

## Annex XI: Accreditation assessment of Applicant 048 (APL048)

### I. Introduction

1. Applicant 048 (APL048), Société de Promotion et de Participation pour la Coopération Economique (PROPARCO), is an international entity, specifically a subsidiary of Agence Française de Développement (AFD) with its own legal personality, with a distinct mission to support sustainable development through financing the private sector in an effort to bring about economic and social development in developing countries. Its climate-related projects and programmes are focused on promoting climate change mitigation in the areas of renewable energy, energy efficiency, sustainable transport, water and sanitation, agroforestry and forestry. The applicant also provides technical assistance to its national partners in developing countries, which include national commercial banks, by assisting them to develop their climate strategies and climate finance project portfolios.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 13 July 2015. The Stage I institutional assessment and completeness check was completed on 10 February 2016 and the Stage II (Step 1) accreditation review has been concluded with the publication of this assessment. The applicant 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 Directorate-General for International Development and Cooperation (DG DEVCO) (part-way through Stage II; previously under the normal track);
- (c) **Maximum size of an individual project or activity within a programme:** large;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (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) **Maximum environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)).<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), "large" is defined as "total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above 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 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,

## II. Stage I institutional assessment and completeness check

3. The applicant applied and was assessed by the Secretariat during Stage I under the normal track process.

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

4. The applicant provided documents on its establishment and licenses to operate, if any and relevant, as a part of the application. The applicant has a legal personality separate from AFD, and was first registered as a public limited company by the Paris Commercial Court Registry in 1977.

### 2.2 Institutional presence and relevant networks

5. The applicant is a well-established subsidiary of AFD that is devoted to private sector development. It has built strong partnerships with national and regional companies and financial institutions, which include commercial banks in the 73 African, Asian and Latin American countries where it finances and implements projects. In line with the AFD group strategy, the applicant's strategic priorities are: African countries, for which it targets 50 per cent of its overall activity; low-income countries, including the least developed countries and fragile states, with a target of 25 per cent of its activity; and climate change.

6. Implementation of the applicant's climate change strategy is demonstrated through its climate-resilient portfolio of projects, which seek to assist developing countries in making a shift to low-emission development in sectors such as renewable energy, including hydropower, solar, geothermal and wind energy, forestry, transport, agriculture, healthcare and education.

7. The applicant seeks to contribute to the objectives of the GCF by using its experience of managing climate finance and supporting the private sector in developing countries. This falls in line with the GCF objectives of promoting the participation of private sector actors in developing countries and catalysing climate finance from both public and private sources. Furthermore, the applicant intends to enhance country ownership by utilizing its green credit facilities to avail technical support to its national partners in developing countries, with the aim of building capacity and overcoming the financial and technical barriers to scaling up investment, thereby allowing its partners to take full advantage of climate finance opportunities.

### 2.3 Track record

8. The applicant's portfolio as of 30 June 2016 amounted to EUR 4.5 billion (excluding activities under Fonds d'Investissement et de Soutien aux Entreprises en Afrique (FISEA)) and total commitments for 2015 amounted to EUR 1.1 billion. The applicant acts as a catalyst, attracting and mobilizing additional public and private sector funding for its clients' climate-

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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".

resilient projects. It does so by leveraging its network of partnerships with various organizations. Climate finance is offered to its national and regional clientele in developing countries in the form of loans, equity and guarantees. The applicant allocated EUR 2 billion to climate-related operations projects between 2005 and 2014, with 31 per cent being provided to national financial institutions.

9. The scope of activities undertaken by the applicant in the regions where it operates include:

- (a) USD 69 million out of a total project cost of USD 335 million for the wind farms Parque Eolico Marcona and Parque Eolico Tres Hermanas in Peru;
- (b) USD 18.9 million for a geothermal project in Nicaragua;
- (c) USD 54 million and 38.5 million for wind farms to generate renewable energy in Kenya and Uruguay, respectively;
- (d) USD 50 million loan for renewable energy to a development bank in Sri Lanka; and
- (e) USD 20 million and USD 25 million senior loans for a solar park in Chile.

