

Annex IX: Accreditation assessment of Applicant 046 (APL046)

I. Introduction

1. Applicant 046 (APL046), the Central American Bank for Economic Integration (CABEI), is a regional entity that was established with the objective of promoting economic integration and balanced economic and social development in Central America. The applicant provides financing to both the public and private sectors for the implementation of projects that foster sustainable development and that improve the climate resilience of communities in the region. A variety of financial instruments are deployed by the applicant through projects in sectors such as agriculture, energy, human development and transport.
2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 5 February 2016. The Stage I institutional assessment and completeness check was completed on 14 September 2016 and was progressed to Stage II (Step 1) accreditation review, which 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:** direct access, regional. The applicant received national designated authority or focal point nominations for its accreditation application from El Salvador, Guatemala and Honduras;
 - (b) **Track:** fast-track under the Adaptation Fund (AF) and the Directorate-General for International Development and Cooperation (DG DEVCO) (part way through Stage I for the AF and part way through Stage II (Step 1) for DG DEVCO; previously under the normal track);
 - (c) **Maximum 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) **Maximum environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)).³

¹ As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "large" is defined as "total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 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 (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

II. Stage I institutional assessment and completeness check

3. The applicant originally applied under the normal-track accreditation process and became eligible part way through Stage I for the fast-track accreditation process as an AF entity. Its application has been assessed by the Secretariat during Stage I, initially as a normal-track application, then subsequently in accordance with the requirements and gaps identified in decisions B.08/03, B.10/06 and B.12/30.

4. The applicant, supported by the Readiness and Preparatory Support Programme, underwent an institutional assessment wherein some institutional gaps were identified and a capacity-building action plan was developed and is in progress in order to address these gaps. Minor gaps with respect to the GCF fiduciary standards were addressed by the applicant. Some gaps were also identified in terms of alignment with the GCF interim environmental and social standards (ESS), and the applicant engaged a consulting firm through an open procurement process to update the applicant's environmental and social policy and other related materials.

2.1 Legal status, registration, permits and licences

5. The applicant provided documents on its establishment and licences to operate, if any and relevant, as a part of the application. The applicant was established in 1960 under the Constitutive Agreement of the Central American Bank for Economic Integration.

2.2 Institutional presence and relevant networks

6. With its headquarters in Honduras and a network of five offices in its founding member countries located in the Central American region (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), the applicant works to promote the economic integration and the balanced economic and social development of its member countries. The applicant leverages its partners which include local private sector institutions, bilateral and international development organizations and other regional entities to catalyse the impacts of financing it sources from public and private regional and international institutions.

7. The applicant is seeking accreditation to the GCF in order to provide financial solutions that contribute to climate-sensitive sustainable development pathways of its Central American members. It has implemented projects and regional programmes in the areas of renewable energy generation, agriculture, water and infrastructure development together with its partners. The applicant seeks to continue enhancing country ownership through the projects and programmes it implements in its member countries by aligning itself with their interests and assisting them in the implementation of their nationally determined contributions for climate change. In addition, it seeks to continue providing a platform for knowledge-sharing and capacity-building at the regional and local levels.

unprecedented" and intermediation 1 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

2.3 Track record

8. The applicant mobilizes financial resources for its climate change projects and regional programmes by partnering with the private sector and bilateral and international financial institutions in order to assist its member countries which include small island developing States. It provides financing to the public and private sectors and is specialized in attracting and channelling external resources, complementary and additional to those provided by other sources in order to promote climate-resilient investment and other development opportunities. The applicant intends to continue cooperating with the public and private sector organizations in order to achieve adaptation and mitigation of climate change impacts in its member States.

9. The applicant has a track record in financing sustainable development and climate change related projects in the areas of hydropower energy generation and transportation, using loans, equity and guarantees as financial instruments. To date the applicant has disbursed over USD 23 billion to support projects in Central America. During the period between 2000 and 2015, the applicant allocated USD 2.185 billion to private sector projects of which 38 per cent was allocated to climate mitigation and adaptation activities. The applicant's sustainable development and climate change related projects blended with its own investment to date include the following, which fall within the GCF large size category or smaller:

- (i) USD 1.4 billion (loan) for the Reventazón hydroelectric project in Costa Rica;
- (j) USD 36 million (loan) for the Green micro, small- and medium-sized enterprise programme with renewable energy and energy efficiency projects in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; and
- (k) USD 370 million (loan) for the Road construction and rehabilitation project in Costa Rica.

