

## Annex XII: Accreditation assessment of Applicant 051 (APL051)

### I. Introduction

1. Applicant 051 (APL051), the Infrastructure Development Company Limited (IDCOL), is a national entity in Bangladesh with a vision to help to ensure the economic development of the country and to improve the standard of living of the people of Bangladesh through sustainable and environmentally-friendly investments. The applicant has been promoting and financing in the private sector since its inception in 1997, focusing on infrastructure, renewable energy and energy efficiency projects. The applicant seeks accreditation to the GCF in order to scale up its renewable energy projects with innovative technologies and new sustainable business models in order to generate a greater impact countrywide.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 10 September 2015. The Stage I institutional assessment and completeness check was completed on 3 November 2016 and was progressed to the 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, national. The applicant received a national designated authority nomination for its accreditation application from Bangladesh;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** medium;<sup>1</sup>
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management; and
  - (iii) Specialized fiduciary standard for on-lending and/or blending (for loans); and
- (e) **Maximum environmental and social risk category:** medium risk (Category B/Intermediation 2 (I-2)).<sup>3, 4</sup>

### II. Stage I institutional assessment and completeness check

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

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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”.

<sup>4</sup> The applicant initially applied for environmental and social (E&S) Category A/Intermediation 1, however, it had not provided an adequate track record for this category and subsequently indicated that it wished to apply for Category B/I-2 instead.

## 2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. The applicant was incorporated by the Government of Bangladesh under the Companies Act (XVIII) of 1994.

## 2.2 Institutional presence and relevant networks

5. The applicant has 12 regional offices in Bangladesh from which the applicant manages the projects and programmes that it implements. It has well-established partnerships with government institutions; the private sector, which includes but is not limited to micro-finance institutions, non-governmental organizations; as well as bilateral and multilateral development agencies. Together with its partners, the applicant has acquired a track record mainly in investing in sustainable infrastructure, renewable energy and energy efficiency that is assisting Bangladesh to migrate towards climate-resilient development pathways.

6. The applicant seeks to contribute towards furthering the climate mitigation and adaptation objectives of the GCF by using its experience in managing projects and programmes in the areas of renewable energy, energy efficiency, infrastructure, agriculture and environmental services. Through piloting new renewable energy technologies in collaboration with the private sector, the applicant has been able to design a sustainable business model that ensures the delivery of clean, affordable and reliable energy services to the end users living mostly in remote areas. With the support of GCF resources, the applicant can scale-up these intervention schemes countrywide, which in turn could reduce the overall carbon emissions of the country.

7. Furthermore, the applicant seeks to strengthen country ownership by providing technical assistance in the form of training and capacity-building services to its local partners.

## 2.3 Track record

8. The applicant leverages its partnerships to mobilize financial resources from the Government of Bangladesh through national institutions, and by engaging with bilateral and international organizations. The applicant intends to continue cooperating with its partners in order to assist Bangladesh to achieve sustainable development that mainstreams climate change by implementing infrastructure projects in that country.

9. The applicant undertakes climate-resilient sustainable development by mainstreaming climate mitigation and adaptation in all the sectors that it operates in. The applicant has a track record in financing infrastructure, renewable energy, agriculture and energy efficiency projects in Bangladesh. Its track record in financing sustainable development and climate change projects in these sectors to date includes the following:

- (a) USD 997 million (loans, grants and equity) for the Solar Home System Programme;
- (b) USD 380 million (loans, grants and equity) for the 450MW Meghnaghat-1 Power Plant;
- (c) USD 14.69 million (loans, grants and equity) for the Domestic Biogas and Biogas-fertilizer Programme; and
- (d) USD 10.2 million (loans, grants and equity) for the Solar Mini-grid and Solar Irrigation Programmes; and
- (e) USD 8 million (grants) for the Improved Cook Stove Programme.

## III. Stage II accreditation review assessment

10. The applicant applied under the normal track accreditation process, and was assessed against the standards of the GCF by the Accreditation Panel (AP) during Stage II (Step 1).

