

## Annex V: Accreditation assessment of Applicant 058 (APL058)

### I. Introduction

1. Applicant 058 (APL058), the Fiji Development Bank (FDB), is a national public sector entity and Government-owned development bank based in Fiji. The applicant's main objectives are to facilitate and stimulate the promotion and development of natural resources, transportation and other industries and enterprises in Fiji and to give special consideration and priority to the economic development of the rural and agricultural sectors of the economy.
2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 27 December 2015. The Stage I institutional assessment and completeness check was completed on 13 May 2017 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 Fiji;
  - (b) **Track:** normal track;
  - (c) **Maximum size of an individual project or activity within a programme:** small;<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, equity and guarantees); and
  - (e) **Maximum environmental and social risk category:** medium risk (Category B/Intermediation 2 (I-2)).<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.

#### 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. FDB was established in 1967 under Chapter 214 of the

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "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>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".

Laws of Fiji (Fiji Development Bank Act). The applicant indicated that it does not require a business permit or licence to operate as per the Act.

## 2.2 Institutional presence and relevant networks

5. All capital stock of the applicant is for the sole account of the Government of Fiji, and it has a strong presence at the national level with an emphasis on the social impacts of development assistance. This presence and focus have allowed the applicant to reach vulnerable groups and various beneficiaries including the private sector and to contribute to national policies through the projects it finances.

6. In order to advance the objectives of the GCF, the applicant intends to implement initiatives that have direct and positive impacts on climate change mitigation and adaptation. Particularly, it plans to promote:

- (a) Renewable energy: conversion of electricity generation from fossil fuel to renewable resources such as solar, hydro, biomass, biogas, wind and geothermal systems;
- (b) Energy efficiency in the housing sector; and
- (c) Reduction of carbon emissions through new technologies in the marine transport sector.

## 2.3 Track record

7. As a development bank, the applicant places a high value on environmental and social impacts. The applicant has undertaken relevant projects such as financing sustainable energy, providing guarantees for solar photovoltaic systems for rural areas, and providing micro loans to beneficiaries in the rural and agricultural sector.

8. The applicant's track record in financing climate change-related projects includes the following, which fall within the GCF micro size category:

- (a) USD 10 million (loans) for the Vuda Renewable Power Development project;
- (b) USD 2.5 million (loans) for the Risk Sharing Fund under Sustainable Energy Financing project;
- (c) USD 2 million (loans) for Agri Finance Scheme; and
- (d) EUR 29,018 (guarantee) for the project Improving reliable access to modern energy services through solar photovoltaic systems for rural areas (outer islands) of Tuvalu.<sup>4</sup>

## 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).

10. As part of this assessment, the AP consulted the applicant's website and third-party sources 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

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<sup>4</sup> The guarantee was provided to a limited liability company registered in Fiji.

