

Annex XVI: Accreditation assessment of Applicant 055 (APL055)

I. Introduction

1. Applicant 055 (APL055), the Japan International Cooperation Agency (JICA), is an entity headquartered in Japan with a strong global presence. The applicant has been providing financial and technical support to climate change mitigation and adaptation projects, focusing on energy efficiency, renewable energy, public transport systems, stable water supply, climate-resilient agriculture, sustainable forest management, disaster risk reduction and coastal protection. Building upon international best practices, the applicant aims to make the best use of Japanese knowledge, experience and technologies in driving a paradigm shift towards a low-carbon and climate-resilient society in developing countries.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 4 December 2015. The Stage I institutional assessment and completeness check was completed on 8 February 2017 and was progressed to the Stage II (Step 1) accreditation review, which was concluded with the publication of this assessment. JICA has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** international access;
- (b) **Track:** 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 blending); and
- (e) **Maximum environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)).³

II. Stage I institutional assessment and completeness check

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

2.1 Legal status, registration, permits and licences

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 unprecedented. High level of intermediation (I1): 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".

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. JICA was established by the Government of Japan in 1974 and is registered under the Act on General Rules for Incorporated Administrative Agency (1999). This law does not allow the applicant to borrow long-term money from international organizations like the GCF, however, the applicant has a track record in financing projects by blending resources from international sources to increase the project viability and impacts. As such, the applicant applied for the specialized fiduciary standard for on-lending and/or blending for blending only (see para. 2 (d)(iv) above).

2.2 Institutional presence and relevant networks

5. The applicant has a strong global presence and operations in the Asia-Pacific region, Africa, Latin America, the Middle East, as well as Europe. This global presence has allowed the applicant to establish and deepen relationships with national governments and other national and international institutions, and to contribute towards the environmental resiliency of developing countries through the projects it finances.

6. As a Japanese Government organization, the applicant has indicated that it is in a position to make the best use of Japanese advanced knowledge, technology and experience in combating climate change. Particularly, it intends to provide new solutions to the small island developing States in the areas of energy, coastal ecosystem and resources management, water and waste management.

7. The applicant seeks accreditation to the GCF in order to:

- (d) Support climate actions of the small island developing States;
- (e) Support climate-related disaster risk reduction projects; and
- (f) Apply innovative technologies to climate change mitigation and adaptation projects.

8. In addition, the applicant plans to provide on-site capacity support and training programmes for potential national entities to meet GCF accreditation criteria in areas of internal audit, financial management, procurement, stakeholder engagement and environmental and social standards.

2.3 Track record

9. Over the past 43 years, the applicant has contributed to the United Nations Millennium Development Goals, infrastructure improvement, human resource development, global environment development, rural development, industrial development and public policy and initiatives such as public-private partnerships.

10. In particular, the applicant has contributed towards both climate change mitigation and adaptation by introducing renewable energy and energy-saving projects, improving urban public transportation system, developing forest management and afforestation projects, providing tailored capacity-building for individual countries and providing support for climate change measures in developing countries.

11. The applicant has a track record in financing climate change related projects in the sectors of energy, transport, forestry, land use, institutional systems, infrastructure, water management and ecosystem. Activities related to climate change financed by the applicant include:

- (a) JPY 992 million (technical cooperation) for the Participatory Forest Management Project in Belete-Gera Regional Forest Priority Area (Phases 1 and 2) in Ethiopia;

- (b) JPY 683 million (grant) for the Project for Upgrading of the Mechanical System for Sewerage and Drainage Service in Faisalabad in Pakistan;
- (c) JPY 268.1 billion (concessional loans) for Mass Transit System Project (Phases I to III) in Bangkok (Red Line) in Thailand;
- (d) JPY 6.7 billion (grant) for the Project for Rehabilitation of Baluchaung No. 2 Hydropower Plant in Myanmar; and
- (e) JPY 80 billion (concessional loans) for the Support Programme to Respond to Climate Change (Phases I to VII) in Vietnam.