11. As part of this assessment, the AP consulted the applicant's website 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. The applicant's governance structure includes several internal oversight bodies: an audit committee, ethics committee, credit risk management committee and asset liability management committee. The audit committee comprised five members from both the public and private sectors. Profiles of the committee members and sample minutes of committee meetings provided show that the members have the expertise and experience to carry out their responsibilities adequately.

13. The applicant's financial statements are prepared in accordance with the country's financial reporting standards, Companies Act 1994, Financial Institutions Act 1993, and other applicable laws and regulations. The country's financial reporting standards meet the standards required by the International Financial Reporting Standards. Evidence of certification by the International Financial Reporting Standards was provided by the applicant. The applicant uses a customized data management system for the recording of day-to-day financial transactions and year-ending financial reporting.

14. The applicant has its own disbursement policies and procedures which are detailed in its accounting, audit and internal control manual, but also follows the disbursement guidelines of its development partners, where required. Its procedures provide for a clear segregation of approval and disbursement responsibilities and authorities. Audits of the applicant's payment and disbursements system are carried out periodically.

15. The applicant has a well-established and adequately staffed internal audit department. In order to ensure its independence, the department reports directly to the applicant's board. The applicant's annual financial statements are audited by an external audit firm. The sample external audit reports provided show that the financial statements were audited in conformity with the International Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Bangladesh. Complete external audit reports for the past three financial years were provided by the applicant.

16. The applicant has a comprehensive internal control framework which is overseen by an internal control and compliance committee to ensure the efficiency and effectiveness of organizational activities, reliability, completeness and timelines of financial and management information, compliance with applicable laws and regulations, and accountability to the applicant's board.

17. The applicant has a detailed procurement policy that guides the procurement of goods and services. In addition to its own procurement policy, the applicant follows the respective procurement policies of the donor agencies under the project they finance. The sample procurement documents provided show that the applicant's procurement policies are consistent with recognized international practice. The applicant also has uniform procurement guidelines for the executing agencies under the projects its finances. It conducts procurement audits on its partner organizations, which are affiliated with different projects and programmes funded by the applicant. For the resolution of procurement disputes, the applicant generally follows the provisions under country's Public Procurement Rules.

18. While the applicant meets all other GCF requirements relating to administrative and financial capacities, it does not have a process in place to monitor and assess the overall

effectiveness of the internal audit function, and it has not provided evidence to show that checks and audits of its procurement activities are carried out. The applicant is taking the appropriate steps to address these shortfalls in meeting GCF requirements.

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

19. The applicant has a draft code of conduct (pending its board's approval) that defines ethical standards to be upheld by employees and all parties functionally related to the organization. Even though it is still in draft form, the code of conduct is communicated to the employees and the other targeted parties through appointment letters and signed contracts, respectively.

20. Oversight of the applicant's ethics is carried out by an integrity committee, the terms of reference of which were provided along with the sample minutes of meetings of the committee.

21. The applicant has a financial mismanagement policy, which is detailed in the accounting, audit and internal control manual. A sample case demonstrating the procedures for handling financial mismanagement was provided. The information provided demonstrates the applicant's experience and track record in accessing financial resources from international sources, including the main multilateral development banks and bilateral aid agencies.

22. The applicant has a "Zero tolerance policy against fraud corruption and other sanctionable practices", which is posted on the applicant's website, including a provision for reporting fraud, corruption and other forms of misconduct. The applicant has put in place a whistle-blower protection policy and conflict of interest review and resolution procedures. The policy on zero tolerance of fraud is complemented by a detailed mechanism for investigating cases of suspected or alleged fraud and other forms of misconduct. In order to ensure objectivity, investigations are carried out by an inquiry commission comprised of senior staff from three different departments rather by a single officer. A copy of the case register that shows details of the cases investigated and their current status or final disposition was provided by the applicant.

23. In order to combat money laundering and to counter the financing of terrorism, the applicant recently put in place:

- (a) An anti-money laundering and countering the financing of terrorism policy which is based on the "Guidance notes on prevention of money laundering and anti-terrorist financing" formulated by the country's Central Bank; and
- (b) A comprehensive 'know-your-customer' due diligence process.

