

Annex XVIII: Accreditation assessment of applicant 093 (APL093)

I. Introduction

1. Applicant 093 (APL093), IL&FS Environmental Infrastructure and Services Limited (IEISL), a subsidiary of Infrastructure Leasing and Financial Services (IL&FS), is a national private sector entity based in India. IEISL has experience in advisory and project development services in environmental management, geospatial technologies, energy conservation and carbon market business. It promotes environmental initiatives through public-private partnerships and aims to create innovative solutions for environmentally sustainable development.

2. The applicant submitted its application for accreditation to the Secretariat via the online accreditation system on 5 May 2016. Accreditation fees were received from the applicant on 15 May 2016, thereby launching the Stage I institutional assessment and completeness check. Stage I was completed on 28 March 2018 and the applicant 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 GCF:

- (a) **Access modality:** direct access, national. The applicant received a national designated authority/focal point nomination for its accreditation application from India;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** small;¹
- (d) **Fiduciary functions:**²
 - (i) Basic fiduciary standards; and
 - (ii) Specialized fiduciary standard for project management; and
- (e) **Maximum environmental and social risk category:** medium risk (category B/intermediation 2 (I-2))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.

2.2 Legal status, registration, permits and licences

¹ 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 Fund, of above US\$ 10 million and up to and including US\$ 50 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 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”.

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. IEISL, formally known as IL&FS Waste Management and Urban Services Limited, was incorporated in 2007 and is now registered under the Companies Act 1956 under the Registrar of Companies, National Capital Territory of Delhi and Haryana, Ministry of Corporate Affairs, Government of India.

2.3 Institutional presence and relevant networks

5. The applicant has seven offices in different regions of India from which it manages the projects and programmes it implements. It works on the planning, development, implementation and operations of environmentally friendly projects that could contribute to low-emission and climate-resilient development pathways in India. It also leverages its partnerships with central and local government agencies, national and international private sector organizations, including providers of innovative technologies and multilateral institutions, to mobilize financial resources that it uses to develop and implement its projects.

6. The applicant intends to use its experience in developing and implementing projects that deliver climate change mitigation and adaptation solutions through waste management, renewable energy generation and energy efficiency in urban areas in order to further objectives of GCF. Specifically, with respect to mitigation, the applicant intends to undertake activities that reduce emissions through increased investments in low emission energy sources, such as waste-to-energy projects. The applicant also plans to continue investing in waste-to-compost projects throughout the country to assist India with its increasing volume of waste and support the agricultural sector by making organic compost fertilizers.

7. The applicant intends to continue cooperating with its partners in order to assist India its country in achieving sustainable development that mainstreams climate change by implementing environmentally and socially sustainable projects in India.

2.4 Track record

8. The applicant undertakes climate-resilient sustainable development by mainstreaming environmental issues and climate mitigation and adaptation in the sectors in which it operates. The applicant has a track record in financing renewable energy generation, energy efficiency and waste management projects in India by deploying grants, loans and equity.

9. In addition, the applicant has experience in project development, environmental management and urban infrastructure. The applicant's track record in financing sustainable development and climate change-related projects in these sectors to date includes the following, which fall within the GCF small and micro-size categories:

- (a) USD 0.9 million (in equity) for the Refuse-Derived Fuel Power Project in India;
- (b) USD 1.7 million (in loans) for the Ahmedabad Municipal Corporation Light-Emitting Dioxide Street Lighting Project in India;
- (c) USD 37.5 million (in grants and loans) for the 12 MW Ghazipur Waste to Energy Plant Project in India; and
- (d) USD 50 million (in grants and loans) for the Municipal Energy-Efficiency Project in Gujarat, India.

10. Although the entity has a track record in financing projects through loans and equity, it has confirmed that it does not intend to currently apply for the specialized fiduciary standard for on-lending and/or blending for loans and equity. Thus, specific structures of potential

projects/programmes, if accredited, would need to fall within the specialized fiduciary standard for project management, for which the applicant is seeking accreditation.

III. Stage II accreditation review assessment

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

12. As part of this assessment, the AP consulted third-party websites to complement the information provided in the application, and to gather information regarding the financial situation of the applicant's parent company, the alleged failures of the statutory auditors during the execution of external financial audits and the actions of the Government of India in response to the financial situation of IL&FS and some of its subsidiaries.

3.1 Fiduciary standards

3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

13. The applicant is a wholly owned subsidiary of IL&FS. The members of the applicant's Board of Directors and Managing Director are appointed by IL&FS; furthermore, IL&FS, through its designated subsidiaries, exercises financial oversight and project approval authority over the applicant.

14. In October 2018, the Government of India, in response to the financial situation of IL&FS, replaced the previous Board of Directors of IL&FS with Government-appointed members under the oversight of the Ministry of Corporate Affairs. The applicant's Board of Directors was also restructured; a director (appointed in 2008) with experience in environmental and climate change matters was named Chairman of the Board and the ex-Deputy Comptroller & Auditor General of the Government of India was appointed as a director. The applicant's Board of Directors is composed of three members, and the Chairman is an independent director as defined by the Companies Act 2013.⁴ Furthermore, the applicant's current Audit Committee was appointed in the company's last Board Meeting, held on 24 June 2019, and is chaired by the director with experience as Deputy Controller and Auditor General of the Government of India.

15. In order to exercise its oversight functions, the applicant's Board of Directors has established three committees of the Board, as follows:

- (a) Committee of Directors, responsible for the approval of new business initiatives and project undertakings, the presentation of project bids, and additional borrowings and investments;
- (b) Audit Committee, responsible for overseeing the internal and external audit functions and serving as the applicant's Ethics Committee; and
- (c) Nomination & Remuneration Committee, responsible for proposing, for Board approval, appropriate personnel policies, including the nomination of candidates for key executive positions and compensation policies.