III. Stage II accreditation review assessment

12. The applicant applied under the normal-track accreditation process. Its application has been assessed against by the Accreditation Panel (AP) during Stage II (Step 1) against the standards of the GCF in accordance with the accreditation requirements.

13. As part of this assessment, the AP carried out a site visit to the applicant's headquarters and 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

14. The applicant has a well-established governance structure with several oversight bodies, including its board of directors, audit committee, finance oversight committee and procurement oversight committee. The independent audit committee comprises three independent auditors, while the other committees comprise senior managers within the organization. The committees have clear terms of reference and their composition clearly shows that the members have the experience and expertise to effectively carry out their designated roles.

15. JICA prepares five-year medium-term strategic plans based on which it composes annual management plans along with corresponding budgets. Both the medium-term strategic plan and the annual plans are aligned with the applicant's broad mission.

16. The applicant has an internal audit office headed by a senior executive at the rank of Director General. An assessment of the effectiveness of the audit office carried out by the Institute of Internal Auditors shows that the audit office is independent and complies with the Institute of Internal Auditors' "Guidelines for the Practice of Internal Auditing".

17. The applicant uses a customized, "People Soft" financial reporting system to control revenue and expenditure accounting and financial accounting. The applicant's annual financial statements are comprehensive and allow for comparability of financial statements in terms of consistency over different reporting periods. The financial statements are audited by an independent external audit firm and the external auditor's reports provided indicate that the financial statements are prepared, presented and audited in conformity with generally accepted accounting and auditing principles (applicable to incorporated administrative agencies in Japan).

18. The applicant has a well-documented internal control framework the principal purpose of which is to ensure operational effectiveness and efficiency, compliance with applicable laws and regulations, asset preservation and proper financial reporting. The applicant's procurement activities are guided by internal regulations, which together with other evidence provided, show that the applicant's procurement practices are consistent with international practice.

3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

19. The applicant has a code of ethics which applies to all employees and all contracted parties. A compliance and risk management committee is responsible for oversight of the ethics function. The applicant has documented strategies and active measures for preventing financial malpractices. These include a strong internal control framework and “Anti-Corruption Guidance”, which in addition to being publicized on the applicant’s website, is distributed to all employees, related parties such as consultants and contractors, and is disseminated to governments of partner countries and participating entities. In order to encourage the reporting of misconduct, the applicant has put in place a mechanism for protecting whistle-blowers. JICA has an in-house independent and objective function for investigating allegations of fraudulent and corrupt practices. The function is headed by a senior deputy director, a high rank in the applicant’s management hierarchy.

20. The applicant’s policy on anti-money laundering and countering the financing of terrorism is contained in its compliance manual which includes a specific section on “Rules on Response to Antisocial Forces”. As part of its ‘know-your-customer’ due diligence process, the applicant takes the necessary steps to ensure that all parties with which it has business relationships are not associated with “antisocial forces” by requiring a written pledge from the parties to this effect and checking the parties’ information against databases such as those issued by the public organization affiliated with the National Police Agency of Japan. The applicant also complies with sanction lists published by Japanese Government which reflect international measures against money laundering and countering the financing of terrorism, such as resolutions of the United Nations Security Council.

21. In order to confirm that funds’ remittances are received by the intended beneficiaries, the applicant monitors the electronic transfer of funds through two key documents: a ‘remittance specification’ letter which the applicant receives when it requests a commercial bank to remit funds, and a ‘remittance letter’ which the commercial bank sends to the applicant when the transaction is complete.

3.1.3 Section 5.1: Specialized fiduciary standard for project management

22. As one of the world’s largest bilateral aid agencies, with its significant experience and proven track record in financing and managing projects in 154 developing countries and over USD 20 billion in annual commitments, the applicant has comprehensive operational policies and procedures that guide project cycle management from project preparation to closure. The applicant’s procedures include guidelines for incorporating the projects’ technical, financial, economic and legal aspects as well as possible environmental, social and climate change aspects, and relevant assessments thereof, into the funding proposals at the appraisal stage.