24. The applicant also has a detailed mechanism for monitoring the electronic transfer of funds which is implemented in collaboration with commercial banks and parties with which the applicant has business relationships.

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

25. The applicant has well-documented operational procedures, including project preparation, appraisal, credit risk management, monitoring and evaluation policies and guidelines. The applicant has also recently prepared a draft project closure policy which is awaiting approval by its board. Their effective use is demonstrated by sample project appraisal reports and other supporting documents provided, which also show that the applicant has the capacity to examine and incorporate the technical, financial, economic and legal, environmental and social aspects of the project at the appraisal stage.

26. The applicant has satisfactory procedures and processes for undertaking project quality reviews through a sequential review process involving several units within the organization, such as the business unit, credit risk management unit, credit risk management committee, credit committee and the board of directors. Sample reports of the quality reviews undertaken during project preparation and appraisal process for two different projects were provided.

27. The applicant has a mature monitoring and evaluation function. The function places emphasis on continuous oversight of the project implementation process and periodic reporting on the project's implementation status to the applicant's operations committee, which comprises the heads of the relevant department of project executing agencies and is chaired by the applicant's chief executive officer. Sample implementation status reports as well as sample minutes of operations committee meetings were provided.

28. The applicant does not have an in-house capability for the independent evaluation of project results at implementation completion. Instead, it relies on external expertise to carry out the independent evaluations normally under the funding of respective donor agencies. The terms of reference for independent evaluation and the sample evaluation reports provided demonstrate that the evaluation function complies with recognized professional standards and methods.

29. As part of its project implementation monitoring process, the applicant has a project-at-risk system to identify and address project problems before they become entrenched and inhibit the attainment of project objectives. The system is primarily managed by project relationship officers who are responsible for the follow-up of project activities at different stages in coordination with the monitoring and technical teams.

30. Although the applicant meets all other requirements related to the specialized fiduciary standard for project management, it has only recently developed some of the required policies and procedures which are yet to be approved by its board. These include policies relating to project closure, the publication of monitoring and evaluation reports on GCF-financed activities, the independent evaluation of results of GCF-funded activities, and the public disclosure of evaluation reports. The applicant is taking appropriate steps to address these shortfalls in meeting GCF requirements, including securing the approval of the draft policies and procedures by the applicant's board.

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

31. The applicant did not apply for assessment against this standard at this time.

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

32. The applicant's on-lending and blending operations are supported by a set of policies, procedures and guidelines, including a project appraisal manual, lending policy and credit risk management guidelines. The applicant has been involved in on-lending and/or blending activities since its inception in 1997. It has a proven track record in receiving and on-lending and/or blending resources from major funding agencies such as the World Bank, the Asian Development Bank, the Japan International Cooperation Agency, the United Kingdom Department for International Development, Kreditanstalt für Wiederaufbau and the United States Agency for International Development. Examples of on-lending, including information on the intermediaries and sources of funding, were provided by the applicant. The sample project appraisal reports provided are comprehensive and contain all the pertinent areas that are normally contained in a completed due diligence report.

33. The applicant has appropriate operating guidelines which ensure that the funds it provides are channelled transparently and used effectively. The applicant's disbursement process and the utilization of funds by its partner organizations are audited by external auditors to ensure that the funds are used for the intended purposes. Copies of sample disbursement audit reports were provided. The applicant also provided information on two projects, which shows that advantages to the final beneficiaries of projects funded by the applicant are regularly monitored and evaluated.

34. In order to comply with the guidelines of the country's financial sector regulatory authority on "Managing core risks of financial institutions and asset liability management", the

applicant has put in place robust financial risk management guidelines which bolster its capability to assess, identify and address key financial risks in its on-lending and blending activities. The attention paid to financial risk management is evident from the sample minutes of recent meetings of the applicant's asset and liability committee.