11. The applicant's general, administrative and financial management operations are governed by its code of corporate governance (2012) which describes the responsibilities and obligations of the applicant's board and its subcommittees, management and its employees. The applicant's board is appointed by the Government (Ministry of Finance), and the board sets the strategic direction within the framework of its mandate and monitors operational performance. Business operations have been delegated to the executive management of the applicant under the leadership of the Chief Executive Officer. The governance structure provides for three board subcommittees, namely: the Audit Committee; the Credit Risk Committee; and the Human Resources Committee. The applicant's executive committee functions as the asset and liability committee, and reports to the applicant's board on a quarterly basis. The applicant's board is required to meet monthly and its subcommittees quarterly. The applicant confirmed that the frequency of meetings held by its board subcommittees has been addressed during the current financial year in order to bring the frequency in line with its policy.
12. The applicant has provided its board charter (2008), Credit Risk Committee charter (2010) and a terms of reference for its Human Resources Committee (2010). Given that the applicant's operations have been subject to a number of lending cycles and lessons learned since their drafting, the AP considers that these would benefit from a strategic review. The Credit Risk Committee charter is a specific case in point.
13. The applicant has provided evidence of its strategic plan for the current planning cycle and the associated action plans across six themes, including progress towards achieving the plan.
14. The applicant has provided its audited financial statements as contained in the Annual Financial Report which have been prepared in accordance with the International Financial Reporting Standards and the Reserve Bank of Fiji Guidelines. The Office of the Auditor General is mandated to audit the financial statements of the applicant. Moreover, the Office of the Auditor General has the authority to appoint an external audit firm to conduct the audit on its behalf. The applicant confirmed that its annual financial statements have been audited by an external auditor appointed by the Office of the Auditor General.
15. The internal audit function is required to adhere to the Institute of Internal Auditors' mandatory guidance including the definition of internal auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. Internal audit reports functionally are sent to the applicant's board Audit Committee and administratively to the Chief Executive Officer. The applicant has provided evidence of audit procedures and the ongoing activities of the internal audit function, including its annual audit plan, which includes mandatory annual audits of the key functions of the applicant and audit findings. Moreover, the applicant has demonstrated that it monitors audit findings and highlights for the attention of management where the audit findings have not been satisfactorily addressed.
16. The key issue in the applicant's capacity to meet the GCF basic fiduciary standard for key administrative and financial capacities is the lack of an enterprise-wide risk management and control framework. The applicant has provided a draft terms of reference and timelines to demonstrate that it has formally commenced work on addressing this gap. Given that the above-mentioned enterprise-wide framework will be implemented and demonstrated over time, the AP recommends that the GCF engagement (e.g. project origination, appraisal, monitoring and relationship management) be conducted via the Corporate Branch. The applicant has advised that this will be accommodated.
17. Regarding procurement, the AP notes that the applicant's systems do not provide for an assessment of procurement systems of the entities it provides funding to; however, it has indicated that it would be willing to introduce such processes. The applicant will be required to provide policy guidelines to ensure that the procurement processes for all of the projects it finances are fair and transparent, that they provide for a dispute resolution process and that awards are publicly disclosed.

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

18. The applicant has recently updated and improved its website and is making progress in addressing its level of transparency. In this regard it has included a complaints mechanism that is publicly available to guide the process for reporting complaints, including guidance for the purposes of reporting matters of fraud and corruption.

19. The applicant is guided by the country reporting requirements in applying its guidelines on anti-money laundering and countering the financing of terrorism. The Financial Transaction Reporting Act of Fiji requires that the applicant appoint a senior officer responsible for ensuring the applicant's compliance with the Act, the scope of which includes, among other things, reporting certain transactions above 10,000 Fiji dollars (FJD) to the Fiji Financial Intelligence Unit. The applicant has provided evidence of its reporting and the job description of the person responsible for the function. The above reporting requirement is contained in the applicant's financial control policy and procedure. However, the applicant's guidelines and processes for anti-money laundering and countering the financing of terrorism require further development to meet the GCF interim policy for prohibited practices.

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

20. The applicant's lending activities consist mainly of providing working capital loans across a number of sectors. The applicant has provided evidence of the policies and procedures associated with its mandate. The appraisal processes provide for a credit assessment methodology, which culminates in a credit quality rating (A-I) and a credit risk rating (1-9). The applicant's monitoring standards are guided by the outcome of the credit assessment.

21. The applicant has demonstrated its ability to incorporate technical, financial, economic and legal aspects into its lending operations, including key performance indicators. However, the AP noted that the applicant's procedures provide for exceptions from its policy, and the applicant has an embedded process in its procedures to accommodate exceptions. These exceptions could include relaxing security requirements, less emphasis on track record, extended terms of loans and so on. Moreover, the applicant has indicated that, given its development mandate, exceptions do indeed occur and information supporting that exceptions occur frequently has been observed by the AP. Generally, exceptions are rated as a high risk on the credit rating scale, which results in an elevated level of monitoring in line with the applicant's credit risk categorization procedure. In addition, the consequence of the frequent application of the exceptions could be one of the reasons that the applicant's loan portfolio is concentrated at the lower end (high risk) of the rating scale.