16. The applicant's organization is structured in alignment with its business model and support service requirements. The applicant is led by a Managing Director and supported by a Senior Vice-President responsible for all waste management operations and by the Chief

⁴The Companies Act, 2013 refers to the Act issued by the Government of India. Available at <<http://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf>>.

Financial Officer responsible for all finance and accounting support activities (including taxation, budgeting and coordination of the work of the internal auditors). Additionally, the following five units are operational: Advisory Services (environment, energy efficiency, and carbon solutions), Sales & Marketing, Procurement, Business Development (waste management), and Human Resources and Administration. It is relevant to note that there have been no changes in the applicant's organizational structure and business strategy as a result of the governance changes at the parent company level.

17. The applicant has two main, fully functional information systems developed to provide the information required for appropriate decision-making and management of its operations. The information systems include a financial information system and a management information system (MIS). The financial information system generates timely periodic reports on sales, production, business segment performance, costing (both at product level as well as at plant level), debtor and vendor aging, cash flow realization, budget monitoring, and financial statements. The MIS generates information required for the management of the plants operated by the applicant. The MIS generates specific input and output reports on production, input consumption, sales dispatch and plant performance. The applicant provided sample copies of the reports generated by its information systems that demonstrate the functionality of the technology adopted. In addition to the applicant's information systems, further assurance of appropriate accounting procedures is provided by the definition of the functions and responsibilities of the financial management units established in its Accounting and Operations Manual.

18. The applicant's Accounting and Operations Manual establishes the procedures for payments and disbursements. The authority for approving disbursements of expenses and capital expenditures are delegated to the applicant's Managing Director, who subdelegates this authority as required. The procedures for the approval, recording and disbursement of funds are defined in detail for each type of disbursement made by the applicant. Specific processes for disbursements to vendors and project executors, payment of production inputs, and payment of administrative/operating expenses are defined. Each of these processes establish the requirements for disbursement, including proper documentation, recording in the financial management system and definition of an officer responsible for payment authorization. The payment and disbursement procedures adequately segregate functions and are supported by the applicant's financial management systems. Furthermore, the internal audit function reviews the Finance and Accounts Units to ensure compliance with the established payment and disbursement procedures.

19. The Companies Act 2013 (the Act) requires that the applicant establish an Audit Committee with members of its Board of Directors. Furthermore, the Act establishes the minimum requirements for the terms of reference of the Audit Committee. Based on the mandate of the Act, the applicant formed its Audit Committee and formulated the terms of reference that establish the following main responsibilities:

- (a) Exercise periodic oversight over the external and internal audit functions, including oversight of the internal control system, approval of the annual internal audit plan, approval of the statutory audit proposal and regular review of audit observations and management responses;
- (b) Recommend the appointment of the statutory auditor and internal auditor;
- (c) Review the annual audited financial reports and approve the presentation of the report to the Board of Directors;
- (d) Scrutinize intercorporate loans and investments; and
- (e) Approve, or subsequently modify (if necessary), transactions of the company with related parties.

20. The applicant provided minutes of the Audit Committee, which demonstrate that the Committee is fulfilling its responsibilities as defined in its terms of reference.
21. The applicant outsources the internal audit function to a firm of chartered accountants. The Institute of Chartered Accountants of India (ICAI) establishes the standards for internal audit that must be observed by its members when engaging in internal audit functions.⁵ The Audit Committee selects the chartered accountant that will undertake the internal audit functions, approves the annual internal audit plan and receives periodic reports from the chartered accountant of audit findings and observations. The internal audit services provided by the third party allow the applicant to meet the requirements of the GCF basic fiduciary standards for key administrative and financial capacities, provided that the internal audit is performed in observance of the ICAI Internal Audit Standards (or equivalent). The applicant provided enough evidence that its established practice is to only outsource internal audit services to firms that are led by chartered accountants and mandated to observe the ICAI Internal Audit Standards, and it is reasonable to expect that this practice will be maintained in the future.
22. The Audit Committee, aided by periodic Audit Action Taken Reports (ATRs),⁶ regularly monitors the internal audit findings and observations. The ATRs contain the audit findings and observations (both current findings and past audit findings that are pending resolution), actions taken by management to resolve the issues detected and the status of the corrective actions proposed by management. The applicant provided copies of the ATRs, which demonstrate that the Audit Committee actively monitors the status, including closure, of internal audit findings
23. The applicant's Audit Committee recommends the external audit firm that will be engaged in undertaking the biannual statutory audits of the applicant's financial statements. The Board of Directors confirms this recommendation, and the statutory auditor selection is approved at the Annual General Meeting. The terms of reference of the statutory auditor are defined in the International Standard on Auditing 210: Agreeing the Terms of Audit Engagements.⁷ In addition to the statutory (financial) audit, the applicant's Accounting and Operation Manual, in compliance with relevant national laws and regulations, establishes the requirement for periodic independent tax and production cost audits.
24. The National Company Law Tribunal of India upheld a five-year ban on the audit firm that was employed to perform the latest available statutory audit of the applicant's financial statements.⁸ It is relevant to note that the allegations of statutory audit lapses do not mention the statutory audits performed on the applicant's financial statements; however, this legal case may require that the applicant engage a new statutory audit firm. The GCF basic fiduciary standards for key administrative and financial capacities require that accredited entities appoint an external auditor; given the circumstances described above, confirmation that the applicant has engaged an external audit firm will be requested.
25. The applicant has not formally documented the adoption of a control framework, such as the Committee of Sponsoring Organizations of the Treadway Commission Framework (COSO Framework); however, the Companies Act 2013 (the Act) mandates that the Board of Directors establish internal financial controls and ensure that the controls are adequate for the scope of the applicant's operations and effectively implemented. Based on the requirements of the Act,

⁵ Available at <https://www.icai.org/new_post.html?post_id=597&c_id=145>.

