

## Annex IV: Accreditation assessment of applicant 107 (APL107)

### I. Introduction

1. Applicant 107 (APL107), the Development Bank of Zambia (DBZ), is a national direct access entity based in Zambia. The applicant envisions being a leading institution in development finance in Zambia and aims to influence the environment for access to finance for development by offering innovative, tailor-made financing solutions, advisory and technical support to local enterprises. The applicant mobilizes domestic and foreign capital to provide investments to galvanize economic growth, productivity, wealth creation, employment and citizen economic empowerment. To fulfill its mandate, the applicant has provided short-, medium- and long-term finance and equity investments to support the Government of Zambia's economic development strategies for growth, wealth and job creation, poverty reduction, infrastructure development and improved service delivery.

2. The applicant submitted its application for accreditation to GCF via the online accreditation system on 8 November 2017. Accreditation fees were received from the applicant on 10 January 2018, thereby launching the stage I institutional assessment and completeness check. Stage I was completed on 6 February 2020 and the applicant 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 GCF:

- (a) **Access modality:** direct access, national. The applicant received a national designated authority or focal point nomination for its accreditation application from the Republic of Zambia;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** medium<sup>1</sup>;
- (d) **Fiduciary functions:**<sup>2</sup>
  - (i) Basic fiduciary standards;
  - (ii) Specialized fiduciary standard for project management;
  - (iii) Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
  - (iv) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** high risk (category A/intermediation 1 (I-1))<sup>3</sup>.

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

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above US\$ 50 million and up to and including US\$ 250 million for an individual project or an activity within a programme."

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category A is defined as "Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented" and intermediation 1 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented."

3. The applicant applied and was assessed by the Secretariat during stage I under the normal track accreditation process in accordance with the GCF policies and standards below:
- (a) “Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund’s Fiduciary Principles and Standards and Environmental and Social Safeguards” (decision B.07/02);
  - (b) “Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach” (decision B.08/02);
  - (c) “Interim Policy on Prohibited Practices” (exhibit A of the accreditation master agreement considered in decision B.12/31);
  - (d) “Policy on Prohibited Practices” (decision B.22/19);
  - (e) “Anti-Money Laundering and Countering the Financing of Terrorism Policy” (AML/CFT Policy) (decision B.18/10);
  - (f) “Policy on the Protection of Whistleblowers and Witnesses” (decision B.BM-2018/21);
  - (g) “Environmental and Social Management System: Environmental and Social Policy” (decision B.19/10);
  - (h) “Comprehensive Information Disclosure Policy of the Fund” (decision B.12/35) regarding the disclosure of environmental and social (E&S) information;
  - (i) “Gender Policy and Action Plan” (decision B.09/11); and
  - (j) “Updated Gender Policy and Gender Action Plan 2020–2023” (decision B.24/12).

4. In the course of the stage I institutional assessment and completeness check, the Secretariat identified that the applicant’s systems and track record did not include those for grant award and/or funding allocation mechanisms. The applicant also clarified that the potential projects it intended to implement with GCF funds may not include such mechanisms. Thus, the applicant decided to withdraw its application for accreditation for the specialized fiduciary standard for grant award and/or funding allocation mechanisms.

## 2.1 Legal status, registration, permits and licences

5. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. Pursuant to section 3(1) of the Development Bank of Zambia Act, Chapter 363 of the Laws of Zambia, the applicant was established as a joint venture financial institution with shareholdings of the Government of the Republic of Zambia, public sector financial institutions, local private sector and foreign institutions. In addition, the applicant operates within its primary regulatory framework that is formed by the Banking and Financial Services Act, Chapter 387 of the Laws of Zambia.

6. The applicant has confirmed that DBZ is a separate legal entity and may enter agreements in its own right as provided for under section 3(1) of the DBZ Act, Chapter 363 of the Laws of Zambia.

## 2.2 Institutional presence and relevant networks

7. As a development bank of the Government of Zambia, the applicant has a strong national presence in working with both public and private sector entities. With an emphasis on development finance and development assistance, the applicant provides loans for projects in agriculture, renewable energy, infrastructure, transport, construction, manufacturing, tourism, quarrying and other sectors of the economy. In addition, it provides various financial

instruments (e.g. bonds, loans, equity and guarantees) for small- and medium-sized enterprises to enable them to access development finance. The applicant also provides business advisory services and capacity-building support to farmers and farmers associations in order to link them to local firms that provide loans and access to finance and markets.

8. The applicant has a strong commitment to contributing to the achievement of the nationally determined contributions of Zambia. The applicant intends to maintain its diversification in investments among all sectors of the economy while unlocking Zambia's prioritized and new economic development opportunities. The applicant, having previously focused on small- and medium-sized enterprises, intends to focus more on collaboration with large corporations for public-private partnership projects to combat climate change and achieve sustainable development. In addition, it intends to optimize its institutional systems and procedures for project implementation and investment management.

