

## Annex XIII: Accreditation assessment of Applicant 052 (APL052)

### I. Introduction

1. Applicant 052 (APL052), the Small Industries Development Bank of India (SIDBI), is a national entity focusing on promoting and financing the development of micro-, small- and medium-sized enterprises (MSMEs), primarily those in the manufacturing and services sectors. The applicant also supports national action plans on climate change and has taken initiatives to promote responsible business practices, including sustainable financing, energy efficiency and cleaner production in the MSMEs sector through both financial and non-financial support.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 16 July 2015. The Stage I institutional assessment and completeness check was completed on 27 September 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 India;
- (b) **Track:** 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>

### 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), "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, 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".

## 2.1 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 established in 1990 under an Act of the Parliament of India (no. 39 of 1989).

## 2.2 Institutional presence and relevant networks

5. The applicant is the principal financial institution for the promotion, financing and development of the MSME sector and for the coordination of the functions of the institutions engaged in similar activities in India. It has partnered with multilateral agencies to raise resources at attractive rates and thus incentivizes and motivates MSMEs through the extension of concessional loans, equity, guarantees and technical and capacity-building assistance.

6. The applicant seeks accreditation to the GCF in order to encourage innovative mitigation and adaptation programmes for adopting low-emission and climate-resilient practices. These programmes would help MSMEs to adopt green technology options and to generate a demonstrative effect to encourage other financial intermediaries to adopt climate mitigation policies in their lending strategies. The intended climate change programmes to be implemented with GCF support include, but are not limited to:

- (a) Assistance for green, smart and eco-cities projects through public-private partnerships;
- (b) Increasing energy efficiency and cleaner production investments in green infrastructure, sustainable transport, waste to energy projects, waste recycling and management, etc.;
- (c) Providing end-to-end energy efficiency solutions to Indian MSMEs;
- (d) Providing direct assistance to solar energy and solar power projects; and
- (e) Providing training and education to stakeholders in order to increase awareness of climate change and capacity to manage resulting risks and realize opportunities.

## 2.3 Track record

7. The applicant has taken initiatives to promote responsible business practices, including sustainable financing, energy efficiency and cleaner production in the MSME sector with assistance from domestic, bilateral and multilateral funding. These initiatives have resulted in a total investment of around USD 928 million and benefited more than 6,000 MSMEs with an estimated annual electricity saving of 1,043 million kilowatt-hours and a reduction of 909 kilotonnes of carbon dioxide annually.

8. The climate change mitigation and adaptation activities undertaken by SIDBI include:

- (a) USD 55 million (loans) for the Environmental Line and Cleaner Production of Credit Project to promote investment in cleaning production;
- (b) USD 241 million (loans) for the Financing MSMEs Energy Saving Project to promote energy efficiency; and
- (c) USD 564 million (loans and guarantees) for the MSMEs Financing and Development Project.

### III. Stage II accreditation review assessment

9. 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). It is noted that the AP did not assess any of the applicant's subsidiaries and has not issued a recommendation for any of the applicant's subsidiaries (e.g. this recommendation pertains to SIDBI itself).

10. 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

11. The applicant has an established organization structure and oversight bodies, which are appropriate for its size and scope of operations. Its main internal oversight bodies are its board of directors, risk committee, audit committee and executive committee and, as a state-owned financial institution, it is subject to the oversight of the national parliament and is supervised by the national financial authorities.

12. The applicant maintains a financial and accounting reporting system that includes the required financial statements. As a state-owned regulated financial entity, the financial and accounting information is prepared in accordance with the guidelines established by the banking regulators and by the national Institute of Chartered Accountants.

13. The applicant's risk management framework includes a risk management function independent from the business units, documented risk management procedures and risk management tools required of a financial entity. The risk management committee of the applicant's board meets periodically and reviews the entity's risk management policies and procedures.

