim ESS. Since the applicant's ESMS has been updated over time, it is recommended that the applicant now consolidate its existing guidelines in order to more easily screen and assess projects against performance standards 2 to 8 and to ensure that:
- (a) All departments and all clients have the full package of the most-up-to-date ESMS elements; and
- (b) All departments and clients have been sufficiently trained to use the most-up-to-date ESMS elements.
47. The applicant is encouraged to seek readiness and preparatory support to assist it to:

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<sup>4</sup> As per annex I to decision B.07/02, category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".





- (a) Meet the condition(s) identified in paragraph 43(b) above.