23. The applicant has well-documented project risk assessment procedures, including the development of appropriate risk mitigation and management strategies. The risk management function is differentiated from project implementation and supervision responsibilities. The sample project preparation, appraisals, monitoring and closure reports provided demonstrate the effective use of the operational policies and procedures. The applicant uses a two-stage project-at-risk system as an early warning system to identify and address project problems in a timely manner. At the operational level, the applicant’s implementing department identifies risks during the project monitoring process. The risks are shared/reviewed with the applicant’s related departments and recipient countries. All the parties involved participate in devising measures to address the risks; and if the risks become serious, they are elevated to the high level meeting / monitoring process, in which the applicant’s board members are involved. Examples of project problems identified and the mitigation actions taken to demonstrate the effectiveness of the system were provided.

24. The applicant has a policy and operational systems, procedures and formats for the preparation of project implementation plans as well as the periodic reporting and publishing of

the status of projects during the implementation phase. Project implementation planning is supplemented by a strong monitoring and evaluation function.

25. The applicant has a policy on independent evaluation of project results. For projects considered by the applicant to be large (i.e. those over 1 billion yen) and those with a high likelihood of providing valuable lessons, ex-post evaluations are conducted by independent external experts. The sample evaluation reports provided demonstrate that the evaluation function follows impartial, widely recognized, documented and professional standards and methods. The applicant also has an evaluation disclosure policy which requires the disclosure of all external evaluation reports on the applicant's website to enhance transparency.

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

26. The applicant has a mature grant award system that includes the defined roles and responsibilities of the grant evaluation committee, the grant approval authority and other relevant personnel. The applicant provided evidence relating to a review undertaken by the Global Fund regarding its experience in the handling of grant funds. The applicant issues grant notices in the form of grant application guides which are posted on its website to attract a wide range of potential grantees. The grant award system relies on a documented framework and formats for undertaking due diligence to assess the eligibility and capabilities of potential grant awardees and benefits from the applicant's significant experience and track record in managing a transparent grant award mechanism and awarding grants on the basis of clearly defined eligibility criteria. The due diligence process includes checking of the legality of the operations to be undertaken with the grant funds.

27. Grant award decisions are taken by the applicant based on the recommendations and consultation from external entities such as the evaluation committee which comprises staff of the applicant and representatives of selected third-party entities. The terms of reference and composition of the grant evaluation committee are disclosed on the applicant's website for transparency. The relevant ministries in Japan check to ensure that grant proposals do not include activities that contravene government laws and policies. Grant award decisions are adequately publicized on the applicant's website. Evidence documents provided by the applicant demonstrate transparency and objectivity in decision-making. While the applicant notifies all entities applying for grants of its decisions in writing, the reasons for rejection are explained in face-to-face consultation meetings with the unsuccessful grant applicants who request such meetings. The applicant uses this approach to avoid misunderstandings and disputes and to provide the grant applicant with constructive feedback on how to improve the rejected proposal should it reapply to JICA in the future.

28. The procedures for undertaking audits and checks of the expenditures made by the grantees are laid out in the applicant's accounting guidelines. The applicant has suitable procedures for the recovery of funds paid to the grantees, in respect of expenditures which are unauthorized or fall outside the scope of the funding for the project. The applicant's right to conduct audits/checks is stipulated in the grant agreements which also include the procurement rules and procedures which the grant beneficiary is required to apply, and procedures for the suspension, reduction or termination of the grant in the event of the beneficiary failing to comply with its obligations.

29. While the applicant meets all other GCF requirements relating to the awarding of grants, it does not have the required policy in place for providing public access to information on the periodic progress of individual projects, or a policy requiring periodic independent review and external audit of grant award activities, which will be required for GCF funding. However, the applicant is currently in the process of developing the required policies to fully meet the GCF requirements for this standard.