### III. Stage II accreditation review assessment

10. The applicant originally applied under the normal track and became eligible part-way through Stage II for the fast-track accreditation process as a DG DEVCO entity. Its application has been assessed by the Accreditation Panel (AP) against the standards of the GCF starting as a normal track application, then later in accordance with the requirements and gaps identified in decisions B.08/03, B.10/06 and B.12/29 (the last decision expanded the list of potentially eligible fast-track entities to include the applicant).

11. As part of this assessment, the AP consulted the applicant's website and third-party websites to complement the information provided in the application.

#### 3.1 Fiduciary standards

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

12. As per paragraph 10 above, the basic fiduciary standards concerning key administrative and financial capacities are 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 10 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.

14. Regarding item 4.2.5, the applicant's AML/CFT policy is that of the AFD group, which requires assessments to be conducted at the project appraisal stage and the monitoring of which is embedded throughout the project life cycle. The policy establishes the principles and actions taken to combat corruption, fraud, money laundering and terrorism financing. It also

includes due diligence procedures on the quality of the counterparty, its relevant shareholding structure and the nature of the project.

15. The applicant's AML/CFT policy is found to be in full compliance with the GCF Interim Policy on Prohibited Practices and evidence of the applicant having implemented its policy is supported by 'know your customer' due diligence reports.

16. The applicant has polices and mechanisms in place to undertake the monitoring of the electronic money transfers, and has provided corresponding copies of the transfer monitoring reports as evidence.

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

17. The applicant's corporate procedures manual and operational procedures manual form the basis of its operational and administrative functions. The application includes a well-structured overarching description of each component of the operational procedures, reference documents, templates and tools that underpin its project management activities.

18. Moreover, the applicant provided detailed documentary evidence of the key components associated with its project management operations. The key components include the identification, appraisal, decision-making, financing and monitoring of projects; this confirms the prevalence of a well-structured project management process.

19. Project management processes have both discrete and overlapping elements which ensure that the entire process is an integrated one where key performance indicators developed during project appraisal are included and monitored as part of the project assessment methodology. The applicant's appraisal process includes a socioeconomic due diligence (including governance) and provides for a second opinion (quality check), which is provided by its risk department.

20. A risk assessment is undertaken for all of the applicant's counterparties. This is completed prior to handing over a project file to the project monitoring department at the time of first disbursement of funds for a project. The risk assessment forms part of the applicant's risk management process and the risk management function is called on for input as and when required. The Risk Committee confirms the risk assessment and the head of risk management reports directly to the Chief Executive Officer to ensure functional independence.

21. Where required, discrete procedures and processes are provided for in the management of the applicant's lending, equity and guarantee operations throughout the project life cycle.

22. Ex ante evaluations are conducted as part of the applicant's monitoring process; however, these reports are not published. The applicant instead provides information on the project and impacts on a project-by-project basis on its website via a map that contains a link to the projects within its portfolio. Public disclosure due to confidentiality provisions associated with the applicant's operations is in line with the nature of its private sector operations.

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

23. As per paragraph 10 above, the specialized fiduciary standard for grant award and/or funding allocation mechanisms is considered to have been met by way of fast-track accreditation.

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

24. The applicant's procedures for its on-lending and blending operations are embedded in its corporate and operational procedures as described in section 3.1.3 on project management above. Moreover, the applicant has demonstrated a track record in project/programmes of the size for which it is seeking accreditation. With regard to the range of financial instruments (loans, equity and guarantees) for which it is seeking accreditation, the applicant has not demonstrated a track record in respect of guarantees. However, the applicant has advised that it has recent guarantee transactions in support of track record and this information will be submitted for consideration as soon as it can be made available by the applicant. The applicant has demonstrated a track record in blended finance activities with multilateral and other bilateral institutions (loans and equity). This includes the use of grants for technical assistance for projects that have already qualified for the applicant's investment and where the applicant will, in principle, co-finance up to 50 per cent of the grant amount.

25. To be noted is the applicant's management of an investment fund, FISEA, which targets sectors/countries in Africa that are traditionally overlooked owing to their specific complexities. Although the fund size is limited, the performance of the fund's investments has been mixed. An external evaluation of the fund's performance was called for in 2015, and recommendations for enhancing its operational performance were included in the report resulting from the external evaluation. It is expected that the fund will be fully invested in the near future and no further replenishments are expected. However, the lessons learned from the applicant's experience with FISEA should be incorporated into similarly structured projects/programmes where the GCF is concerned, and risks apportioned accordingly.