III. Stage II accreditation review assessment

10. The applicant is eligible for, and applied under, the fast-track accreditation process as an AF entity and a DG DEVCO entity (part way through Stage II (Step 1) for DG DEVCO; previously under the normal track). 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, B.10/06, B.12/30 and B.14/09.

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 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 10 above, the basic fiduciary standards concerning transparency and accountability, with the exception of item 4.2.4 (investigation function) and item 4.2.5 (anti-money laundering and countering the financing of terrorism policies), has been met by way of fast-track accreditation.

14. Regarding item 4.2.4, the applicant has a policy, which guides the mechanism for reporting and investigating irregularities and potential and actual violations of the applicant's internal regulations or prohibited practices with regard to the use of the applicant's funds or those administered by the applicant. In addition, the applicant has created a publicly-available whistleblowing reporting channel on its website for the purpose of receiving and processing reports on the violations identified by a third party or an employee.

15. The investigation function is structurally independent from the applicant's management and has a designated committee that is responsible for the review, analysis and proposal of recommendations with regard to the reports received through the publicly-available reporting channel. The applicant provided a certified statement that since the operationalization of the reporting channel none of the reports received and investigated by the committee have been considered to be potential or actual irregularities or violations of the applicant's internal norms or regulations.

16. Regarding item 4.2.5, the applicant presented a set of comprehensive anti-money laundering and countering the financing of terrorism policies and that are found by the AP to be in full compliance with the GCF interim policy on prohibited practices.⁴ The manual for the prevention and risk management of money laundering and financing of terrorism establishes the system for the identification and management of such potential or actual risks, which is in line with recognized international standards and sound banking practices and guidelines issued by the Financial Action Task Force Group, including the Caribbean Financial Action Task Force, the Financial Action Task Force of South America⁵ and the Wolfsberg Group⁶ and other agencies specialized in the prevention and risk management of money laundering and financing of terrorism.

17. The applicant's whistleblowing reporting channel available on its website provides the definitions of the prohibited practices as fraudulent, corruptive, coercive, collusive and obstructive practices.

18. The applicant's due diligence process of its customers and counterparts with regard to combating money laundering and countering the financing of terrorism is established and is operating in accordance with corresponding policies and guidelines, moreover it is found to be transparent, efficient and mature.

19. The applicant operates a mature monitoring system of electronic funds transfer and performs screening audits on the money transfers undertaken between the applicant and its

⁴ Decision B.12/31, paragraph (h).

⁵ <<http://www.fatf-gafi.org>>.

⁶ <<http://www.wolfsberg-principles.com/standards.html>>.

counterparts. As supporting documentation, the applicant provided copies of recent ‘know-your-customer’ due diligence reports.

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

20. As per paragraph 10 above, the specialized fiduciary standard for project management is considered to have been met by way of fast-track accreditation.

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

21. 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**

22. The applicant has extensive experience in receiving funds from its member countries and in on-lending and blending these funds in the projects and programmes identified in line with the corresponding country’s sustainability and social priorities. In doing so, the applicant became a major regional partner for the countries’ governments in the area of sustainable finance and climate change related initiatives in Central America. In the period of 2012 to 2015, the applicant mobilized public resources for climate change initiatives in the amount of USD 901 million.

23. The applicant has demonstrated a substantial track record in providing and managing finance for projects that fall within the GCF medium and large size categories, as well as to microfinance programmes in the renewable energy generation, energy efficiency, urban development, waste recycling, water management, agriculture, forestry and biodiversity conservation sectors.

24. The applicant has also demonstrated the implementation of sound financial management policies, investment procedures and governance/organizational structures that ensure the appropriate segregation of duties of the treasury function and operations.