14. The SIDBI internal control structure is clearly documented and decision authority is clearly established in the delegation of powers documents. The applicant's board of directors oversees the internal control framework and promotes the internal control environment required of financial entities. Furthermore, the applicant's internal and external audit structure provides assurance of an effective internal control environment. The relevant regulations issued by the country's Central Bank regulate the applicant's internal audit function, including the responsibilities of the audit committee of the applicant's board. In addition to the requirements of local regulations, the applicant has established a framework of regular audits at the head office level as well as at the branch office level.

15. The applicant's procurement activities are regulated by internal regulation and by the national regulations applicable to contracts to which the state is a party. Its procurement policy establishes the mechanisms that provide reasonable assurance that the vendor selection process is appropriate, that procurement is conducted in a transparent manner and that all suppliers are treated in an equitable manner.

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

16. The applicant's code of ethics is established in its staff regulations and its fair banking practices documentation, which are communicated to all employees. These documents establish the standards of conduct that are to be observed when performing activities on behalf of the applicant. In addition to its internal documentation, the applicant complies with the ethical guidelines and requirements established in the national regulations for public sector entities.

17. The function of an ethics committee is undertaken by the applicant's human resources department, supported by the vigilance and internal audit departments, which have the designated authority to ensure that all the actions undertaken by the applicant's employees, while fulfilling their professional duties comply with the applicant's ethical standards defined in its internal ethics documents and the applicable national regulations.

18. The applicant's investigation function is performed by the vigilance department and the internal audit department. The framework for the investigation function is based on appropriate internal regulations, the guidelines of the national vigilance commission and national banking regulations. Furthermore, the applicant has an established whistle-blower policy and is subject to the oversight of the country's central vigilance commission.

19. The applicant has an anti-money laundering (AML) and countering the financing of terrorism (CFT) programme that is appropriate to the type of financial transactions it executes as part of its regular operations. The applicant's AML/CFT policies and procedures are developed based on the requirements of the local banking authorities, including regular reporting to the country's financial intelligence unit, as well as on international standards such as those established by the Financial Action Task Force.

20. In order to comply with local regulations regarding AML/CFT, the applicant has appropriate 'know-your-customer' due diligence processes, which incorporate the following critical aspects:

- (a) A policy for customer on-boarding;
- (b) Well-defined customer identification procedures;
- (c) Procedures for the monitoring of transactions; and
- (d) Risk management based on the assignment of an AML/CFT risk score to each of its customers.

21. Furthermore, the applicant has the required automated systems to monitor suspicious transactions, these automated systems include verifying the specially designated individuals and sanctioned jurisdiction lists issued by the country's central bank.

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

22. For the assessment of projects, the applicant undertakes due diligence following established guidelines. The project assessment and approval guidelines include clearly defined tasks to be completed and the recording of information in the credit support systems.

23. The applicant's project management policies and procedures include at-risk project management tasks that allow for the identification of early warning signs and effective corrective actions.

24. SIDBI indicated that within its organization structure there is no independent project evaluation unit, nor does the applicant have an independent project evaluation policy. However, the evidence of independent third-party project evaluation reports was provided.

25. The applicant indicates that there is no specific policy for the disclosure of project information. However, the applicant did reference the national regulations concerning right to information, which provide mechanisms for the public to access project information that is not protected by banking secrecy regulations.

26. The applicant's project assessment and management procedures are well-documented in its loan policy, credit policy and loan recovery policy. As a financial institution, the applicant's project assessment and management procedures are contained within the credit approval process, which includes appropriate financial, 'know-your-customer' and technical analysis guidelines.

27. As an apex financial entity, the applicant has developed the required competencies and standard operating procedures to appropriately assess, monitor and evaluate the performance of the intermediaries through which it disburses project resources.

28. The applicant's procedures to monitor projects ensure that appropriate oversight is exercised and that project risks are appropriately managed. Periodic reviews aimed at identifying resource inputs, the relevance of project activities and the achievement of project performance indicators are periodically undertaken. The applicant has standardized procedures to undertake project monitoring. Project monitoring is assigned to the business units in charge of the client relationship. In order to provide assurance of the effectiveness of the project monitoring activities, the applicant has standardized procedures for the regular project oversight by the internal audit and risk functions.