9. Through accreditation to GCF, the applicant intends to focus on the identification and prioritization of mitigation and adaptation opportunities and actions to contribute to the reduction of greenhouse gas emissions and enhance the resilience of communities, in line with various national development policies, strategies and plans such as VISION 2030, the Second National Communication, the National Policy on Climate Change, the National Climate Change Response Strategy, and Reducing Emissions from Deforestation and Degradation (REDD-plus).

10. Based on the above, the following types of projects and programmes have been identified by the applicant to be proposed to GCF:

- (a) On-grid electricity generation: biomass combustion, geothermal power, wind energy, biomass wastewater, photovoltaic utility and waste landfilling;
- (b) Off-grid electricity generation: small-scale hydropower, solar photovoltaic energy, biomass gasification, biogas digester and small wind turbines;
- (c) Energy efficiency: energy management systems, household appliances, energy efficiency standards and demand side management; and
- (d) Biofuels, among others.

11. The Government of Zambia, acting through their National Designated Authority, is in the process of preparing a revised version of the Country Programme that was first submitted to the GCF in the first quarter of 2017. The applicant's planned areas of focus with GCF are widely aligned with priorities presented in Zambia's 2017 Country Programme and with the country's nationally determined contributions (2016). Zambia's nationally determined contributions set as objectives the promotion of a switch from conventional and traditional energy sources to sustainable and renewable energy sources and practices, and the use of off-grid renewable energy technologies for rural electrification as decentralized systems.

## 2.3 Track record

12. Since its establishment, the applicant has been working closely with the Government of Zambia, at both the national and sub-national levels, private sector entities, multilateral development banks and civil society in areas of agriculture, agro-processing, energy, manufacturing, transport and tourism. It has increased its investment portfolio by engaging in new business development and proactively providing its financial products and services (e.g. equity, guarantees, leasing finance, trade finance and rural finance) to new customers and businesses.

13. The applicant's track record in financing sustainable development projects to date includes the following:

- (a) USD 8.53 million (loans and equity) for a project on fish farming using cages on the Lake Kariba, Siavonga in Zambia, targeting effects of overfishing;
  - (b) USD 21.6 million (loans) for a project on glass bottle manufacturing in Kapiri in Zambia that involves financing energy efficiency measures and pollution reduction via modernization of equipment;
  - (c) USD 1.2 billion (loans) for a railway construction and operation programme in Zambia leading to a reduction of reliance on motorized vehicles, promotion of green fuel through biofuels, and job creation and opportunities for women; and
  - (d) USD 0.7 million (guarantee for an advance payment facility) to facilitate the completion of the Katete Urban Roads Project aimed at rehabilitating and upgrading selected urban roads (15 kilometres) to bituminous standard in the Katete District in the Eastern Province.
14. The applicant has experience with projects/programmes related to the following GCF results areas:
- (a) Mitigation: reduced emissions from:
    - (i) Energy generation and access;
    - (ii) Transport; and
    - (iii) Forests and land use; and
  - (b) Adaptation: increased resilience of:
    - (i) Livelihoods of people and communities;
    - (ii) Health, food and water security;
    - (iii) Infrastructure and built environment; and
    - (iv) Ecosystems and ecosystem services.

### III. Stage II accreditation review assessment

15. 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 in accordance with the accreditation requirements set out in the GCF policies and standards identified in paragraph 3 above, except for paragraph 3(c) as that policy was no longer valid and superseded by that in paragraph 3(d), and except for paragraph 3(i), which was superseded by that in paragraph 3(j) at the time the application entered stage II (step 1).

16. As part of this assessment, the AP consulted the applicant's website to complement the information provided in the application.

#### 3.1 Fiduciary standards

##### 3.1.1. Basic fiduciary standards: key administrative and financial capacities

17. The applicant has a governance structure largely similar to those of other development banks in the region. Its board of directors, comprised of nine members, is assisted by several oversight committees in carrying out its mandate: Nominations and Remuneration Committee, Risk Management Committee, Investments Committee, and Audit Committee. The terms of reference (TOR) of the committees and sample minutes of committee meetings show that the committees carry out their functions in accordance with their mandates. There are also three

management committees that assist management in carrying out its responsibilities: Executive Management Committee, Project Management Committee, and Assets and Liabilities Committee.

18. The applicant has a process for setting its short- and long-term objectives that is laid out in its Strategic Management Operations Manual. A copy of the applicant's current five-year Business Strategy Plan (2017–2022) and annual plans and corresponding budgets for the past two years were provided and reviewed by the AP. Progress in the implementation of the annual management plan is tracked on a monthly basis.