35. The applicant partially meets the GCF requirements relating to the specialized fiduciary standard for on-lending and/or blending (for loans), as it has only recently developed the required policy on the disclosure of information to the public regarding the applicant's decisions on on-lending and/or blending operations, and a policy on publication of monitoring and evaluation reports on projects that would be funded by the GCF. The applicant is taking the appropriate steps to address these shortfalls in meeting GCF requirements, including securing approval from its board of the draft policies and procedures.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

36. The applicant's environmental and social management system (ESMS) includes its E&S policy, environmental and social management framework (ESMF) and environmental and social safeguard framework (ESSF). The applicant's renewable energy financing portfolio, including its solar home system programme, solar irrigation, solar mini-grid, biogas programme, biogas-based electricity, and improved cook stove programme, is guided by its ESMF, which was accepted by all development partners and adopted by the applicant in 2014. On the other hand, the applicant's infrastructure financing is guided by its ESSF, which was adopted in 2011 and applies to solar roof-top and solar grid-tied projects the applicant finances.

37. The applicant is now updating its ESMS to be compatible with operational policy 4.03 of the World Bank,<sup>5</sup> which is to be followed by the applicant for solar roof-top and solar grid-tied projects, taking into account performance standards 1 to 8 of the GCF interim environmental and social safeguards (ESS). The ESMF and ESSF are consistent with performance standards 1 to 8 of the GCF interim ESS; are endorsed by the applicant's senior management; and are communicated to all levels of its organization and communicated publicly on its website. The applicant has confirmed its willingness to require its executing entities, when they execute projects implemented or financed by the applicant, to address cumulative impacts where relevant, provide an analysis of alternatives, and employ baseline data standards and mitigation hierarchy.

38. In view of the above, the applicant's ESMS comprising an ESMF and ESSF, is in line with the GCF interim ESS.

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

39. The applicant's ESMS describes the environmental and social (E&S) risk identification criteria for classifying projects based on its red, orange or green (i.e. high, moderate or low) risk categories which have been harmonized with the Asian Development Bank's safeguards system for classifying Categories A, B, C and FI (for financial institutions) projects, which is also consistent with the GCF interim ESS.

40. The applicant's ESMS includes a business process flow chart, which includes the applicant's environmental and social safeguard unit. This unit has the responsibility for the implementation of E&S risks and impacts identification and is consistent with good international industry practice and PS 1 to 8 of the GCF interim ESS. The applicant has provided evidence of its track record in terms of sample project documents for E&S risk Categories B/I-2 and C/I-3.

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<sup>5</sup> World Bank. 2013. Operational policy 4.03, "Performance Standards for Private Sector Activities". Available at <<https://policies.worldbank.org/sites/ppf3/PPFDocuments/090224b0822f7442.pdf>>.



### 3.2.3 Section 6.3: Management programme

41. The applicant's ESMS describes the applicant's institutional process for managing mitigation measures and actions stemming from the E&S risk identification process, which is also shown in the business flow chart. This is further complemented by several protocols containing guidelines for ensuring proper disposal of batteries and other wastes generated from solar home systems, and mini-grid and biogas projects. The applicant has provided sample projects showing how this institutional process is applied for Category B/I-2 and Category C/I-3 projects.

### 3.2.4 Section 6.4: Organizational capacity and competency

42. The applicant has provided an organization chart showing the placement of its environmental and social staff and their roles, responsibilities, reporting lines and authority for implementation of the ESMS. The applicant's environment and social safeguards management unit is responsible for institutionalizing the environmental and social management in its operation. The ESMS includes a flow chart of the process at each stage of the project cycle and interaction with the various relevant departments such as investment, legal, etc. The applicant has provided the curricula vitae of two full-time environmental specialists under its renewable energy department. The applicant has provided a list of various E&S related training undertaken by its technical staff to enhance their knowledge of PS 1 to 8 of the GCF interim ESS and to properly categorize potential funding proposals.