⁶ The ATRs are prepared by the applicant's Finance Department, as the unit responsible for coordinating the work of the internal and external auditors. These reports are prepared with the inputs provided by the internal audit function, relevant organizational units and the Audit Committee.

⁷ Available at <<https://www.ifac.org/system/files/downloads/a009-2010-iaasb-handbook-isa-210.pdf>>.

⁸ Available at <https://www.business-standard.com/article/companies/nlct-allows-ban-on-deloitte-bsr-for-alleged-auditing-lapses-in-il-fs-firm-119080901220_1.html>.

the applicant developed its Accounting and Operational Manual and Financial Control Policy. These documents provide detailed procedures that serve as guidance to the applicant's officers and employees for executing daily transactions in a manner that provides effective control over the company's operations. Furthermore, as mandated by the Act, the Audit Committee shall periodically evaluate the "internal financial controls and risk management systems". In order to fulfil this responsibility, the Committee relies on the ATRs, statutory audit reports, internal audit reports and the applicant's Financial Risk Register. The applicant could benefit from adopting a control framework such as the COSO Framework, however, the regulatory mandates, the functioning of the internal audit unit, the comprehensive oversight of the Audit Committee, and the level of detail of the relevant policies and procedure manuals provide the applicant with an appropriate internal control framework. Finally, the internal control environment is further strengthened by the Act's requirement that the statutory auditors include in their annual financial report an annex that contains the "Report on the Internal Financial Controls Over Financial Reporting".

26. Special mention is made of the applicant's substantial reliance, as disclosed in its March 2018 Audited Consolidated Balance Sheet, on funding received from its parent company (and from subsidiaries of its parent company). The GCF basic fiduciary standards for key administrative and financial capacities require that accredited entities assess relevant risks and implement proper mitigation plans. The exposure to funding received from related companies represents a relevant financial risk for the applicant that must be addressed. The applicant provided assurance that an action plan is in place to reduce its exposure to related company funding, however, updated financial information to assess the evolution of related company lending will be requested.

27. Based on the Purchase Policy approved by the applicant's Audit Committee and its Board of Directors, the applicant developed detailed procurement guidelines which are organized in three sections: Decision Authority Matrix, Procedures for Non-Purchase Committee Procurement and Procedures for Purchase Committee Procurement. The monetary value of the goods or services to be procured determines the procedure to be applied. The procurement guidelines classify procurement activities based on the following criteria: consumable or capital goods, regular or extraordinary, and budgeted or non-budgeted. All procurement activities undertaken by the applicant follow an ordered sequence including pre-purchase activities, purchase preparation, form of procurement (for example public tender) and conditions for release of payment to vendor. The applicant's procurement activities are appropriately managed by the procurement department and supported by mandatory documentary requirements, an appropriate vendor rating system and well-defined procedures for undertaking public tender processes. Overall, the applicant's procurement guidelines satisfy the requirements of the GCF basic fiduciary standards on key administrative and financial capacities; however, the procurement guidelines' conflict of interest procedure is not sufficiently developed in the applicant's procurement policy, and a procurement dispute resolution policy is required. Finally, it is important to note that the applicant developed guidelines for monitoring the procurement activities of executing entities (EEs), including the requirement that EEs periodically report their procurement activities using a standard template.

28. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, do not fully meet the GCF basic fiduciary standards on key administrative and financial capacities. The relevant gaps identified in paragraphs 24, 26 and 27 above are addressed by the corresponding conditions for accreditation in section 4.2 of this document.

3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

29. The applicant's ethical standards are defined in its Employee Handbook, Code of Conduct, and Whistle Blower Policy and Vigil Mechanism, which was developed in accordance with the mandate of the Companies Act, 2013. The Whistle Blower Policy and Vigil Mechanism specifies that the expected ethical behaviours are applicable to all employees and individuals contractually engaged with the applicant. The ethical standards are appropriately communicated in the employee's appointment letter, the Employee Handbook, and in Whistle Blower Policy and Vigil Mechanism, which is publicly available on the applicant's website.⁹ The Whistle Blower Policy and Vigil Mechanism, in accordance with the guidance of the Companies Act 2013, assigns the function of ethics oversight to the Audit Committee. Furthermore, the position of ombudsman is established as the channel through which ethical violations can be reported (violations can also be reported directly to the Chairperson of the Audit Committee.).

30. The applicant's Code of Conduct and the Companies Act 2013 provide the framework for the definition of conflicts of interest, the individuals that are bound by these regulations, the disclosure requirements of financial interests and the sanctions for failure to disclose financial interests, and they direct covered parties to the Compliance Officer to report violations of the Code of Conduct or raise questions regarding potential conflicts of interest. The Companies Act 2013 establishes the financial interests that must be disclosed, using a standard template. Disclosure of financial interests must be done annually (or when changes occur). The Companies Act 2013 also establishes the sanctions (fines and imprisonment) for failure to make the required disclosures. The applicant's Code of Conduct provides further detail on the covered parties that must disclose conflicts of interest, including directors and senior officers from the level of assistant vice-president and higher. The Code of Conduct requires that each covered party acknowledge in writing that they have received and understood the requirements of the Code of Conduct.