19. The applicant's financial statements are prepared using three systems: Sage Accpac for financials, Micro Pay for payroll and Navision core banking systems for administration of loans. The annual financial statements are audited by Deloitte and Touche who assert that the audits were conducted in accordance with International Standards on Auditing. Audited financial statements for the past three fiscal years reviewed by the AP included: (i) unqualified opinions that the financial statements were prepared in accordance with International Financial Reporting Standards and the requirements of the Development Bank of Zambia Act and the Banking and Financial Services Act of Zambia 1994, and (ii) comments on management responses to external audit recommendations of previous years. Sample agendas and minutes of meetings of the Audit Committee reviewed by the AP demonstrate that the committee reviews management progress in addressing audit recommendations.

20. The policies and procedures relating to disbursement of financing provided by the applicant and payments for its own expenditures are detailed in the Disbursement Procedures Handbook. The policies and procedures have adequate provisions for the segregation of financing approval and disbursement responsibilities/authorities. To ensure disbursements are authorised by the relevant units in the organization, all disbursement requests require sign-off of the Principal and Chief Risk Officers, Principal Finance Officer, Chief Investment Officer, Legal Counsel, Chief Finance Officer and, finally, the Managing Director. Periodic audits of loan disbursements and payments for the applicant's own expenditures are carried out. Sample audit reports of the payment and disbursement system were provided and reviewed by the AP.

21. The applicant has an independent Internal Audit Department whose functions are guided by the TOR provided in the Internal Audit Manual, based on the auditing standards adopted by the Institute of Internal Auditors and the guidelines given by the Bank of Zambia (the Central Bank), which supervises the applicant's operations. The Head Internal Audit functionally reports to the Audit Committee of the board and administratively to the Chief Executive Officer of the Development Bank of Zambia. Internal audits are undertaken based on annual audit plans. Sample audit reports and information on the status of execution of the last three years' internal audit plans reviewed by the AP confirm that: (i) the implementation of audit recommendations is actively followed up by both management and the Board Audit Committee, and (ii) the Internal Audit Department carries out its function in accordance with its TOR and internationally recognized standards. The applicant has a policy on periodic assessment of effectiveness of its internal audit function as required by the Bank of Zambia Corporate Governance Directives. To fully demonstrate compliance with this policy, including relevant track record, the applicant has agreed to engage the Institute of Internal Auditors to undertake an independent external quality assurance review of its internal audit function.

22. The applicant has put in place robust internal control measures through the adoption of a global internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission. The framework includes clearly defined roles for the board of directors, oversight committees, management, internal and external auditors, and all employees. The framework is implemented in conjunction with other key institutional policies relating to risk, finance and portfolio management and fraud deterrence. The framework also provides guidelines on delegation of authority in the execution of key functions in the institution.

23. The applicant has a Procurement and Administration Procedures Manual that guides its internal procurement activities. The manual includes specific guidelines for different types of procurement managed by the applicant. As a public sector entity, the applicant is also required to comply with the provisions of the Zambia Public Procurement Act, 2008 and the Zambia Public Procurement Regulations, 2011. The applicant provided sample reports on two major procurement activities undertaken recently, which demonstrated compliance with its procurement policies and guidelines. Based on the information provided, the AP concludes that the applicant follows procurement policies and guidelines that promote transparency, economy and fairness and are consistent with recognized international practice.

24. The applicant's Procurement and Administration Procedures Manual was recently revised to include specific procedures and guidelines for overseeing and assessing the procurement procedures and practices of beneficiary institutions, executing entities or project sponsors under projects/programmes that could be funded by GCF. However, effective implementation of these procedures has not been demonstrated. Also, the applicant has not provided evidence of public disclosure of its procurement policies and procurement awards as required by the GCF basic fiduciary standard relating to procurement. Evidence of assessments of the procurement procedures of beneficiary institutions, executing entities or project sponsors in relation to GCF projects/programmes, as well as evidence of public disclosure of procurement awards under GCF-funded projects/programmes on the applicant's website, would be provided only after implementation of GCF-funded projects/programmes has commenced.

25. The AP finds that the applicant's policies, procedures and capacity, supported by the evidence of its track record, partially meet the GCF basic fiduciary standards on key administrative and financial capacities. The relevant gaps are identified in paragraphs 21 and 24 above and are reflected by the corresponding condition of accreditation in section 4.2.