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

30. As indicated in paragraph 4 above, by its statute, the applicant is not permitted to obtain funds from external sources for on-lending purposes. For this reason, it intends to use GCF funds only for “blending” operations. The applicant has documented policies and procedures for its blending operations. The sample due diligence reports and related supporting documents provided by the applicant demonstrate the effective use of these policies and procedures.

31. In order to enhance rigour in credit risk management, the applicant, though not a deposit taking institution, conducts self-assessments of its credit risk management practices based on the “Inspection Manual for Deposit-Taking Institutions”, which are regulated by the Government Financial Services Agency of Japan. An overview of the applicant’s planned and implemented financial and credit risk management strategies are disclosed in its annual report which is posted on the applicant’s website. The information provided also demonstrates that the applicant has the capacity and systems in place to channel funds transparently and effectively, and, if accredited, to transfer the GCF funding advantages to final beneficiaries.

32. Based on the evidence documents provided, the applicant has also demonstrated sound financial risk and asset and liability management policies, procedures and governance and organizational structures that ensure the appropriate segregation of duties of the treasury function and operations.

33. The applicant has been rated by Standard & Poor’s Rating Services as A+ (stable).

34. While the applicant meets all other GCF requirements relating to blending operations, it does not have the required policy in place for providing information to the public regarding its decisions on blending operations, or a policy requiring periodic audits of the use of funds that would be provided by the GCF. However, the applicant is in the process of developing the required policies to fully meet the GCF requirements for this standard for blending operations.

3.2 Environmental and social safeguards

3.2.1 Section 6.1: Policy

35. The applicant’s environmental and social (E&S) guidelines published in 2010 constitute its E&S policy which articulates overarching E&S objectives and principles guiding the institution. The E&S guidelines state that the E&S standards the institution adheres to, including laws implementing host country obligations under international law. The E&S guidelines are endorsed by the applicant’s senior management and indicate the specific units within the institutions responsible for ensuring conformance with the policy execution and are communicated to all levels of its organization as well as publicly. The applicant’s policy requires its executing entities in implementing projects financed by the applicant to address cumulative impacts, the analysis of alternatives, baseline data standards and mitigation hierarchy. The applicant, being an active member of the Multilateral Development Bank’s Environmental Group, has as part of harmonizing E&S procedures across multilateral development banks, have kept abreast of international norms and practices on the environmental assessment and reflected them in its own environmental and social management system.

3.2.2 Section 6.2: Identification of risks and impacts

36. The applicant’s E&S guidelines referred to in paragraph 35 above also describe its E&S risks and impact the identification and assessment procedure. The operational department (e.g. regional department, sectorial department and the representative office in the applicant’s partner country), and credit risk analysis and environmental review departments also participate in the environmental and social considerations of applicant’s lending operations. The operational department has the primary responsibility for categorization, confirmation of the adequacy of environmental and social considerations, and monitoring for individual projects. The environmental and social consideration review division of the credit risk analysis and environmental review department checks compliance with the applicant’s E&S guidelines.

In addition, when a project is categorized as Category A/Intermediation 1 (i.e. a potentially high E&S impact project), the environmental division staff, including Safeguard Specialists conduct an environmental and social review of the project by performing an on-site inspection and report to the applicant's E&S advisory committee and the committee gives advice as needed. The applicant also provided a list of projects from the past three years and their E&S risk categories.

37. The applicant has provided a checklist that addresses how each of the performance standards 1 to 8 of the GCF interim environmental and social safeguards is assessed. The applicant has provided sample project documents as evidence of its track record with E&S risks and impacts identification and assessment procedure in line with the performance standards. The applicant has also provided a sample external audit report which indicates that the applicant's internal control system is in compliance with its E&S policy and procedure.

3.2.3 **Section 6.3: Management programme**

38. The applicant's procedure for environmental and social considerations provides documented institutional processes for managing E&S risks and impacts mitigation measures and actions stemming from the E&S risk identification process. The applicant has provided sample project documents as evidence of the effectiveness of the implementation of its procedures. The applicant has provided a brief write up on its practices relating to the audit of its overall operations. Additionally, the applicant provided a sample of external audit reports as evidence of the effectiveness of its institutional management programme for mitigation actions.