26. Regarding disclosure of information, the applicant has, as recently as 2015, added two new tools in order to enhance the transparency of its operations where the public can access PROPARCO strategic and operational information. Moreover it proposes, by the end of 2016, to provide access to its information through the AFD platform. The applicant is encouraged to keep the GCF informed on its progress in this regard.

27. The applicant provided evidence of well-developed investment and portfolio management policies. Examples of their implementation, including asset liability management, the applicant's strategy and internal control framework, were included.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

28. The applicant has developed and implemented a comprehensive corporate-level strategy for 2014–2019, which includes an environmental and social (E&S) policy framework addressing economic, sustainability, environmental and social principles, as well as thematic and sectoral E&S standards. As a part of this policy framework, the applicant has an E&S operational procedure which includes project-specific E&S assessment procedures, methodological guides, checklists, risk assessment tools and action plans that the applicant uses in its operations. The procedures also require the executing entities overseen by the applicant to carry out stakeholder consultations, including a grievance mechanism to allow the project-affected communities to raise any complaints. The E&S policy framework is endorsed by the

applicant's management and is fully consistent with the interim environmental and social safeguards (ESS) standards of the GCF. The E&S policy framework is communicated to all levels of the applicant and also made publicly available through the applicant's website.

### 3.2.2 **Section 6.2: Identification of risks and impacts**

29. The applicant's identification of E&S risk and impacts management procedure contains the principles and provisions for assessing, managing and monitoring E&S risks of its operations, including projects they directly finance and financial intermediation of projects. The procedure is supported by the corresponding methodological guide and tool for E&S risk classification. The E&S risk categorization system, as regulated by the procedural framework and applied by the applicant at the organizational level, is fully consistent with the interim ESS standards of the GCF. Each project that is categorized as having an equivalent of the GCF high (Category A/I-1) or medium (Category B/Intermediation 2 (I-2)<sup>4</sup>) E&S risks and impacts level is required to undergo a comprehensive E&S impact assessment study.

30. The entity presented several examples of development projects of high and medium E&S risks and impacts levels that are screened and categorized against the E&S risk criteria using the risk assessment tools. The applicant has also provided a list of illustrative projects over the past three years, including how they were categorized.

### 3.2.3 **Section 6.3: Management programme**

31. The applicant's ESS are managed through the clearly established procedures and assignment of roles provided in its operational procedures manual and investment code. The applicant conducts a project appraisal, due diligence and risk mitigation strategy process, as well as monitoring progress and compliance based on the applicant's ESS standards. The applicant has a clear organizational structure with respect to E&S management with an E&S team dedicated to identifying E&S risks and developing mitigation measures during project appraisal and implementation. The applicant has provided several sample project monitoring reports as well as a report prepared over a number of years by a reputable rating agency attesting to the effectiveness and improvement of the ESS monitoring process.

### 3.2.4 **Section 6.4: Organizational capacity and competency**

32. The applicant provided information on its organizational structure, which has demonstrated a strong capacity based on the experience and competence of staff members working in the division supporting project E&S assessment and evaluation. The designated technical specialists are responsible for identifying E&S risks and impacts at all stages of the project cycle, confirming a project's E&S categorization and reviewing relevant safeguard reports. Moreover, the applicant has developed and implemented training programmes on its

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<sup>4</sup> 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".

E&S policy and methodological framework for new staff. It has also started a web-based training session for staff in its country offices, and plans to run this training on a regular basis.

### 3.2.5 **Section 6.5: Monitoring and review**

33. The applicant maintains monitoring and review procedures for ESS at both the individual project level and the portfolio level. The monitoring plan is developed on the basis of the E&S impact assessment for each individual project/programme. Monitoring includes tracking the progress of the implementation of mitigation measures and achievements. Monitoring reports from executing entities are recorded and the applicant's project managers perform quality assurance reviews of the reports. Supervision of the projects is undertaken by the E&S division specialists, who assess the implementation of E&S mitigation measures. The applicant, in cooperation with executing entities, also performs ex post evaluations aimed at measuring the effectiveness of the risk mitigation measures.