25. The applicant has a well-established due diligence process with clearly defined roles and responsibilities, and applicable guidelines and procedures for assessing the capabilities and eligibilities of the other financial institutions and private companies seeking financing from the applicant. Sample due diligence reports on the applicant’s on-lending and blending operations show the effective use of and compliance with the existing policies and procedures. In addition, the applicant provided evidence of conducting the periodic reviews of its own credit portfolio on both public and private sectors using a specially designed risk assessment system to ensure the probability of receiving its debt service payments in the agreed-upon conditions.

26. The applicant’s risk rating methodology, which is a part of the internal audit annual work plan, enables the applicant to identify potential loan problems in a timely fashion, take preventative actions and establish the adequate financial reserves to cover possible losses. The applicant conducts semi-annual monitoring on each recipient at the internal level, which is followed by the annual validation of the independent external assessor in a consistent and objective manner.

27. To support the evidence that the funds provided by the applicant are channelled transparently and used effectively, the applicant presented its DG DEVCO six pillar assessment report from the External Auditor, containing the confirmation on fulfilling the requirements for internal control, accounting system, independent external audits, grants, procurement policies and financial instruments.
28. The information on project beneficiaries, project results achieved and lessons learned is periodically published on the applicant's website and is included in its publicly-available annual reports. The applicant uses the information on the lessons learned to modify and improve its performance and assessment of project risks.
29. The applicant has received long term foreign currency ratings by the three ratings agencies: "A1" by Moody's Investors Services, and "A" by Fitch Ratings and Standard & Poor's. The rating reports provided by all three agencies contain the details of the methodologies used in the rating of the applicant.

3.2 Environmental and social safeguards

3.2.1 Section 6.1: Policy

30. The applicant's first environmental and social (E&S) policy was approved by the applicant's board of directors in January 2009. As part of the applicant's internal improvement processes, as well as the applicant's motivation as the result of review and advice from an international bilateral agency, and in preparation for the applicant's accreditation applications for the Adaptation Fund and the GCF, the applicant's senior administration together with its evaluation office identified the need for strengthening its E&S policy. Through readiness and preparatory support provided by the GCF, the readiness delivery partner carried out a gap analysis of the applicant's 2009 E&S policy, 2014 E&S procedure (which were an update to the applicant's 2010 E&S procedure) and the applicant's E&S-related strategy, with respect to the GCF interim ESS. This exercise led to the development of the applicant's revised 2016 E&S policy, which was approved by the applicant's board of directors in early November 2016.
31. The AP finds the applicant's 2016 E&S policy to be in line with the GCF interim ESS, as well as the GCF Information disclosure policy with respect to the disclosure of E&S information for projects/programmes of certain categories of E&S risk. The applicant's E&S policy includes a comprehensive statement on the E&S objectives and principles guiding the applicant. The policy states that the E&S standards that the applicant adheres to include the host country's laws and the host country's obligations under international law. The policy is communicated with the applicant's staff and made publicly available on the applicant's website.

3.2.2 Section 6.2: Identification of risks and impacts

32. The applicant's E&S risks and impact assessment framework has also undergone an evolution from its original version (2010), which assessed all of the performance standards 1 to 8, except for performance standards 3 and 4, to the 2014 version, which incorporated all of the performance standards 1 to 8. Since then, the 2014 version was further upgraded in September 2016 to align with the applicant's 2016 E&S policy, and was approved by the applicant's management in November 2016.

33. The E&S risks and impacts procedure describes the applicant's institutional process to guide its staff in identifying the E&S risks and impacts of projects/programmes as they evolve over the project's lifetime. E&S risk and impact categorization is divided into project risk categorization and financial intermediation risk categorization. Both have three levels of risk (A to C, with A being the highest and C the lowest). The applicant's E&S risk and impact assessment framework are in line with performance standard 1 of the GCF interim ESS.

34. The evidence of a track record consistent with the application of performance standards 1 to 8 was provided based on the applicant's application of its 2014 E&S procedure. The applicant also provided sample projects in which risk identification and mitigation has been applied based on its first E&S policy (2009) and E&S procedure (2010 and 2014), which were also found by the AP to consistent with the GCF interim ESS. The implementation of the 2016 E&S procedure would be evident following its adoption by the applicant's management expected at the end of 2016, and would apply to GCF-financed projects/programmes.