22. The applicant has provided evidence of its monitoring procedures, which are also linked to the credit rating methodology; however, some gaps in the implementation of the applicant's monitoring processes is evident and this has also been highlighted in an independent credit review that was commissioned by the applicant in 2015. The findings and recommendations of the credit review are very relevant for assuring the sustainability of the applicant's operations and are being addressed by its management. The recommendation related to a review of the applicant's credit policy is of particular relevance and reporting on the management's progress in addressing the findings have been included as part of the accreditation conditions recommended by the AP.

23. The AP notes that there is a significant emphasis on turnaround time for loan approvals, which is a key performance indicator; however, this might be contributing to added pressure on the approval of loans without the necessary time to complete the required level of due diligence. The AP suggests that the applicant might reconsider the emphasis on this key performance indicator, at least until such a time as it has reviewed its credit policy.

24. The applicant has provided evidence of its project-at-risk system, which is linked to its credit risk categorization procedure, as described in paragraph 21 above. Downgrading a loan to a non-performing status results in the migration of the loan to an asset management unit, which is separate from the monitoring function. The AP notes that recommendations regarding further development of the applicant's project-at-risk systems have been included in the credit review.

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

25. The applicant did not apply for accreditation against this standard at this time.

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

26. The applicant has demonstrated its track record of on-lending and/or blending operations, which mainly consists of loans to small and medium-sized enterprises in the form of working capital loans, and a few larger clients in the tourism sector. However, its internal project finance capabilities are limited and, where required, it supplements its in-house resources with external expertise and guidance. The applicant has only partially demonstrated its track record with equity and guarantees, and the AP considers that any programme that includes these financial instruments should include an elevated level of due diligence and monitoring by the applicant and the GCF.

27. The applicant has provided evidence of its intermediated micro loans project, which includes a focus on women. Although the appraisal and subsequent recommendation for approval included exceptions to the applicant's credit policy, these have been transparently highlighted and motivated in accordance with the applicant's processes, which provide for exceptions to its policy. Moreover, the applicant has provided evidence of its monitoring of the project (as opposed to relying on monitoring reports of the financial institution).

28. Public access to information on projects and beneficiaries of projects/programmes that the applicant has financed is very limited and the applicant has indicated that information on the projects it finances is generally subject to non-disclosure provisions. The applicant will be required to draft and approve an information disclosure policy that meets the requirements of the GCF fiduciary standard for on-lending and/or blending, including information on the periodic monitoring and projects financed by the applicant.

29. The applicant's credit framework is guided by the Reserve Bank of Fiji, which requires that the applicant has credit risk grading systems that provide for the classification of its portfolio of loans and other credit facilities (including off-balance sheet exposures) according to a minimum of five categories (levels) of credit risk. The applicant's rating system provides for this credit risk categorization approach, as described in paragraph 21 above. The system includes a process for the identification, monitoring and rehabilitation of non-performing assets. However, given that the applicant is a development bank with a significant focus on sectors that generally cannot access commercial finance, the AP noted that the resulting rating distribution is concentrated at the lower end of creditworthiness, resulting in a significant level of underperforming loans.

30. To address the above-mentioned rating distribution, the applicant proactively procured the services of an independent external consultant in 2015 to undertake a credit review of its lending portfolio. The review concluded that the applicant's rating system is in line with international standards; however, the application of this system – given the nature of its target market and mandate – would benefit from a review of its credit policy. Other recommendations from the review are being addressed by the applicant's management and, given the relevance of such recommendations for the applicant's sustainability, the applicant will be required to report

on progress in implementing the recommendations. This includes providing the revised credit policy and procedures to provide for the move to becoming a deposit-taking institution.

31. The applicant does not have a fully developed risk management framework; however, it has provided a draft overview of the scope of work associated with the development of the enterprise-wide risk management framework, which includes addressing the control framework. This framework is anticipated to be implemented by mid-2018.