31. The applicant's Financial Control Procedures and Accounting and Operations Manual contain detailed descriptions of the way financial management and accounting activities must be undertaken. These detailed procedures, supported by effective internal audit and a functioning Audit Committee, constitute the main mechanism to prevent fraud and other malpractices. The company's Employee Handbook, Code of Conduct and Whistle Blower Policy and Vigil Mechanism establish the applicant's ethical values, which include strict regulatory compliance, accurate financial reporting, professional integrity and transparency. The applicant's Whistle Blower Policy and Vigil Mechanism defines the main forms of malpractice and the procedures that will be followed for investigations (including the designation of the officer/director that will lead the investigation process and its resolution).

32. The applicant's Whistle Blower Policy and Vigil Mechanism and the regulatory mandate contained in paragraph 177 (9) of the Companies Act 2013 (on the establishment of a vigil mechanism) contain the requisite provisions to comply with the requirements established in the GCF Policy on the Protection of Whistleblowers and Witnesses.¹⁰ The GCF Policy on the Protection of Whistleblowers and Witnesses contains more detailed descriptions, however, the applicant's Whistle Blower Policy and Vigil Mechanism contains the required protections for whistle-blowers, the appropriate definition of the avenues to report alleged misconduct incidents, and defines the organizational positions that are responsible for the effective functioning of the whistle-blower mechanism. It is important to note that paragraph 177 of the Companies Act 2013 defines the functions of the Audit Committee and assigns the responsibility for oversight of the Whistle Blower Policy and Vigil Mechanism to this governance body.

33. The applicant's investigation function is defined in its Whistle Blower Policy and Vigil Mechanism. The purpose of the investigation function is to receive all complaints of unethical or

⁹ Available at <<http://www.ilfsenv.com/Brochures/Vigil-Mechanism.pdf>>.

¹⁰ Decision B.BM-2018/21 and annex I thereto.

improper actions allegedly committed by a covered party (covered party as defined by the applicant's Code of Conduct and its Zero-Tolerance Policy). The investigation function will evaluate the allegation and determine if it warrants further action. If the allegation is found to have credible evidence, a formal investigation will be initiated. The Companies Act 2013 designates the Audit Committee as the governance body responsible for investigating allegations of misconduct received under the procedures of the Whistle Blower Policy and Vigil Mechanism. The Chair of the Committee is delegated the authority to act as the principal officer of the investigations function, assisted by the applicant's Ombudsman.

34. The Whistle Blower Policy and Vigil Mechanism provides guidelines for the entire investigation process, including the way complaints are received, initially evaluated, investigated and resolved. All complaints pertaining to finance and accounting issues or involving a senior official (Vice-Presidents and above) must be submitted to the Chair of the Audit Committee; all other complaints must be submitted to the Ombudsman. The investigation procedures focus strictly on determining the accuracy of the facts presented in the complaint. The accused party's identity, to the extent possible, will be kept confidential throughout the investigation. Furthermore, unless justifying causes are present, the accused party will have the right to know it is under investigation and will have the right to present its defence arguments. Based on the outcome of the investigation, the Chair of the Audit Committee (or the Ombudsman) will either absolve the accused subject or recommend that management take disciplinary action against the offender (it is important to note that all disciplinary action will observe the relevant personnel policies and legal requirements.). All records of the investigation must be stored for a minimum period of eight years (or longer if legally required).

35. As an infrastructure company, the applicant is not required to comply with the national Prevention of Money Laundering Act 2005; however, in order to meet the GCF basic fiduciary standards for transparency and accountability and comply with the GCF Anti-Money Laundering and Countering the Financing of Terrorism Policy (AML/CFT Policy),¹¹ it developed an AML/CFT Policy specifically for GCF-funded projects/programmes. The applicant's AML/CFT Policy, which has been approved by the applicant's Board of Directors, complies with the requirements of the GCF AML/CFT Policy.

36. The applicant's Code of Conduct and its Whistle Blower Policy and Vigil Mechanism contain most, but not all, of the types of conduct that are defined as prohibited practices in the GCF Policy on Prohibited Practices.¹² Furthermore, the GCF Policy on Prohibited Practices establishes the accredited entity's responsibility to ensure observance of the GCF Policy on Prohibited Practices at the EE level and (if needed) cooperate in the investigation (for GCF-funded projects/programmes) of alleged violations of this Policy. In order to fully comply with the GCF Policy on Prohibited Practices, the applicant must ensure that the scope of prohibited practices, defined in its Code of Conduct and in its Whistle Blower Policy and Vigil Mechanism, contain all the definitions of prohibited practices that are established in the GCF Policy on Prohibited Practices. Compliance of the applicant's ethical standards is monitored by the Audit Committee, which, based on the evidence provided, is effective in ensuring compliance with the matters that are under its purview.

37. The AP finds that the applicant's policies, procedures and capacity, supported by its track record, fully meet the GCF basic fiduciary standards on transparency and accountability, as well as comply with GCF Policy on the Protection of Whistle Blowers and Witnesses and GCF AML/CFT Policy. However, the applicant partially complies with the GCF Policy on Prohibited Practices. The relevant gap identified in paragraph 36 is addressed by the corresponding condition for accreditation in section 4.2 of this document.

¹¹ Decision B.18/10 and annex XIV thereto.

¹² Decision B.22/19 and annex XIV thereto.

3.1.3 Section 5.1: Specialized fiduciary standard for project management

38. The applicant provided a copy of the project preparation guidelines used to develop bid proposals for municipal solid waste management concessions. These guidelines demonstrate the applicant's comprehensive procedures for project preparation. The guidelines incorporate the required stages for effective project preparation, including the following:

- (a) A general description and characteristics of the project;
- (b) A comprehensive technical project description;
- (c) Proposed project partners;
- (d) A detailed analysis of processing plant requirements;
- (e) A comprehensive evaluation of project risks and mitigation measures;
- (f) Project funding requirements; and
- (g) A comprehensive project financial analysis.