### 3.1.2. **Basic fiduciary standards: transparency and accountability**

26. The applicant has a recently adopted the Code of Ethics, which defines ethical standards to be upheld by all employees and individuals contracted or functionally related to the organization. The Code of Ethics is publicly disclosed on the applicant's website. To ensure effective oversight of the ethics function, the Integrity Committee was recently established in accordance with the Anti-Corruption Act of the Government of Zambia. Its main role is to ensure that misconduct/ethical issues are managed and dealt with in a fair, transparent and consistent manner. However, as the Committee is new, evidence of its effective oversight of the ethics function has not been demonstrated.

27. In addition to the Code of Ethics, the applicant has put in place other policies and procedures for promoting transparency and accountability in its operations as well as prevention of financial mismanagement and other forms of misconduct. The main relevant policies and procedures include:

- (a) A prohibited practices policy, which includes the applicant's anti-fraud policy and specifies the applicant's zero tolerance to fraud, corruption and other forms of misconduct;
- (b) Avenues for reporting violations of the Code of Ethics, prohibited practices policy and other forms of misconduct;
- (c) A conflict of interest policy that describes what constitutes conflict of interest and includes conflict of interest review and resolution procedures; and
- (d) A whistle-blower policy and mechanisms for protecting whistle-blowers and witnesses; the policy is administered by the applicant's Corporate Support Services Department.



28. The applicant's Internal Audit Unit is responsible for investigating allegations of fraud, corruption, violations of institutions' code of ethics and other forms of misconduct. The TOR for the investigation function is provided in the Internal Audit Manual and the applicant's Disciplinary and Grievance Procedures Code document, and are publicly disclosed on the applicant's website. The TOR includes adequate guidelines for reporting outcomes of investigations to the Integrity Committee, senior management and the relevant business functions.

29. The applicant has an anti-money laundering and anti-terrorism financing (AML/CFT) policy that is designed to comply with the Prevention of Money Laundering Act 2001, the Bank of Zambia Anti-Money Laundering Directive 2004, and the guidelines of the Financing of Terrorism and Proliferation of the Financial Action Task Force, an independent intergovernmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction.

30. Sound "know your customer" (KYC) due diligence procedures to combat money laundering and financing of terrorism are in place. The procedures focus on three key areas: client identification and verification; understanding the nature and purpose of the client's business and the proposed transaction; and identifying any politically exposed persons. Samples of KYC due diligence reports reviewed by the AP demonstrate that the KYC procedures are effectively implemented.

31. The applicant regularly monitors electronic funds transfers to ensure that funds are received from bona fide sources and paid to the intended beneficiaries. Samples of monitoring reports on electronic fund transfers were provided and reviewed by the AP.

32. The AP finds that the applicant's policies, procedures and capacity, supported by the evidence of its track record, partially meet the basic fiduciary standards on transparency and accountability, the Policy on the Protection of Whistle-blowers and Witnesses,<sup>4</sup> the Policy on Prohibited Practices<sup>5</sup> and the AML/CFT Policy of GCF.<sup>6</sup> The relevant gap is identified in paragraph 26 above and is reflected by the corresponding condition of accreditation in section 4.2.

### 3.1.3. Specialized fiduciary standard for project management

33. During the early stages of assessment by the AP during stage II (step 1) accreditation review, the AP noted the applicant's lack of sufficient policies and procedures for project management (as required by the GCF specialized fiduciary standard for project management). As such, the AP recommended that the applicant consider not pursuing accreditation for the GCF specialized fiduciary standard for project management until the applicant has developed such systems, policies and procedures, and demonstrates a track record of such systems. The applicant agreed to the AP's recommendation and withdrew its application for this standard at this time.

### 3.1.4. Specialized fiduciary standard for grant award and/or funding allocation mechanisms

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

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<sup>4</sup> Decision B.21/25 and annex II thereto.

<sup>5</sup> Decision B.22/19 and annex XIV thereto.

<sup>6</sup> Decision B.18/10 and annex XIV thereto.

**3.1.5. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees)**

35. The applicant's lending and on-lending operations are guided by a set of policies, procedures and guidelines contained in three main documents: Credit Appraisal Manual, Credit Appraisal Template, and Credit Appraisal Workflow Charts. It also uses COMFAR III Expert software, which was developed by the United Nations Industrial Development Organisation to aid in the feasibility studies of development projects, including generating financial projections.

36. In addition to its lending and on-lending operations, the applicant undertakes equity financing and provides guarantees to enhance the credit profiles of its clients. The main objectives of the applicant's equity finance activities include development of local technology, creation and expansion of permanent employment, use of local raw materials, and development of a robust indigenous private sector. The applicant's policies and procedures for undertaking equity investments are set out in two documents: Investment Policy and Credit Appraisal Manual. The due diligence framework applicable to the appraisal of on-lending operations is used for undertaking assessments of applications for guarantees.