32. The applicant has provided evidence of its financial control policies and procedures which demonstrate that the applicant has systems in place to ensure sound investment management.

33. Evidence of the applicant's asset and liability meetings was provided, including evidence of its strategies to manage these risks. The limited extent to which risks can be managed in the context of the country and the applicant's access to funds are noted by the AP, as is the applicant's ability to request support from the Government of Fiji for impacts on its portfolio arising from foreign exchange and other exposures.

## 3.2 Environmental and social safeguards

### 3.2.1 Section 6.1: Policy

34. The applicant's environmental and social management system (ESMS) is embedded in its lending manual, which guides the applicant in complying with the National Environmental Management Act of 2005, the National Environmental Impact Assessment Process Regulation of 2007, the environment management plan template, the national environmental impact assessment guidelines and the national environmental strategy. The National Environmental Management Act is umbrella legislation for the protection of natural resources and the control and management of development, waste and pollution. However, as the applicant's ESMS and related practices (or lack of) do not reflect the environmental and social risks and impacts contained in the Performance Standards 1 to 8 of the GCF interim environmental and social safeguards (ESS) for Category B/I-2. The applicant has indicated that it intends to develop a new ESS policy and related implementation guidelines in accordance with the GCF interim ESS in the coming months that will govern its lending operations.

35. The Department of Environment (DoE), which is part of the Ministry of Local Government, Housing, Urban Development and Environment of the Government of Fiji, is responsible for screening and assigning environmental and social (E&S) risk categories for the applicant, as well as supervising and monitoring the applicant's projects. The applicant indicated that it will seek a memorandum of understanding with the DoE to further reaffirm and strengthen the relationship and division of labour between the two institutions regarding the sharing of expertise and in the implementation of existing procedures subject to the national ESS legislation. The applicant's conformance to the new ESS policy that it intends to develop will be the joint responsibility of the heads of the applicant and the DoE. The applicant's management has committed to ensure that its staff who are involved in projects financed by the GCF will undergo appropriate training and skill upgrading with respect to E&S policies, procedures and standards.

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

36. The applicant's E&S risks and impacts identification and assessment, including an E&S risk categorization framework, is described in the National Environment Impact Assessment Process Regulation of 2007 and national environmental impact assessment (EIA) guidelines. These describe the E&S due diligence and assessment procedures that the applicant is required to follow. The applicant also provided a list of projects that typically would fall within the E&S

risk Category B/Intermediation 2 and Category C/Intermediation 3 (I-3),<sup>5</sup> illustrating the application of its E&S risk screening process. However, the applicant could not provide evidence of the actual application of its E&S risk and impacts identification process, including E&S risk categorization, particularly for an E&S risk Category B/I-2 project/programme. Although the applicant provided a sample project document which addresses E&S impacts, it does not have a detailed assessment of the E&S risk categorization process, as required in the GCF accreditation framework<sup>6</sup> and the GCF interim ESS. The applicant has indicated that this requirement, including the responsibilities and the skills of the staff that undertake E&S risk categorization, will be addressed in its new ESS policy that is expected to be submitted in the coming months.

### 3.2.3 Section 6.3: Management programme

37. The DoE's EIA guidelines describe the requirements for addressing the E&S mitigation measures stemming from the applicant's identification of E&S risks and assessment of its projects. All of the applicant's loans, including those categorized as minimal to no E&S risk (Category C/I-3), are required to develop an environmental management plan (EMP). For higher E&S risk (Category B/I-2 and higher), the applicant adheres to its National Environmental Management Act of 2005, which requires project proponents to develop an EIA. The DoE has the overall management and clearance issuance responsibility, including the responsibility for E&S risk categorization and development of the terms of reference for EIAs and EMPs. The project proponent is required to ensure that they abide by DoE policies and practices. The applicant's loan officers are responsible for ensuring that all EIAs, EMPs and environmental clearances are well documented and made available to its management. Although the applicant has the appropriate procedures for E&S mitigation and management, the AP noted that these do not reflect Performance Standards 1 to 8 of the GCF interim ESS. The applicant provided a sample EIA for a resort development project; however, the EIA narrative does not reflect Performance Standards 1 to 8 of the GCF interim ESS. The applicant could not provide adequate evidence in the form of sample EMPs reflecting application of its E&S mitigation and management procedure, particularly for an E&S risk Category B/I-2 project/programme. The applicant's new ESS policy, which is expected to be developed in the coming months, should address this gap and should be applied to projects the applicant undertakes financed using GCF resources.