34. The applicant has provided several samples of external audit reports and its annual performance review report endorsed by its management and submitted to its board.

### 3.2.6 **Section 6.6: External communications**

35. The applicant has external communication channels to share, receive and register external communications from the public. The applicant has provided examples of projects where external stakeholder communications were received and addressed; however, these communications were not related to E&S matters. The applicant provided a note approved by its board in December 2015 which proposed instituting an independent system for processing E&S-related complaints addressed to it. However, the implementation of this independent system has been delayed slightly and is expected to be launched at the beginning of 2017. The applicant expects that the system would also be integrated into the applicant's revised E&S procedures manual before the end of 2016.

36. The applicant indicated that for the time being and in particular owing to its national banking law constraints, it does not disclose/consult on its full ESS assessment documents. However, E&S categorization and a summary of the main impacts of each project are made available on the applicant's website subject to prior consent of its clients regarding all other information to be disclosed on the project (due to national banking law constraints referred to above). Nevertheless, the applicant is committed to comply with the GCF Information Disclosure Policy for the applicant's projects financed by the GCF.

## 3.3 Gender

37. The applicant's gender policy is in the form of its strategic document comprising its 2014–2017 road map, which outlines the applicant's commitment to gender equality and equity, and the need to allocate resources to both climate change mitigation and adaptation activities. The applicant's gender policy is in line with the GCF gender policy.

38. Moreover, it has developed an ongoing training programme on gender-related issues for its staff members. The applicant has a number of specialists with gender-related competencies and experience.

39. Evidence of the gender policy implementation was supported by a number of illustrative examples in the areas of climate change, renewable energy, microfinance and livelihood improvement, which show that projects to which the entity lends have non-discriminatory practices in terms of benefits and remuneration for both men and women employees. The applicant has provided supporting evidence on its experience in undertaking gender initiatives for gender equality and women's empowerment. The applicant also provided gender-specific indicators used in its operations.

## IV. Conclusions and recommendation

### 4.1 Conclusions

40. Following its assessment and noting that the applicant has applied under the fast-track accreditation part-way through the 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 specialized fiduciary standard for on-lending and/or blending for loans and equity. However, the applicant has only partially demonstrated its track record to financing guarantee operations;
- (b) The applicant partially meets the requirements of the interim ESS standards of the GCF in relation to the high E&S risk (Category A/I-1). The applicant has not yet adopted a system for processing E&S-related complaints; and
- (c) The applicant has demonstrated that it has the required competencies, policies and procedures 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 considerations in the context of climate change.

### 4.2 Recommendation on accreditation

41. The AP recommends, for consideration by the Board, the applicant APL048 for accreditation as follows:

- (a) **Accreditation type:**

- (i) **Maximum size of an individual project or activity within a programme:** large (including micro,<sup>5</sup> small<sup>6</sup> and medium<sup>7</sup>);
- (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) **Maximum environmental and social risk category:** high risk (Category A/I-1) (including lower risk (Category B/I-2 and Category C/Intermediation 3<sup>8</sup>)); and
- (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) prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Formally adopt an external communication mechanism which provides a system to receive, document and respond to questions or complaints from the general public; and
- (ii) Condition(s) prior to the submission of a funding proposal to the GCF that includes a guarantee operation:
1. Provide two examples to fully demonstrate the applicant's capacity and ability to undertake a guarantee operation of a project/programme that is of the large size category and high E&S risk (Category A/I-1) it is seeking accreditation for.
42. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 41 above, and agrees to the recommendation.

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<sup>5</sup> 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 USD 10 million for an individual project or an activity within a programme".

<sup>6</sup> 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 USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

<sup>7</sup> 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 USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme".

<sup>8</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".

### 4.3 Remarks

43. The applicant is encouraged to inform the GCF on its progress to enhance project information (monitoring and evaluation) disclosure via the AFD platform.

44. Should the applicant's engagement with the GCF include funds/structures with a similar risk profile to those of FISEA, the lessons learned from its FISEA fund should be considered for their relevance in addressing risks and their allocation between the parties concerned.