29. The applicant has an established track record and experience in project management, with expertise in assessing project viability and monitoring project performance during the development and operational stages. The applicant, as its country's apex entity established to meet the financial and capacity-building needs of the MSME sector, has successfully acted as the nodal agency for financing programmes established by its country's government, as well as programmes implemented with assistance from international development entities.

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

30. The applicant's grant award policies and procedures satisfy the requirements of the GCF specialized fiduciary standard for grant award and/or funding allocation mechanisms. Both the documented policies and the practical evidence provided, demonstrate uniform procedures for grant evaluation and award, appropriate the execution of eligibility criteria, as well as effective monitoring and evaluation of grant award programmes.

31. The applicant's grant award procedures include the clear delegation of decision authority, the establishment of appropriate grant award committees, mechanisms to ensure the appropriate use of funds as well as mechanisms for the recovery of funds that are misused.

32. The strengths of the applicant's internal controls and internal audit function provide the assurance of appropriate control over grant funds, as well as their disbursement and appropriate use.

33. The applicant has an established track record for the management of awarding grants. The applicant's track record in awarding grants includes grant programmes funded by its country's central government and those funded by international development agencies. The applicant has demonstrated its capacity to effectively serve as the nodal agency for government designed grant programmes, as well as the executing agency for international development entity-designed grant programmes.

34. In addition to the grant award programmes in which the applicant serves as the nodal or executing agency, as part of its corporate social responsibility programmes, the applicant has implemented and executed grant award programmes directed towards capacity-building efforts. These programmes are executed following appropriate grant award procedures, including the use of clear guidelines for the grant appraisal and award committees, appropriate control over the good use of funds and appropriate internal controls over the disbursement of funds.

35. It is noted that the applicant has published extensive information on its grant award programmes, however, further disclosure of grant award information (e.g. beneficiaries) will be required for programmes funded by the GCF.

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

36. The applicant, as its country's main apex financial entity for the MSME sector, has established policies and procedures for managing lending activities through financial intermediaries. The applicant has guidelines for evaluating financial intermediaries, which include performance indicators, and it does so periodically. The applicant provided evidence of its experience as an executing agency for credit programmes funded by international and regional development banks.

37. It is noted that the main component of the applicant's balance sheet is its refinance portfolio. However, the applicant has also implemented credit analysis and risk tools for its direct MSMEs portfolio, including risk rating tools and well-defined credit assessment and approval mechanisms.

38. The applicant provided documentation regarding its loan policy, credit manual and loan recovery policy. These documents contain the guidelines for loan operations that are required in a financial entity, such as the applicant. Furthermore, copies of credit due diligence reports, credit approval documents and loan monitoring reports were provided for assessment by the AP.

39. The applicant provided information on the specific risk metrics it calculates to assess, monitor and evaluate its risk exposures. The availability of the appropriate information, the independence of the internal auditor and of the risk management function, and the supervision of the national financial regulators provide assurance of the adequacy of the applicant's risk management environment.

40. The applicant provided extensive information regarding its financial management policies and their implementation. It has clear delegations of power and appropriate separation of functions within its treasury unit, and between the business focused units, operational units, risk management units and control units.

41. The applicant also provided copies of the minutes of its asset and liability management committee which validate the effective functioning of this committee, and copies of its investment policy and its asset and liability management policy.

42. The applicant has a proven track record deploying equity resources, however the applicant notes that it does not deploy equity on a stand-alone basis, instead it deploys equity as part of a financing package that includes quasi-equity financing such as subordinated debt. The due-diligence procedures for quasi-equity and equity include appropriate assessment of business potential and financial aspects, as well as the use of due diligence reports prepared by venture capital funds and external rating agencies.