37. The applicant provided copies of the policies and procedures for its on-lending, blending, equity investments and guarantee operations as well as examples of equity investments made and guarantees provided. The information provided demonstrates the applicant's sound track record in on-lending, blending, equity investment and guarantee operations.

38. The applicant recently revised its information disclosure policy to include provisions, among others, for public disclosure on its website and information on: (i) its decisions on on-lending, blending, equity investment and guarantee operations that could be funded by GCF, (ii) beneficiaries and results of projects/programmes, and (iii) the advantages to the final beneficiaries of projects that could be funded by GCF. However, the applicant has not demonstrated effective implementation of this policy. Public disclosure of the required information can only be demonstrated during and at the end of implementation of GCF-funded projects/programmes.

39. The applicant has proven experience in sourcing funds for its on-lending and blending operations from international and multilateral funding sources. Financing raised from the African Development Bank, China Development Bank, the Global Environment Facility (channeled through the United Nations Industrial Development Organization) and the Saudi Fund for Development is used to support its on-lending operation, especially to support small and medium-sized enterprises. Based on the information provided, the AP finds that the applicant has demonstrated its capacity to effectively and transparently channel funds that could be provided by GCF in line with the GCF specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees.

40. The applicant has an Asset and Liability Management Committee whose main role is to ensure an appropriate match between its assets and liabilities. Sample minutes of the committee meetings provided show that it carries out its responsibilities effectively.

41. The applicant is yet to be rated by any of the major global rating companies. However, in 2015, it received the Best Performing African Development Finance Institution Award from the Association of African Development Finance Institutions and an A+ rating in the areas of governance, financial and operational standards.

42. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, partially meet the GCF specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees. The relevant gap is identified in paragraph 38 above and is reflected by the corresponding condition of accreditation in section 4.2.



## 3.2 Environmental and social safeguards

### 3.2.1. Environmental and social policy

43. The applicant's Environmental and Social Management System (ESMS) comprises of its Environmental and Social (E&S) Policy and Environmental and Social Guidelines and Procedures (ESGP), which were approved by its Executive Management Committee in April 2020. The ESMS replaces and updates the applicant's 2016 Environmental, Occupational and Social Policy and related management guidelines. The updates in the E&S Policy and ESGP include checklists for E&S risk and impacts screening, and guidelines on E&S mitigation and management measures in line with the International Finance Corporation (IFC) Performance Standards 1–8 (PS 1–8).

44. The E&S Policy includes a comprehensive statement on the E&S objectives and principles guiding the institution. The main objectives of the policy are for the applicant to:

- (a) Manage and ensure that all operations and activities financed by the applicant are environmentally and socially viable;
- (b) Improve and promote corporate environmental and social responsibility within the applicant's institution;
- (c) Improve and promote corporate environmental and social responsibility for its borrowers and partners; and
- (d) Apply to the applicant's financed or co-financed projects and programmes and loans, equity investments, managed funds, guarantees and grants.

45. The applicant has adopted the IFC PS 1–8 as its operational safeguards. The applicant also follows the principle of free, prior and informed consent as part of its stakeholder engagement, particularly in its engagement with indigenous peoples. The applicant's Managing Director has the overall responsibility for the E&S Policy, including its execution and communication to all levels of its institution. The E&S Policy and ESGP have been disseminated among the applicant's staff.

46. The AP finds that the applicant's ESMS, comprising of the E&S Policy and ESGP, and supported by evidence of its track record, fully meets the GCF Environmental and Social Policy and interim environmental and social safeguards (ESS) standards for maximum E&S risk category I-1 projects/programmes with respect to performance standards 1–8.

### 3.2.2. Identification of environmental and social risks and impacts

47. The E&S Policy and ESGP describe the institutional process for identification of E&S risks and impacts in the applicant's projects and programmes. The applicant's projects/programmes are classified under three E&S risk categories—category I-1, I-2 and I-3 – which are consistent with the E&S risk categories in the GCF Environmental and Social Policy and GCF interim ESS standards. The E&S Policy provides a list of typical projects considered under E&S risk category I-1 and I-2 and also contains a checklist to assess E&S risks and impacts against PS 1–8. The applicant's E&S and gender teams are responsible for reviewing the E&S risk categorization proposed by the applicant's borrower and approved by the applicant's national E&S regulatory body – the Zambia Environmental Management Agency (ZEMA).

48. The applicant provided a sample of four project documents that include E&S risk screening for category I-1 projects/programmes in line with IFC PS 1–8. The four projects were: (i) processing of maize grain into maize meal products; (ii) fish farming using cages in a major lake; (iii) a mini-hydro power station; and (iv) a sugar processing plant including a bagasse

(sugar cane stalk) fired power plant. The provided sample of a category I-2 project/programme involved the development of a hotel and tourism resort with water-based sporting activities.