### 3.2.5 Section 6.5: Monitoring and review

43. The ESMS describes a monitoring and review process, including the institutional structure responsible for its implementation, and timelines for various types of reports submitted to its senior management for approval before being disclosed on the applicant's website. Evidence of communication related to approval by senior management for disclosure purposes was provided by the applicant. Sample monitoring reports for Category B/I-2 and C/I-3 projects have also been provided, including information on or examples of how supervision and auditing have helped to improve the effectiveness of the management review and have resulted in an updating of the ESMS.

### 3.2.6 Section 6.6: External communications

44. The applicant's ESMS indicates that it follows the Asian Development Bank's disclosure policy for Category A projects, which requires disclosure of E&S assessment documents 120 days in advance of the consideration and approval of the project. However, no clear policy is mentioned regarding Category B projects for which the GCF Information disclosure policy requires 30 days. The applicant has agreed to apply the GCF Information disclosure policy for activities financed using GCF resources.

45. The operational procedure section of the ESMS includes the description of the applicant's information disclosure policy and practice. The applicant discloses on its website various monitoring reports on the environmental and social aspects of its renewable energy projects. The applicant has provided weblinks to project documents as evidence of project-level disclosure carried out as a requirement of international funding agencies through its own website. The applicant has a provision on its website to receive and register external communications. It duly responds to grievances, queries and suggestions received through its website as well as through Facebook, as applicable. The applicant has indicated that no complaints regarding environmental or social safeguard issues have been received.

## 3.3 Gender

46. The applicant adopted a gender policy which was put into effect in January 2016 to systematically address gender-related issues. The gender policy was circulated to all of the

applicant's employees. The applicant's ESMS also contains the gender action framework developed for the project and it has also provided its gender action plan. The applicant has provided supporting documentation, including the curricula vitae of its staff to demonstrate the competencies to implement gender considerations in its project lending. The applicant has also provided sample climate change project documents with specific references to men and women that have benefitted from them. The applicant has further provided examples of projects of its executing entities which show that the projects to which the applicant lends have non-discriminatory practices in terms of benefits and remuneration for both men and women employees.

## IV. Conclusions and recommendation

### 4.1 Conclusions

47. Following its assessment, the AP concludes the following in relation to the application:
- (a) The applicant partially meets the requirements of the GCF basic fiduciary standards, specialized fiduciary standard for project management, and specialized fiduciary standard for on-lending and/or blending (for loans);
  - (b) The applicant meets the requirements of the interim ESS of the GCF in relation to the medium E&S risk (Category B/I-2). While the applicant initially applied for E&S Category A/I-1, it did not provide an adequate track record for Category A/I-1 and subsequently indicated that it wished to apply for Category B/I-2 instead; and
  - (a) 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 Gender policy of the GCF, and has demonstrated that it has experience with gender consideration in the context of climate change.

### 4.2 Recommendation on accreditation

48. The AP recommends, for consideration by the Board, applicant APL051 for accreditation as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** medium (including micro<sup>6</sup> and small<sup>7</sup>);
  - (i) **Fiduciary functions:**
    1. Basic fiduciary standards;
    2. Specialized fiduciary standard for project management; and
    3. Specialized fiduciary standard for on-lending and/or blending (for loans); and

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<sup>6</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>7</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".



- (ii) **Maximum environmental and social risk category:** medium risk (Category B/I-2) (including lower risk (Category C/I-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) Conditions to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Provide evidence of the establishment and introduction of the policies and processes listed below:
    - a. Establish a process to monitor and assess the overall effectiveness of the internal audit function, including its procurement activities;
    - b. Adopt a code of conduct, approved by the applicant's board;
    - c. Adopt a project closure policy, approved by the applicant's board;
    - d. Adopt a policy on the public disclosure of project monitoring and evaluation reports, and project results, approved by the applicant's board; and
    - e. Adopt a policy on the public disclosure of information regarding the applicant's decisions on on-lending and/or blending operations, approved by the applicant's board; and
- (ii) Conditions to be met within one year of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Provide a copy of a procurement oversight/audit report; and
  2. Provide evidence of monitoring of the observations contained in procurement oversight/audit reports and appropriate management response and actions.
49. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 48 above, and agrees to the recommendation.

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<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".