3.2.3 **Section 6.3: Management programme**

35. The applicant's 2016 E&S policy and the E&S procedure both describe the applicant's institutional process for managing E&S risk and impact mitigation measures and actions stemming from the E&S risk identification process, distinguishing between the different categories of E&S risk mentioned above. The applicant also provided examples of projects showing how the E&S mitigation measures were addressed and managed under its 2009 E&S policy and 2014 E&S procedures, which are consistent with the GCF ESS requirements.

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

36. The applicant has provided its organizational chart and a project cycle flow chart, which set out the reporting lines with key E&S responsibilities along the project/programme assessment process. The applicant also provided evidence of having adequate technical staff in its institution with direct responsibility for the project/programme E&S performance having the knowledge, skills and experience to ensure implementation of performance standards 1 to 8 of the GCF interim ESS. The applicant provided information on the E&S training undertaken by its staff.

37. Responsibilities for identifying and assessing project risk and impacts lie within the applicant's sector and country division, as part of the loan/grant analysis.

3.2.5 **Section 6.5: Monitoring and review**

38. The applicant's E&S procedure and related guidelines describe its monitoring and supervision process that instructs its staff on how to systematically track completion of mitigation and performance improvement measures, including the identification of roles and responsibilities for the implementation of such processes. The responsibility for monitoring is shared between the Credit Manager, Regional Office Manager, Country and Sector Managers and Project Supervisors.

39. The applicant provided several sample monitoring reports which were also shared with its senior management team to inform it and also seek its advice on the effectiveness of the applicant's ESS. The applicant also provided examples of how lessons learned from monitoring

and evaluation have influenced the updates to the applicant's ESS, as reflected in paragraphs 30, 32 and 33 above.

3.2.6 **Section 6.6: External communications**

40. The applicant's external communication system is described in its 2016 E&S procedure. The applicant has provided links to its website to receive and register external communications in line with the applicant's new E&S policy and procedure. Since the launch of the system in September 2015, there were no inquiries or complaints received in 2015. For complaints received in 2016, the applicant shared information showing the necessary actions being taken by the applicant to resolve them. The system is nevertheless designed to register and track the issues raised to ensure that they are effectively addressed.

41. Until September 2016, the applicant did not have a specific policy or procedure for publicly disclosing project/programme E&S assessment reports, including its E&S risk categories, therefore no evidence of disclosure or duration of disclosure have been provided by the applicant. However, the applicant's policy on the disclosure and consultation of its E&S assessment documents as described in its 2016 E&S procedure is found by the AP to be in line with the GCF Information disclosure policy, which the applicant has committed to apply for GCF-funded projects/programmes.

3.3 Gender

42. The applicant has a well-established Gender policy in place since 2010, which was developed with technical assistance from the United Nations Development Fund for Women to mainstream gender considerations into the applicant's strategy and operations. Additionally, the applicant's 2015 to 2019 institutional strategy also entails principles of gender equity.

43. The applicant provided examples of its lending operations that specifically target and distinguish between beneficiaries who are women and those who are men. The applicant's examples also provide evidence to show that projects to which the applicant lends have non-discriminatory practices in terms of benefits for and remuneration of employees who are men and women. The applicant provided names and curricula vitae of its staff to demonstrate its competency and experience in addressing gender and climate change issues.

IV. Conclusions and recommendation

4.1 Conclusions

44. Following its assessment and noting that the applicant has applied under the fast-track accreditation process 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 standard, 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;

- (i) 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
- (ii) The applicant has demonstrated that it has competencies, policies and procedures in order to implement its Gender policy, which is found to be consistent with the GCF Gender policy, and has demonstrated that it has experience with gender consideration in the context of climate change.

4.2 Recommendation on accreditation

45. The AP recommends, for consideration by the Board, applicant APL046 for accreditation as follows:

- (a) **Accreditation type:**
 - (i) **Maximum size of an individual project or activity within a programme:** large (including micro,⁷ small⁸ and medium⁹);
 - (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-2¹⁰ and Category C/I-3¹¹)); and
- (b) **Conditions:** none.

⁷ 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”.

⁸ 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”.

⁹ 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”.

¹⁰ 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”.

¹¹ 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”.

46. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 45 above, and agrees to the recommendation.