43. The applicant has provided information regarding its capacity to issue guarantees. The information provided demonstrates the applicant's capacity to issue and manage financial guarantees. The credit due-diligence processes are appropriate and based on the same principles used for the credit analysis of loans.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

44. The applicant formulated its environmental and social risk management framework (ESMF) in 2004 (revised in 2014) for its programmes financed by the World Bank. The ESMF, available on the applicant's website, covers performance standards (PS) 1 to 4 and 6 of the GCF interim environmental and social safeguards (ESS); the applicant does not finance projects involving land acquisition (PS 5), indigenous peoples (PS 7) or cultural heritage (PS 8).

45. It is important to note that the ESMF has already been adopted and applied within loan programmes to 10,000 MSMEs. The applicant complies with the national environmental and social impact assessment regulation (which covers the assessment of cumulative and ancillary

facility impacts and the use of a mitigation hierarchy) and has demonstrated the capacity to comply with other international environmental and social (E&S) standards through its successful projects with the World Bank, the Japan International Cooperation Agency, Kreditanstalt für Wiederaufbau, the Asian Development Bank, and the Department for International Development of the United Kingdom. The applicant is in the process of developing a new entity-wide ESMF, which will be rolled out from 2017 to 2020, to fully align with GCF interim ESS (e.g. it will cover PS 1 to 8 and GCF information disclosure requirements).

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

46. Under the existing ESMF, all candidate borrowers complete a screening form. The Relationship Manager (or headquarters staff in the case of projects industries with high pollution potential (E-I)) will check the information during the due diligence site visit and then determine the risk category. The regional credit officer will integrate the E&S requirements into a project's risk rating before submitting the project to the credit committee.

47. The ESMF, which applies to the applicant's programmes financed by the World Bank, categorizes those projects into the following three E&S risk groups:

- (a) E-I, industries with high pollution potential;
- (b) E-II, industries associated with some pollution; and
- (c) E-III, industries that have negligible discharge.

48. Two lists were provided, showing projects that were categorized from E-I to E-III. A project classified as E-I within the MSME sector is not typically a Category A/I-1 project, due to its small scale.

### 3.2.3 Section 6.3: Management programme

49. E&S risk management is integrated into the applicant's project cycle. The candidate borrower must have a certificate for its establishment and one to operate from the state pollution control board. These certificates are checked during the appraisal visit and loan sanctioning process. After the safeguards due diligence, the Regional Credit Officer integrates risk management measures into disbursement conditions and covenants.

50. When deciding on whether to approve a loan, the credit committee considers the appraisal note, credit risk rating, E&S risk category, status of regulatory compliance and proposed mitigation measures. The credit committee may approve, reject or stipulate additional pre- or post-E&S disbursement conditions and covenants.

51. The Relationship Manager checks that pre-disbursement conditions are met. Internal audits track loan performance during project implementation. At this time, the E&S risk management framework targets directly financed projects. The new entity-wide ESMF (2017 version) will cover the direct and indirect financing modality.

52. The AP notes that the assessment framework for an MSME sector programme has to be adapted to the MSME sector, given that a programme may involve thousands of small entities, each with a very small pollution load, but with some potential for cumulative impacts. One tool that has proven useful to assess multiple, similar projects in different locations is a programme-level strategic environmental assessment.

### 3.2.4 Section 6.4: Organizational capacity and competency

53. E&S tasks are integrated into the responsibilities of bank officers at various levels, as mentioned in sections 3.2.2 and 3.2.3 above. In addition, there are environmental staff at the central level to support the regional managers and local credit officers. The applicant provided E&S job descriptions, the curricula vitae of key in-house E&S staff, and the list of officers who have attended E&S training.

54. The applicant has conducted about 40 E&S capacity-building programmes for MSMEs, industrial associations and various industrial clusters to generate demand for energy efficiency and to build awareness of the benefits of E&S management and monitoring.

55. In order to operationalize the new ESMF (2017 version), the applicant will assess the staffing needs (e.g. its need to hire a social expert). It will revise related policies and procedures (e.g. loan policy and monitoring system) and the organization chart based on the ESMF requirements.