38. The applicant has not conducted an internal audit of the effectiveness of its ESMS. However, the applicant has indicated that as part of its holistic ESMS framework development, the internal audit of the effectiveness of management of its ESMS would be conducted for projects financed using GCF resources.

### 3.2.4 Section 6.4: Organizational capacity and competency

39. The applicant has not provided an organizational chart or an organizational structure that defines roles, responsibilities and authority to implement its current or proposed ESMS, which includes its senior management. The organizational structure that the applicant provided does not indicate any designated staff or their responsibilities relating to E&S matters in the applicant's operations. The applicant's specific requirements for loan officers and their interaction with the DoE in the ESS process can be found in the applicant's lending manual. The applicant's manager of the Enterprise Risk Business Development Unit, which is currently handling the GCF accreditation application, will also be involved in the recruitment of the technical officer (ESS and gender specialist), whose job description will be similar to that of the DoE officer and project officer with lending, project development, monitoring and evaluation expertise. The technical officer will assess and process GCF-funded projects and directly report

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<sup>5</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".

<sup>6</sup> Annex I to decision B.07/02.

to the applicant's risk committee and its board. The applicant has indicated that this officer will work with the DoE on the EIA and other environmental matters. The applicant has committed to provide its organizational structure to implement its new ESS policy in the coming months.

### 3.2.5 Section 6.5: Monitoring and review

40. The DoE's EIA guidelines contain the information on E&S monitoring and reporting requirements. The applicant has indicated that monitoring guidelines are developed for every project. Depending on the terms of reference, the monitoring plan could be a component of the EIA or the EMP. The monitoring plan outlines the frequency of monitoring and the monitoring tools to be used and, more importantly, specifies the personnel or organization responsible for undertaking the monitoring task or for reviewing the results of monitoring. The applicant has stated that the DoE provides monitoring and supervision while the applicant's senior management perform spot checks and unannounced field visits to sites regularly visited by the DoE inspectors. However, the applicant could not provide a document that describes in more detail the roles and responsibilities of the DoE in conducting monitoring of E&S matters in the applicant's projects, indication of whom the DoE submits its monitoring reports to and what the subsequent actions are. The applicant also could not provide evidence that the relevant DoE staff have the knowledge of Performance Standards 1 to 8 of the GCF interim ESS to carry out effective supervision and monitoring of the applicant's projects. Furthermore, the applicant could not provide a sample of DoE monitoring reports of the applicant's projects. Although one construction monitoring plan and some weekly monitoring plans were provided, these do not reflect the Performance Standards 1 to 8 of the GCF interim ESS. The applicant also has not clarified the roles and responsibilities of the applicant's own staff in monitoring and reporting on environmental management actions. The applicant indicated that all of the monitoring and reporting on ESS matters, including the demarcation of responsibilities and skills and competencies required between its own institution and that of the DoE will be addressed in its new ESS policy to be developed in the coming months.

### 3.2.6 Section 6.6: External communications

41. The applicant has not provided any information on its external communication channels such as a website that allow the applicant to: receive and register external communications from the public; screen and assess issues raised and determine how to address them; and provide, track and document responses. The applicant's website only has a section on customer complaints. The applicant provided its complaint guidelines, but these do not specifically mention anything about E&S-related matters. The applicant also provided a log of complaints received, but they are mostly found to be related to the applicant's commercial customer services and none are on E&S-related matters on its projects.