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

39. The applicant has provided its organization chart, including the roles, responsibilities, reporting lines and authority to implement the environmental and social management system, which includes its senior management. The technical staff with the direct responsibility for the project or programme performance have the knowledge, skills and experience necessary to understand and ensure the implementation of performance standards 1 to 8. The applicant has provided information on its technical staff E&S training as well as a sample of work of their work as evidence of their knowledge of performance standards 1 to 8.

3.2.5 **Section 6.5: Monitoring and review**

40. The applicant's E&S procedure describes its internal processes to support a monitoring and supervision programme that tracks and ensures the completion of mitigation and performance improvement measures. The internal process defines the roles and responsibilities and timelines to monitor and supervise a project in a separate document on procedures for review supervision. Project monitoring results on the effectiveness of the applicant's implementation of its environmental and social management system are reported every six months to the applicant's advisory committee for environmental and social considerations. The applicant has provided evidence of its senior management's participation and guidance to ensure that the intent of the institutions policy is met and that procedures, practices and plans are implemented appropriately.

3.2.6 **Section 6.6: External communications**

41. The applicant provided its external communications procedure which includes a website for receiving external comments and complaints on the project's environmental and social aspects. The applicant also provided a link to its complaints register on complaints received and how they were addressed and resolved. Its procedure for public disclosure and consultation with project stakeholders of E&S project documents, including a grievance mechanism at the level of the applicant's own institution as well as at the level of its executing entities, are in line with the GCF Information disclosure policy.

3.3 Gender

42. The applicant's mission statement published in 2008 reflects its vision on gender equality and women empowerment. The applicant's vision for gender mainstreaming is articulated in its policy, organization structure and operational procedure. The operational procedure published in 2009 describe a step-by-step process in terms of project screening from a gender perspective at the appraisal stage, followed by the relevant department integrating a gender perspective into projects and an implemented project is subsequently monitored and evaluated by relevant departments in consultation with the unit for gender equality and poverty reduction. The applicant has designated a vice-president in charge of gender supported by a gender-dedicated unit for gender equality and poverty reduction.

43. The applicant has provided sample project documents which contain specific reference to women and men who have benefitted from climate change projects. The applicant has also provided sample standard bidding documents reflecting non-discrimination and equal opportunity clauses as evidence of the applicant's requirements of its executing entities' non-discriminatory practice. The applicant's gender policy, procedures and competency are in line with the GCF Gender policy and Gender action plan.

IV. Conclusions and recommendation

4.1 Conclusions

44. 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 specialized fiduciary standard for project management, but partially meets the requirements of the GCF specialized fiduciary standard for grant award and/or funding allocation mechanisms and specialized fiduciary standard for blending;
- (b) The applicant meets the requirements of the interim environmental and social safeguards of the GCF in relation to the high E&S risk (Category A/I-1); and
- (c) 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 considerations in the context of climate change.

4.2 Recommendation on accreditation

45. The AP recommends, for consideration by the Board, applicant APL055 for accreditation as follows:

- (a) **Accreditation type:**
 - (i) **Maximum size of an individual project or activity within a programme:** large (including micro,⁴ small⁵ and medium⁶);
 - (ii) **Fiduciary functions:**

⁴ 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".

⁵ 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".

⁶ 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".

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 blending only); and
- (iii) **Maximum environmental and social risk category:** high risk (Category A/I-1) (including lower risk (Category B/I-2⁷ and Category C/I-3⁸)); 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. Develop a system for providing public access to information on the periodic progress of all GCF-funded activities;
 2. Develop a policy of periodic independent reviews/external audits of all grant award programmes funded by the GCF; and
 3. Develop policies/guidelines for providing information to the public regarding all decisions on blending operations funded by the GCF; and
 - (ii) Condition 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 evidence of the implementation of the items identified in paragraph 45(b)(i) above.
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.

⁷ 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”.

⁸ 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”.