### 3.2.5 Section 6.5: Monitoring and review

56. The applicant reviews its clients' compliance to national environmental and labour legislation during the loan appraisal process. After loan sanction and disbursement, the relationship managers monitor and follow-up on E&S covenants through site visits. The field reports are submitted to management.

57. The applicant monitors and evaluates its international projects in collaboration with the funding agencies to comply with each agency's approach. Four progress reports and two external audits were provided to show the monitoring and evaluation of international projects. Examples were provided to show that E&S lessons were used to improve the ESMF system (e.g. integration of the code of conduct assessment).

58. The ESMF (2017 version) will provide a framework to monitor and evaluate the E&S performance of its direct and indirect financing modalities.

59. Similar to the point made in paragraph 52, on environmental assessment in the MSME sector, the AP notes that a monitoring and auditing framework for an MSME sector programme has to be adapted to the MSME sector, given that a programme may involve thousands of small entities, each with a very small pollution load, but with some potential for cumulative impacts. Typically, a representative sample number of industries can be audited, and appropriate action can be taken based on the routine monitoring reports and/or auditing results. The monitoring, evaluation, and auditing framework must provide a reasonable approach that fits the characteristics of the MSME sector programme.

### 3.2.6 Section 6.6: External communications

60. The applicant complies with the national Right to Information Act (2005). The applicant received 274 applications seeking information in 2016 and all were adequately addressed. Policies, financial statements and project-level monitoring and evaluation reports are in the public domain and on the applicant's website.

61. An enquiry or grievance, including an E&S complaint, can be received through branch and regional offices, head office, the applicant's website, or through a national government-operated grievance-redressal system. Public information officers in the applicant's complaints unit register and process enquiries and complaints, all of which are reported to a customer service committee on a quarterly basis. The applicant also has officers to process appeals. E&S complaints have not been received to date.

62. MSME projects under national law are not required to issue public notices, hold hearings, conduct environmental and social impact assessments, or strategic environmental assessments, or develop environmental and social management plans (ESMPs). If accredited by the GCF, the applicant has indicated that it will comply with GCF requirements to disclose E&S information as per the GCF Information disclosure policy.

## 3.3 Gender

63. The applicant complies with labour laws, the national gender policy, and the Convention on Elimination of All Forms of Discrimination against Women. Women employees are provided



with equal opportunities. There are also regulations that support maternity leave and protect staff from workplace sexual harassment. Although the applicant does not have an entity-wide gender policy, it has implemented programme-/project-level gender policies, programme-/project-specific gender analysis and gender training programmes.

64. Within its various projects and programmes, the applicant shows significant experience in providing microfinance to women of low income and linking to women's particular needs in health, sanitation, green energy, and savings and financial literacy. Some of its programmes have provided women entrepreneurs with easier access to credit or equity for income-generating activities.

## IV. Conclusions and recommendation

### 4.1 Conclusions

65. Following its assessment, the AP concludes the following in relation to the application:

- (a) The applicant meets the requirements of the GCF basic fiduciary standards, and partially meets the 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, guarantees and equity);
- (b) The applicant only partially meets the requirements of the interim ESS of the GCF in relation to high E&S risk (Category A/I-1);
- (c) The applicant has demonstrated that it has competencies, policies and procedures to implement the national gender policy, which is found to be partially consistent with the gender policy of the GCF. It has demonstrated that it has experience in integrating gender considerations into its programmes/projects.

### 4.2 Recommendation on accreditation

66. The AP recommends, for consideration by the Board, applicant APL052 for accreditation as follows:

- (a) **Accreditation type:**
  - (i) **Maximum size of an individual project or activity within a programme:** large (including micro<sup>4</sup>, small<sup>5</sup> and medium<sup>6</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

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<sup>4</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>5</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>6</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".

4. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (iii) **Maximum environmental and social risk category:** medium risk (Category B/I-2<sup>7</sup>) (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 associated with the GCF fiduciary standards, to be met prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
    1. Develop a policy for the public disclosure of information regarding projects, including grant award programmes and on-lending/blending operations, to be undertaken with GCF funds. This policy must include, at the minimum, the following:
      - a. Guidelines for the publication of independent project evaluation reports;
      - b. Guidelines for the public disclosure of information on beneficiaries of grant awards and/or loans disbursed, purpose of the grants and/or loans and amounts disbursed; and
      - c. Identification of the media/channels through which the information will be disclosed, as well as the timeline for disclosure;
    2. Establish an independent project evaluation policy and capacity;
    3. Develop, for GCF-funded grant award programmes to be implemented through executing entities, the policies and guidelines to be followed by the executing entity; and
    4. Develop the operating procedures the applicant will follow to ensure the executing entity's compliance with the policies and guidelines for the grant award programme mentioned in the previous paragraph; and
  - (ii) Condition associated with the ESS and gender policy, to be met prior to submitting the first funding proposal to the GCF for consideration:
    1. Submit to the AP for its review a copy of the new entity-wide ESMF (2017 version) and the revised policies, procedures and organization chart highlighting the integration of the 2017 ESMF into the entity.

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<sup>7</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".

<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".

67. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 66 above, and agrees to the recommendation.

### 4.3 Remarks

68. It is noted that, as previously mentioned, the applicant has served as the implementing agency for grant programmes designed by the central government and/or international development agencies. However, the applicant has limited experience independently designing grant programmes. Therefore, special attention needs to be given to the design of grant award programmes that the applicant may seek GCF funding for.

69. In this regard, the applicant indicated that specific guidelines are developed with the assistance of international development entities. It is expected that the appropriate guidelines will be developed in a similar way for programmes funded by the GCF.

70. The AP will assess whether the new ESMF is fully aligned with GCF interim standards, and will specifically confirm that the new ESMF sufficiently provides for the direct and indirect financing modality. If the AP identifies any significant gap with respect to GCF requirements, additional measures should be integrated into each specific GCF project/programme.

71. With respect to completing the environmental assessment of a programme to be funded by the GCF, the AP recommends that the applicant employ external expert(s) of international standing:

- (a) To conduct a strategic environmental assessment (SEA) (or similar assessment) for Category B/I-2 programmes; and
- (b) To prepare an ESMP for such programmes based on the results of the SEA (or similar assessment).

72. The SEA (or similar assessment) as well as the ESMP should:

- (a) Comply with GCF requirements for information disclosure and gender analysis;
- (b) Exclude any subproject that could be classified as Category A;
- (c) Provide a monitoring, evaluation and auditing system adapted to the MSME sector; and
- (d) Address both direct and indirect financing modalities (e.g. cases wherein the applicant executes part or all of the programme or in cases where the applicant works through executing entities to execute part or the entire programme on behalf of the applicant).

73. The applicant applied for the high E&S risk Category A/I-1. Given the applicant's experience and typical mandate, the AP recommended accreditation for Category B/I-2. The AP recognizes that the MSME sector typically encompasses thousands of small entities, with each entity conducting small-scale activities within industrial zones. Each subproject is likely to be Category B/I-2 or Category C/I-3. However, there are some MSME activities, no matter how small scale, which could be Category A/I-1 (e.g. projects involving the production of pesticides). All Category A/I-1 activities should be excluded at this time (see para. 72(b) above).

74. However, the applicant may wish to apply for an upgrade in its accreditation type related to the E&S risk category once it has demonstrated a track record of successfully applying GCF requirements for Category B/I-2 and Category C/I-3 projects/programmes, and has accrued a track record of implementing Category A projects/programmes under the 2017 ESMF (while using other funding sources). This could be within the first five-year accreditation period.

75. The applicant is encouraged to seek readiness and preparatory support, where applicable, to assist it with:

- (a) Rolling out the 2017 ESMF;

- (b) Revising the policy and procedural framework in the light of the 2017 ESMF in the context of GCF financing;
- (c) Preparing a programme-specific ESMP;
- (d) Implementing a programme-specific strategic environmental assessment;
- (e) Developing an independent project evaluation function; and
- (f) Designing grant award programmes.