49. The AP finds that the applicant's system of identification of E&S risks and impacts, supported by evidence of its track record, fully meets the GCF Environmental and Social Policy and GCF interim ESS standards for maximum E&S risk category I-1 projects/programmes with respect to performance standards 1-8.

### 3.2.3. Environmental and social management programme

50. The E&S Policy describes the applicant's institutional process for managing mitigation measures and actions stemming from the E&S risk identification process. The ESGP provides further details on the E&S assessment process, including the typical formats of an environmental and social impacts assessment (ESIA), environmental and social management plan (ESMP), E&S appraisal report, and E&S monitoring report. The applicant's E&S Policy includes the requirements for an external audit of the effectiveness of the ESMS.

51. For category I-1 projects/programmes, the applicant's borrower is responsible for the preparation of an ESIA in accordance with the EMA-approved TOR. The EMA then grants their approval of the E&S assessment reports, citing preferred project alternatives if relevant. Projects/programmes falling under category I-2 require the project borrower to initially prepare a project brief for review by the EMA, which is then followed by the preparation of an ESMP. Beyond screening, no further environmental assessment action is required for category I-3 projects/programmes. The borrower is required to consult with relevant stakeholders throughout the project/programme implementation and report the findings to the applicant on a quarterly basis. The ESMP forms part of the legal agreement, which includes, as necessary, obligations of the borrower to support the implementation of the ESMP.

52. The applicant provided a sample of five project documents that include the ESIA (four in E&S risk category I-1 and one in category I-2) for the same projects/programmes described in paragraph 46 above, including the applicant's own internal due diligence based on the review of the ESIA/ESMPs. The applicant also provided evidence of E&S assessments for one project it has financed involving an equity structure and guarantee. As the applicant's ESMS was updated just recently, it has not commissioned an external E&S audit of the implementation of the ESMS. However, the applicant has indicated that it is willing to prepare and provide an external audit report on the effectiveness of the institutional management programme for mitigation actions for GCF projects/programmes.

53. The AP finds that the applicant's management programme fully meets the Environmental and Social Policy and interim ESS standards for maximum E&S risk category I-1 projects/programmes with respect to performance standards 1-8. However, the AP finds that the applicant's track record is insufficient. The relevant gap is identified in paragraph 52 above and is reflected by the corresponding condition of accreditation in section 4.2.

### 3.2.4. Monitoring and review

54. The applicant's E&S Policy and ESGP describe its internal processes to support a monitoring/supervision programme that tracks and ensures completion of mitigation and performance improvement measures. The procedure requires the borrowers to monitor the environmental and social performance of the project in accordance with the requirements of the legal agreement, including the ESMP, and to review any revision of the ESMP including changes resulting from changes in the design of a project or project circumstances. After project approval, in consultation with the applicant's Legal Department, the Investments Department ensures that E&S requirements are reflected in the applicant's legal documentation (termed as the Facility Letter) for project monitoring. The Facility Letter contains covenants that require

the borrower to comply with the agreed conditions. In addition, the Facility Letter stipulates that the project borrower must, within 90 days after the end of the company's fiscal year, submit annual environmental and social monitoring and performance reports to the applicant.

55. The EMA is also responsible for carrying out an environmental and social audit post-project implementation or within 36 months after the commencement of the project. The audit will focus on the E&S conditions attached to the legal agreement to assess the progress and completion of the E&S mitigation and management measures. However, the applicant could not provide adequate evidence of the plan indicating E&S monitoring indicators and mitigation measures to be monitored for projects/programmes it has financed.

56. The AP finds that the applicant's system of monitoring and review fully meets the Environmental and Social Policy and interim ESS standards for maximum E&S risk category I-1 projects/programmes with respect to performance standards 1–8. However, the AP finds that the applicant's track record is insufficient. The relevant gap is identified in paragraph 55 above and is reflected by the corresponding condition of accreditation in section 4.2.

### **3.2.5. External communications, consultations, information disclosure and grievance redress mechanism at the institutional level**

57. The applicant maintains a robust external communication system to receive, assess and respond to external inquiries including E&S grievances from the stakeholders or their representatives. The grievances may be communicated verbally (in person or over a telephonic conversation) or in written form to the project manager or the applicant directly through mail or email. The applicant provided a document on its institutional level grievance redress mechanism (GRM) named "Grievance Redress Mechanism for Environmental & Social related Concerns and Complaints," which supplements the applicant's Customer Complaints Procedures. The GRM document contains a sample grievance redress form used to record in the grievance register. GRM principles require GRM to be culturally appropriate, readily accessible, at no cost to the public, and without retribution to the individuals, groups, or communities that raised the issue or concern.