39. The applicant provided a sample of a completed project preparation document that demonstrates the effective application of its project preparation guidelines.

40. The applicant provided a copy of its project appraisal process that demonstrates its organizational expertise to undertake quality project appraisals. The project appraisal guidelines incorporate detailed assessments of the market for the services to be provided by the project and a comprehensive technical evaluation of the proposed technology, production processes and project location. Once the market and technical analysis are completed, the project appraisal focuses on the project implementation framework, specifically evaluating the implementation strategy, the procurement strategy (including vendor evaluation and vendor synergy to optimize implementation), and the proposed implementation schedule. Finally, the applicant appraises the project cost and sources of financing proposed by the project sponsor, and undertakes an evaluation of the project's financial projections, including a sensitivity analysis of key variables. The final steps in the project appraisal process include an assessment of environmental, social, legal and regulatory project components, and an analysis of project risks and appropriate mitigation measures. The applicant provided copies of completed project appraisals, thus validating that the relevant guidelines are effectively applied.

41. The applicant, as a subsidiary of IL&FS, is subject to the oversight of, and the project approval procedures defined by, the Board of Directors of IL&FS. These procedures include delegating approval authority over specific transactions to specialized IL&FS subsidiaries. The oversight of specialized IL&FS subsidiaries provides additional assurance of proper project preparation and appraisal.

42. For this applicant, project implementation refers to the construction and preparation of the physical components of its projects (i.e. construction and preparation of a waste management plant). The applicant's Project Monitoring and Oversight Guidelines establish the monitoring procedures specifically for the implementation stage of the project.

43. The applicant relies on both independent experts, as well as its own staff, to ensure effective monitoring of project implementation. External experts are engaged to perform periodic project oversight functions, including on-site inspection of execution progress for all project components, verification of costs incurred (and analysis of variances), and analysis of critical implementation activities. External accounting firms are retained to monitor the disbursements of funds to the project and expenditures by project component (including analysis of variances) and prepare periodic project cash flow statements. The company staff and project lenders also perform project site inspections. Based on the results of the project implementation monitoring activities, the applicant's staff prepare periodic Project

Implementation Progress Reports that are reviewed by management and reported to the Board of Directors.

44. For this applicant, the monitoring and evaluation function shall be understood as the effective operation of the plants (i.e. waste management plants) it operates. The applicant's financial management, operational and accounting processes, supported by its management information system and managerial reports received from the plants, provide the required elements to adequately manage the operation of the projects it has implemented.

45. The applicant developed its Policy and Procedure for Disclosure of Project Completion/Evaluation Report. The applicant defines project closure as the "completion of the physical components of the project development and all funds against project cost have been disbursed and utilized in project construction". Based on this definition, the applicant's guidelines establish the content of and the channel used to publish project closure reports. Furthermore, this policy establishes that after six months, counted from the date the project becomes operational, an independent qualified professional will be engaged to evaluate the project; this evaluation exercise will be undertaken every six months, and the evaluation reports will be published. The applicant's policy establishes the procedures for the publication of the evaluation report, including guidance on appropriate report content and communication channels used for publication.

46. The applicant's project appraisal serves as the foundation for effective project implementation risk management by providing a comprehensive evaluation of the probable risks and available mitigation strategies. During the project implementation stage, technical and performance risks are mitigated by the thorough vendor/service provider selection process implemented by the applicant. Furthermore, the applicant relies on project monitoring performed by independent experts, the project manager and experts assigned by the project lenders. Through these monitoring activities, project implementation risks are identified and corrective actions are implemented in a timely manner. The applicant provided copies of reports, including implementation progress reports, expense analysis reports, monitoring reports and site inspection reports that evidence the importance given by the applicant to appropriate project monitoring and risk identification. It is important to note that the reliance on external experts provides the required separation between project implementation and the project monitoring team.

47. The applicant has a proven track record in developing projects that generate positive environmental impacts. The applicant's track record in implementing and operating waste management plants demonstrates that its project management policies and procedures are effective. A leading example of the applicant's track record that demonstrates the competencies developed to successfully bid, implement and operate the projects it designs is the municipal solid waste processing plants it operates. The applicant has been "mandated to manage over 14,000 tonnes per day of solid waste (municipal solid waste and construction and demolition waste) across the country".¹³ The applicant provided additional examples of projects it has developed in the different areas of waste management in which it specializes. Examples include the construction and demolition waste recycling project in Burari, Delhi, with a capacity to process 500 tonnes per day of construction demolition debris; the development of the Ghazipur Bio-Meth Plant in New Delhi; and the development of Sewapura Compost Plant, which has a capacity to process 300 tonnes per day of municipal solid waste for conversion into organic compost.

48. The AP finds that the applicant's policies, procedures and capacity, supported by its track record, fully meet the GCF specialized fiduciary standard on project management.

¹³ Available at <<http://www.ilfsenv.com>>.

3.2 Environmental and social safeguards standards

3.2.1 Section 6.1: Environmental and social policy

49. The applicant's Board adopted an environmental and social policy framework (ESPF) in August 2015. The ESPF also applies to the applicant's subsidiaries and associate companies as suitably adapted to reflect each individual business unit's processes. The ESPF is founded on the concept of sustainable development, which recognizes environmental and social (E&S) considerations in its business operations to add value and minimize impacts and risks to increase the effectiveness of the applicant's services on environmental infrastructure projects. The applicant has established and implements mechanisms to conserve natural resources, protect the environment and provide a safe and healthy workplace for their employees and contractual staff. The applicant is committed to complying with applicable local and national laws and to be responsive to existing and emerging global E&S concerns on a proactive basis.