42. The applicant has a policy on the public disclosure of E&S information for E&S risk Category B/I-2 for 21 days in advance of project consideration by its board. However, the duration of public disclosure is not in line with the requirements of the GCF Information Disclosure policy for the public disclosure of E&S information for E&S risk Category B/I-2 projects/programmes. The applicant has indicated that it will develop a policy on the public disclosure of E&S information to be in line with the GCF Information Disclosure policy in due course. However, it should be noted that for E&S risk Category C/I-3, public disclosure of E&S information in advance of consideration by the GCF or the applicant's board is not required.

## 3.3 Gender

43. The applicant provided its draft gender policy and has recognized that it is not yet in line with the requirements of the GCF Gender policy. The applicant has stated that it will be working in consultation with a gender specialist on further development of the policy to conform to the national gender policy, as well as to the requirements of the GCF Gender policy. It expects to complete the policy by the end of October 2017 following internal and public consultations. The

applicant has stated that its gender policy will indicate its intention to secure and formalize non-discriminatory practices in all of its future projects, including GCF-funded projects/programmes. The applicant indicated its intention to identify and nominate personnel responsible for the development and implementation of its gender policy and related practices.

44. As of January 2017, the number of loans made directly to women totalled 491, comprising over FJD 20 million of the applicant's overall lending portfolio. Several of these loans include mitigation or adaptation-related initiatives; for example, funding to women to purchase solar equipment to start a store or business in a remote area (ranging from resort ownership to running a small village store). One key example of the applicant's involvement with climate change and gender financing involves sustainable energy financing, which is part of the Government of Fiji's plan to convert electricity generation from fossil fuel to renewable sources and to reduce fuel imports. Sustainable energy financing supports key renewable energy systems, including solar photovoltaic systems, pico (a hydro system and fuel switching system where coconut oil will be used as a diesel fuel alternative for generating electricity), wind, biomass, biogas, wave, tide and geothermal systems.

## IV. Conclusions and recommendation

### 4.1 Conclusions

45. Following its assessment, the AP concludes the following in relation to the application:
- (a) The applicant partially meets the requirements of the basic fiduciary standards, specialized fiduciary standard for project management and specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees in relation to the GCF micro size category<sup>7</sup> only, and not for the GCF small size category. The main gaps are as follows: an enterprise-wide risk management framework; internal controls; public disclosure; third-party procurement standards; principles of prohibited practices; monitoring and application of the applicant's credit methodology; and an independent evaluation function. However, the applicant has demonstrated that for the most part it is proactively addressing these gaps. It should be noted that the applicant has a development mandate and as such the nature of its portfolio is transparently targeted to riskier projects and, therefore, it would benefit from blending GCF funds to enhance its ability to fund climate change-related projects. Regarding equity and guarantees, the applicant has not provided any significant information to demonstrate its track record, although the applicant offers two guarantee products and has relevant procedures for providing such offerings. The inclusion of these financial instruments as part of the AP's recommendation, therefore, provides for an elevated level of due diligence and monitoring of these instruments;
  - (b) The applicant partially meets the requirements of the GCF interim ESS in relation to the minimal to no E&S risk (Category C/I-3). The applicant's current ESMS, which is largely based on its national E&S regulations, is not in line with the GCF interim ESS in a number of respects, as described in section 3.2 above. The applicant does not meet the requirements of the GCF interim ESS in relation to the medium E&S risk (Category B/I-2); and
  - (c) Neither the applicant's current gender policy nor the competencies required to implement its gender policy are consistent with the GCF Gender policy. However, the applicant has provided sample of project documents as evidence of its experience in

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<sup>7</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".

lending to both men and women, as well as with gender considerations in the context of climate change in its lending operations. The applicant has agreed to update its gender policy and develop associated procedures as well as the required competencies to implement its new gender policy.