58. The GRM independent oversight is provided by the applicant's Stakeholder Relations Officer who reports to the applicant's Board. The Stakeholder Relations Officer is the point person to receive complaints, which are then forwarded to the Chief Investments Officer (CIO). The Environmental and Social Unit within the Investments Department (reporting to the CIO) provides feedback to the complainant. If the initial feedback is not satisfactory in achieving resolution, the complainant can escalate the concerns to the Office of the Chief Risk Officer. The preferred course of action is discussed with the affected person(s) to ensure consensus in the resolution of the grievance. In case the grievance remains unsettled, the CIO/Chief Risk Officer will forward the case to the Managing Director who then identifies an adequate resolution or provides an alternative resolution to the grievance. The GRM document requires the applicant's executing entity to be responsible for informing project-affected parties about its grievance mechanisms and to be the first point of contact.

59. The applicant provided a copy of its disclosure policy, which describes the requirements regarding information disclosure and public consultation for the E&S assessment documents of its projects/programmes in line with the GCF Information Disclosure Policy (IDP) requirements for the disclosure of E&S information for E&S risk categories I-1 and I-2 projects/programmes. The applicant provided a sample of its project documents that presented evidence of E&S information disclosure and consultation as well as the inclusion of GRM at its institutional level and executing entity level.

60. The AP finds that the applicant's system of external communications, consultations, information disclosure and grievance redress mechanism at the institutional level, supported by evidence of its track record, fully meets the Environmental and Social Policy, interim ESS

standards and the IDP regarding E&S information disclosure requirements for maximum E&S risk category I-1 projects/programmes with respect to performance standards 1–8.

### 3.2.6. Organizational capacity and competency

61. The applicant provided an organogram showing the structure of the Investments Department, which includes the senior management and investment officers with responsibilities in E&S and gender assessment areas. The applicant provided a list of key in-house persons undertaking the necessary E&S and gender related work, including their areas of responsibilities and competency in the form of curricula vitae and samples of their E&S assessment review work. The borrower is responsible for integrating environmental and social considerations into projects according to EMA’s stipulation and the applicant’s E&S safeguards requirements.

62. The applicant’s Managing Director takes overall responsibility for the ESMS, including its execution and communication to all levels of the bank. The day-to-day responsibility for the implementation of the ESMS is delegated to the Investments Department, which is headed by the CIO and supported by the E&S and gender teams. Both teams are provided with training on the E&S Policy and the ESGP to assist them in fulfilling their responsibilities with respect to E&S risk identification and mitigation management. Several officers of the applicant have undergone training on E&S issues with various organizations such as the African Development Bank and the United Nations Environment Programme. The applicant has provided the certificates of E&S training of relevant staff as well as course descriptions of the training received.

63. The AP finds that the applicant’s organizational capacity and competency, supported by evidence of its track record, fully meet the Environmental and Social Policy and interim ESS standards for maximum E&S risk category I-1 projects/programmes with respect to performance standards 1–8.

## 3.3 Gender

64. The applicant provided a document entitled “Gender Policy and Guidelines” (GP&G), approved by its Executive Management Committee in April 2020. The GP&G is set within the framework of the applicant’s mandate to support the national economic development agenda as envisioned through the country’s 7th National Development Plan<sup>7</sup>, a key document that drives the country’s economic development agenda. The GP&G defines the applicant’s commitment to promote gender mainstreaming in its policies, strategies and projects/programmes as a means of fostering gender equality at both the institutional and project levels. The applicant prescribes to the United Nations Sustainable Development Goals, particularly goal no. 5, which aims at achieving gender equality and empowering all women and girls and providing women and girls with equal access to education, health care, decent work, and representation in political and economic decision-making processes.

65. The GP&G recognizes that gender equality is a sensitive issue that requires commitment at every level of the applicant’s organization and the integration of a gender perspective into all policies, projects and allocation of resources and opportunities, for women and men, in achieving the applicant’s GP&G. The policy specifically aims:

- (a) To provide a clear mandate for effectively mainstreaming gender into all the applicant’s policies and procedures at both the institutional and project/programme levels; and

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<sup>7</sup> See <<https://www.sdgphilanthropy.org/The-7th-National-Development-Plan-of-Zambia#:~:text=The%20Seventh%20National%20Development%20Plan%20%287NDP%29%2C%20which%20is,by%20harnessing%20opportunities%20for%20economic%20diversification%20and%20growth>>.

- (b) To promote a gender-responsive organizational culture that enables women and men to work together in an equitable and mutually respectful manner.