50. The applicant provided an analysis showing the equivalence between the various E&S principles in the ESPF demonstrating that the ESPF conforms to the Performance Standards (PS) 1–4 in the GCF interim environmental and social safeguards (ESS) standards. The applicant claimed that PS 5–8 are not relevant to its operations as they do not involve resettlement/compensation (PS 5), impacts on biodiversity (PS 6), impacts on indigenous people (PS 7) or impacts on cultural heritage (PS 8). Although the ESPF contains provisions for addressing requirements specified under PS 5–8, the applicant, in its project execution, has not encountered elements applicable to PS 5–8 in its operations. The applicant has agreed to comply with PS 1–8 of the GCF interim ESS standards as relevant for GCF funded projects. The ESPF is available to all of the applicant's staff on its intranet. The applicant has created a Corporate Sustainability Cell (CSC) staffed by experts for overall guidance, advice and coordination on E&S matters related to its operations. The CSC is responsible for knowledge management, communication and outreach, training, and compliance monitoring for the applicant's ESPF. A coordinator is identified in each subsidiary to coordinate activities related to the ESPF.

51. The AP finds that the applicant's ESPF and related documents, supported by evidence of its track record, fully comply with the GCF Environmental and Social Policy¹⁴ and interim ESS standards for maximum E&S risk category B/I-2 projects/programmes with respect to PS 1–8.

3.2.2 Section 6.2: Identification of risks and impacts

52. The ESPF describes the applicant's institutional process of guiding staff in identifying the E&S risks and impacts of projects/programmes as they evolve over the project lifetime. The process for assigning E&S risk ratings involves reviewing E&S impacts and assessing exposure and liabilities related to environmental and social non-compliance. The E&S risk ratings identify the extent of follow-up actions and monitoring required for the project to avoid or mitigate E&S risks. Based on such assessment, the project is assigned any one of the following E&S risk ratings: Low (L), Medium (M) and High (H), which are found to be consistent with the corresponding E&S risk categories (A, B and C) in the GCF interim ESS standards. The ESPF annexes contain E&S risk rating criteria for waste management projects and advisory services.

53. The applicant provided a sample of E&S risk screening and rating forms in E&S risk categories H and M for projects on municipal waste management, waste-to-energy, and composting plants. An example of a project involving the purchase of light-emitting diode lights falling in E&S risk category L was also provided. The applicant provided an illustrative list of

¹⁴ Decision B.19/06 and annex X thereto.

projects and descriptions from the past three years and their E&S risk category (H, M or L). The ESPF coordinator in the CSC is responsible for the determination of the E&S risk categorization.

54. The AP finds that the applicant's system of identification of E&S risks and impacts, supported by evidence of its track record, fully comply with the GCF Environmental and Social Policy and interim ESS standards for maximum E&S risk category B/I-2 projects/programmes.

3.2.3 Section 6.3: Management programme

55. The ESPF describes the applicant's institutional process for managing mitigation measures and actions stemming from the E&S risk identification process provided, distinguishing between different categories of risk. The information related to E&S risks is collected at the project planning stage and is communicated to other departments, such as finance and/or legal, through a Business Approval Memorandum. This Business Approval Memorandum is reviewed by the applicant's senior management to identify all project-associated E&S risks. The mitigation measures are also identified, and an estimate of costs incurred for the same is also calculated. This information becomes part of the project preparation and appraisal process. Following the communication of E&S risks, the applicant submits final technical and financial bids or letters of intent to a client, depending on the typology of sourcing of projects. The E&S risk reduction controls are executed in alignment with requirements for environmental, health and safety-related legal compliance and taking into account E&S studies. incorporating covenants to this effect in contract agreements drawn; and communicated to the client. The applicant provided a sample of three E&S assessments for projects it implemented in the areas of waste-to-energy and composting that were placed in E&S risk categories H, M and L.

56. The applicant's ESPF describes the E&S audit requirements. The applicant's project audit takes place in two forms: corporate review and external audit. The corporate review is conducted by the CSC, which is an internal audit process. The corporate review is a two-tier process that includes office-based review and project site-based review. In the office-based review, a random sampling of the ongoing and new projects is carried out, and all E&S compliance documents are checked. In the site-based review, E&S compliance documentation, safety aspects, emergency preparedness and status of E&S issues are reviewed. The finding/observations of the corporate review are compiled in a format indicated in the ESPF. The external audit is conducted by a third-party agency, such as an external audit firm. The findings of the corporate review are submitted for the review of the Audit Committee of the applicant's parent company, IL&FS, at the Audit Committee's next meeting. The findings of the external audit are submitted for the review of the Board of Directors of IL&FS. The applicant provided a sample corporate audit and an external audit report, both of which addressed E&S matters.

57. The AP finds that the applicant's management programme, supported by evidence of its track record, fully complies with the GCF Environmental and Social Policy and interim ESS standards for maximum E&S risk category B/I-2 projects/programmes.

3.2.4 Section 6.5: Monitoring and review

58. The ESPF describes the applicant's monitoring and supervision procedure, which instructs staff on how to systematically track completion of mitigation and performance improvement measures, including roles and responsibilities. After the execution of contracts for project development, the monitoring of the E&S risks is performed as per a separate set of guidelines laid out in the ESPF. During this stage, relevant covenants related to social factors such as bonded/child labour are communicated to contractors through the insertion of relevant clauses in their contracts. The periodicity for monitoring is based on the risk rating (H, M and L) assigned to the project. The monitoring of the project starts during the inception phase of the

project. Any new risks identified during monitoring is captured in ESPF format with an action plan for subsequent monitoring in the next cycle. Based on the monitoring results, the E&S risk rating may be elevated as per the guidance given in in the ESMF to ensure further close monitoring of the project. The applicant has also adopted a monthly monitoring report for the project site during construction. The applicant provided examples of three monitoring reports addressing E&S matters related to waste-to-energy and composting projects.