## 4.2 Recommendation on accreditation

46. The AP recommends, for consideration by the Board, applicant APL058 for accreditation as follows:

(a) **Accreditation type:**

(i) **Maximum size of an individual project or activity within a programme:** micro;

(ii) **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, equity and guarantees); and

(iii) **Maximum environmental and social risk category:** minimal to no risk (Category C/Intermediation 3 (I-3)); and

(b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the conditions. The AP will thereafter assess whether the conditions 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 submission of the first funding proposal to the GCF:

1. Develop its information disclosure policy and provide evidence of an established system of disclosure which complies with the requirements of the GCF fiduciary standard for on-lending and/or blending for the disclosure of project/programme information, including providing access to information on the applicant's website;
2. Provide an anti-money laundering and countering the financing of terrorism policy consistent with the GCF interim policy on prohibited practices, including providing access to this policy on the applicant's website. Furthermore, the applicant is required to provide evidence of an established system mainstreamed in its lending manuals to ensure consistency with the GCF interim policy on prohibited practices both for its own operations and that of its executing entities for projects/programmes financed by the GCF. This includes making provision for prohibited practices in financing agreements and the procurement of goods and services, where relevant;
3. Provide an organizational chart indicating where the designated staff members responsible for making E&S risk categorization decisions are located in the organization and their reporting lines; and
4. Finalize and provide the new gender policy that is under development and identify the associated procedures, tools and competencies required to implement the gender policy; and

- (ii) Conditions to be met prior to the first disbursement by the GCF for the first approved project/programme to be undertaken by the applicant:
1. Provide evidence of the establishment of an external communication channel, which may include a website to receive, register and respond to any E&S-related complaints;
  2. Complete the design of, and integrate in its operations (strategy, policy, procedures, systems), the applicant's enterprise-wide risk management and control framework as anticipated in the applicant's Enterprise Wide Risk Management Development and Implementation Plan, including provision within the control framework for an independent evaluation function which reviews the applicant's Credit Assessment Memorandum;
  3. Develop a procurement policy for GCF-funded projects/programmes which is disclosed on the applicant's website, and mainstream the policy in the applicant's lending manuals to ensure that the procurement processes for all of the projects financed by the GCF are fair and transparent, promote efficient procurement and provide for a dispute resolution process and public disclosure of contract award;
  4. Provide a written progress report from the applicant's management to demonstrate the steps the applicant has taken to address all of the recommendations of the independent credit review. The progress report should, among other things, include:
    - a. A thorough risk audit prior to any new activities being commenced, which would include the plans to become a deposit-taking institution and the re-introduction of any new micro-finance lending activities by the applicant; and
    - b. An update or completed review of the applicant's credit policy, which should include further guidance on the exceptions to the applicant's credit policy; and
  5. Update the terms of reference of the credit risk subcommittee of the applicant's board;
- (iii) Conditions to be met on an annual basis for three consecutive years starting with the applicant's financial year 2017/2018:
1. Provide an annual audit plan and an annual audit report including an external audit of the first GCF-funded project, if any and, if different, of the first GCF-funded project that involves guarantees and equity investments by and from the GCF, respectively, once the project is under implementation, and a final independent evaluation. The period of reporting may be extended depending on the commencement date of the project(s); and
  2. Provide progress reports on the items mentioned in the credit review, as listed in paragraph 47(b) (ii) 4 above.
47. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 47 (b) above, and agrees to the recommendation.

### 4.3 Remarks

48. The applicant may wish to consider demonstrating a greater degree of ESMS maturity by building its experience in implementing higher risk projects and programmes, and through a system for public disclosure of E&S risk information. Regarding building its experience in implementing higher E&S risk projects and programmes, the applicant may, in the future, wish to consider applying for an upgrade in its accreditation scope for the medium E&S risk Category B/I-2.
49. The applicant has confirmed that the GCF engagement will be initiated, developed, appraised and monitored by the Corporate Division of the applicant.
50. The applicant is encouraged to seek readiness and preparatory support where applicable to assist it with meeting the conditions identified in paragraph 47 (b) (i)-(ii) above.
51. The applicant is already taking steps to meet the conditions identified in paragraph 47 (b) (ii) 2-3 above.