59. The AP finds that the applicant's system of monitoring and review, supported by evidence of its track record, fully complies with the GCF Environmental and Social Policy and interim ESS standards for maximum E&S risk category B/I-2 projects/programmes.

3.2.5 **Section 6.6: External communications, consultations, information disclosure and grievance redress mechanism at the institutional level**

60. The applicant provided a website link where it receives and registers external communications from the public so it can screen and assess issues raised, determine how to address them, and provide, track and document responses. The applicant provided a copy of its Policy and Procedures for Grievance Management, External Communications and Related Matters for IEISL and Executing Entities, applicable at its institutional level and to its EEs at activity/project level. This policy is linked to the ESPF, which was found by the AP to be in line with the GCF Environmental and Social Policy and PS 1–8 of the interim ESS standards. This policy describes internal procedures, including its grievance redress mechanism and related responsibilities, for screening, assessing and addressing issues raised. The applicant's Grievance Management and Communication Coordinator, who is viewed as functioning independently from the project operations staff, is responsible for the grievance redress mechanism and external communication.

61. The applicant provided a copy of the register for external inquiries/complaints on E&S matters received along with responses from the past three years. The applicant agrees to continue with this practice for GCF-funded projects/programmes.

62. The AP finds the applicant's E&S disclosure and public consultation policy to be in line with the GCF Information Disclosure Policy related to the E&S information disclosure requirements for E&S risk category B/I-2 projects/programmes. The ESPF requires the applicant's executing entities to include a grievance redress mechanism in projects financed by the applicant as part of the engagement process to ensure that consultation, disclosure and community engagement continue throughout the applicant's association with that project.

63. As per the ESPF, the engagement of project-affected persons in a structured and culturally appropriate manner is to be ensured for each project wherever relevant. This includes free, prior and informed consent and facilitating their informed participation as a means to establish whether a project has reasonably incorporated affected peoples' concerns within the framework of applicable legislation. The process and results of the consultation, including any actions agreed resulting from the consultation, are documented. The information disclosure takes place, in a culturally appropriate manner and in the local language, through requisite documents at appropriate stages of the project cycle.

64. The AP finds that the applicant's system for external communications, consultations, information disclosure and grievance redress mechanism, supported by evidence of its track record, fully comply with the GCF Environmental and Social Policy, interim ESS standards and the GCF Information Disclosure Policy requirements on the disclosure of E&S information for maximum E&S risk category B/I-2 projects/programmes.

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

65. The applicant provided its organizational structure responsible for implementing the ESPF along with their authority and reporting lines. This comprises the ESPF Coordinator, who heads the Regional Coordinators and Project Coordinators. The applicant provided the E&S responsibilities of its staff, as outlined in the organizational chart, which are as follows: the CSC has been instituted for the implementation of ESPF. The E&S Cell comprises an E&S Coordinator supported by E&S specialists. The E&S Cell coordinates with the project managers from different teams on E&S risk assessments and monitoring. It further presents periodic updates on ESPF implementation to the applicant's Board. The project managers are responsible for conducting E&S risk assessment and monitoring for their respective projects. The applicant provided biodata on its E&S staff responsible for project/programme performance, showing that they have the knowledge, skills and experience necessary to understand and ensure the implementation of PS 1–8 of the GCF interim ESS standards. The applicant also provided a list of wide-ranging E&S-related training undertaken by its staff.

66. To ensure the quality of E&S-related services, the applicant has empanelled ten E&S consultants and nine environmental laboratories across the country. The applicant indicated that it is a dynamic process, and the list of empanelled consultants and laboratories is updated from time to time. This list is used for engaging in various services as required by the different business units of the applicant.

67. The AP finds that the applicant's organizational capacity and competency, supported by evidence of its track record, fully comply with the GCF Environmental and Social Policy and interim ESS standards for maximum E&S risk category B/I-2 projects/programmes.

3.3 Gender

68. The applicant provided its Gender Policy and Procedure adopted in August 2018, which the AP found to be in line with the GCF Gender Policy. The Gender Policy and Procedure has been approved by the applicant's Board and included in its Human Resource Manual.

69. The applicant's Gender Policy and Procedure reflects its commitment to bring about a behavioural and organizational change with respect to gender through the applicant's policies, procedures and processes. This will be brought about by promoting the better understanding of dimensions of gender discrimination and its effects through data collection from its activities. The aim is to develop clear guidelines which enable the applicant to achieve gender mainstreaming in its operations. In particular, the applicant seeks to:

- (a) Adopt a gender-sensitive approach in operations through knowledge- and capacity-building on gender inequality and its various dimensions;
- (b) Contribute to reducing the gender gap and the ensuing social, economic and environmental vulnerabilities, both existing as well as climate change-induced, in contemporary Indian society;
- (c) Achieve equality for women in GCF-funded operations by pursuing a policy of equal rights, power, responsibilities and opportunities for women and men, as well as equal consideration of interests, needs and priorities of women and men; and
- (d) Achieve non-discrimination in terms of benefits and remuneration for both women and men employee beneficiaries for GCF-funded projects at a minimum.

70. The applicant's Gender Policy and Procedure reflects its commitment to maintaining an environment where all women enjoy a safe, friendly and supportive working environment, free of harassment and exploitation. The applicant believes that sexual harassment and abuse damages both individual and organizational health. As a result, it has enacted and applied a policy on the sexual harassment of women at the workplace for prevention, prohibition and

redress. As per this policy, an Internal Complaints Committee has been set up, and information is disseminated to the applicant's employees.

71. The applicant's Gender Policy and Procedure includes a requirement for its EEs to have non-discriminatory practices in terms of benefits and remuneration for both women and men employees. The applicant provided examples of its lending operations that specifically target women among project/programme beneficiaries. The applicant agrees to include the linkage between gender and climate change for GCF-funded projects/programmes.

72. The applicant currently does not have a gender expert on its staff. However, the applicant has provided a terms of reference for recruiting suitable candidates as gender experts and agreed to provide curricula vitae of gender staff/consultants who would be responsible for implementing its Gender Policy and Procedure for GCF-funded projects/programmes.

73. The AP finds that the applicant's gender policies and procedures are in line with the GCF Gender Policy. However, the applicant currently does not have a gender expert on its staff to implement its Gender Policy and Procedure for GCF-funded projects/programmes. The relevant gap identified in paragraph 72 above is addressed by the corresponding condition for accreditation in section 4.2 of this document.

IV. Conclusions and recommendation

4.1 Conclusions

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

- (a) The applicant fully complies with the GCF basic fiduciary standards on transparency and accountability, the GCF Policy on the Protection of Whistleblowers and Witnesses, the GCF AML/CFT Policy and the specialized fiduciary standard for project management. The applicant partially meets the requirements of the GCF basic fiduciary standards on key administrative and financial capacities and partially complies with the GCF Policy on Prohibited Practices. Specific actions are required by the applicant in order to fully meet the GCF basic fiduciary standards on key administrative and financial capacities. These actions include providing updated financial information for the assessment of its related company borrowing position; providing formal verification that it has engaged an external auditor; include in its procurement policy guidance on the management of conflict of interest situations specific to procurement activities; and implement a procurement dispute resolution policy. In order to fully comply with the GCF Policy on Prohibited Practices, the applicant needs to review and update its Code of Conduct and its Whistle Blower Policy and Vigil Mechanism to ensure these policies cover the scope of prohibited practices defined in the GCF Policy on Prohibited Practices;
- (b) The applicant meets the requirements of the GCF Environmental and Social Policy, the interim ESS standards and the GCF Information Disclosure Policy requirements on the disclosure of E&S information in relation to the medium E&S risk (category B/1-2); and
- (c) The applicant has demonstrated that it has policies and procedures in place to implement its Gender Policy and Procedure, which is found to be consistent with the GCF Gender Policy, and that it has experience with gender considerations in the context of climate change. However, the applicant currently does not have gender expert(s) on its staff to implement its Gender Policy and Procedure. The applicant has agreed to recruit at least one gender expert to help implement its Gender Policy and Procedure, once accredited.

4.2 Recommendation on accreditation

75. The AP recommends, for consideration by the Board, applicant APL093 for accreditation as follows:

(a) **Accreditation type:**

- (i) **Maximum size of an individual project or activity within a programme:** small (including micro¹⁵);
- (ii) **Fiduciary functions:**
 - 1. Basic fiduciary standards; and
 - 2. Specialized fiduciary standard for project management; and
- (iii) **Maximum environmental and social risk category:** medium risk (category B/I-2) (including lower risk (category C/intermediation 3 (I-3)¹⁶));

(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. The conditions are as follows:

- (i) Conditions to be met prior to the signature of the accreditation master agreement during Stage III of the accreditation process:
 - 1. Provision by the applicant of a copy of the audited financial statements for the fiscal year ending March 2019;
 - 2. Provision by the applicant of a letter issued by its Audit Committee confirming that a statutory auditor has been engaged to perform an external audit of IEISL for the fiscal year ending March 2020; and
 - 3. Provision by the applicant of a letter issued by the applicant's Managing Director explaining the actions the applicant is undertaking and those it plans to undertake to reduce its reliance on funding from Related Parties as defined in the list of entities disclosed in Note 40: "Related Party Disclosures" contained in the applicant's Report on the Consolidated Statements for the fiscal year ended 31 March 2018 and prepared by Deloitte Haskins & Sells. For the purposes of this condition, the actions to be considered are those undertaken or planned to be undertaken up to twenty-four (24) months from the date of the decision by the Board to accredit the entity in Stage II (Step 2) of the accreditation process;
- (ii) Conditions to be met prior to submission of the first funding proposal to GCF:
 - 1. Provision by the applicant of evidence of recruitment of a gender expert or an external gender consultant to help with the

¹⁵ 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".

¹⁶ 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".

- implementation of the applicant's Gender Policy, including the expert's or consultant's curriculum vitae; and
2. Provision by the applicant of evidence of the adoption by the Board of Directors a Procurement Dispute Resolution procedure; and
- (iii) Conditions to be met prior to the first disbursement by GCF for the first approved project/programme:
1. Provision by the applicant of evidence that it has included in its Code of Conduct and/or in its Whistle Blower Policy and Vigil Mechanism the required changes to ensure that either one or both cover the scope of all the prohibited practices defined in the GCF Policy on Prohibited Practices; and
 2. Provision by the applicant of evidence that it has updated its procurement policy and included *guidance on potential conflicts of interest, disclosure requirements and the designation of the officer to whom authority is delegated to resolve potential conflict of interest situations.*

76. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 75 above, and agrees to the recommendation.

4.3 Remarks

77. The applicant may wish to consider:
- (a) Providing further AML/CFT training for relevant staff, mainly because its AML/CFT Policy was recently developed and the applicant has not yet acquired experience implementing this specific policy; and
 - (b) Issuing a single document that contains all the conduct, behaviours and actions the applicant defines as prohibited practices; currently these definitions are contained in several organizational documents.