66. The GP&G includes detailed guidelines on gender mainstreaming, comprising processes for gender assessment supported by checklists for various phases of project preparation, appraisal and monitoring. The project appraisal includes the development of segregated gender data on employment, age, tribe or race (if applicable) in the appraisal reports and gender-sensitive indicators for monitoring. Where necessary, the Facility Letter will explicitly state any gender related issues as a pre-condition for disbursement. For micro, small and medium-sized enterprises in particular, the applicant applies the Female and Male Operated Small enterprises (FAMOS) tool<sup>8</sup> developed by the International Labour Organization to identify opportunities for improvement in providing access to financial services, particularly to female customers.

67. The applicant provided the profiles of its Gender Team Leader and the team's gender experts as evidence of their competency in addressing gender issues; evidence included training they had received on gender mainstreaming. The applicant provided two project documents involving a loan, equity structure and guarantee addressing gender mainstreaming: (i) an aquaculture project in a lake and (ii) a mini-hydropower plant project, both of which reflect the participation and division of labour between men and women, including non-discriminatory measures in their benefit sharing. The applicant is committed to addressing linkages between gender and climate change in its GCF projects/programmes.

68. The AP finds that the applicant's gender policy, procedures and capacities, supported by evidence of its track record, fully meet the updated Gender Policy.

## IV. Conclusions and recommendation

### 4.1 Conclusions

69. Following its assessment of the application against the standards of GCF in accordance with the accreditation requirements identified in paragraph 15 above, the AP concludes the following:

- (a) The applicant partially meets the requirements of the basic fiduciary standards, the Policy on the Protection of Whistle-blowers and Witnesses, the Policy on Prohibited Practices, the AML/CFT Policy and the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees. The key gaps (addressed in the corresponding conditions of accreditation in section 4.2) are related to:
- (i) Lack of evidence of a periodic assessment of the overall effectiveness of the applicant's internal audit function reflected in paragraph 21;
  - (ii) Lack of evidence of (a) assessments of the procurement procedures of beneficiary institutions, executing entities or project sponsors and (b) public disclosure of procurement awards on the applicant's website reflected in paragraph 24;
  - (iii) Lack of demonstration of effective oversight of the ethics function reflected in paragraph 26; and
  - (iv) Lack of evidence of public disclosure of information on: (a) the applicant's decisions on on-lending, blending, equity investment and guarantee operations;

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<sup>8</sup> See <[https://www.ilo.org/empent/Publications/WCMS\\_116094/lang--en/index.htm](https://www.ilo.org/empent/Publications/WCMS_116094/lang--en/index.htm)>.



- (b) beneficiaries and results of projects/programmes; and (c) the advantages to final project beneficiaries reflected in paragraph 38;
- (b) The applicant partially meets the requirements of the GCF Environmental and Social Policy, interim ESS standards and the IDP on disclosure of E&S information in relation to the high E&S risk (Category I-1). The key gaps (addressed in the corresponding conditions of accreditation in section 4.2) are related to:
- (i) Lack of external audit of the applicant's ESMS on the effectiveness of the institutional management programme for mitigation actions reflected in paragraph 53; and
  - (ii) Lack of evidence on planning of E&S monitoring and evaluation reflected in paragraph 55; and
- (c) The applicant has demonstrated that it has a policy, procedures and competencies to implement its gender policy, which is found to be consistent with the updated Gender Policy of GCF, and has demonstrated that it has experience in gender consideration in the context of climate change.

## 4.2 Recommendation on accreditation

70. The AP recommends, for consideration by the Board, applicant APL107 for accreditation as follows:

- (a) **Accreditation type:**
- (i) **Maximum size of an individual project or activity within a programme:** medium<sup>9</sup> (including micro<sup>10</sup> and small<sup>11</sup>);
  - (ii) **Fiduciary functions:**
    - 1. Basic fiduciary standards; and
    - 2. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
  - (iii) **Maximum environmental and social risk category:** high risk (category I-1) (including lower risk (category intermediation 2 (I-2)<sup>12</sup> and category intermediation 3 (I-3)<sup>13</sup>);

<sup>9</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above US\$ 50 million and up to and including US\$ 250 million for an individual project or an activity within a programme."

<sup>10</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "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 US\$ 10 million for an individual project or an activity within a programme."

<sup>11</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 US\$ 10 million and up to and including US\$ 50 million for an individual project or an activity within a programme."

<sup>12</sup> As per annex I to decision B.07/02, category B is defined as "Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures," and intermediation 2 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented."

<sup>13</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



- (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 Board:
    - 1. Provision by the applicant of evidence of an independent assessment of the overall effectiveness of the applicant's internal audit function; and
    - 2. Provision by the applicant of the agenda and minutes of at least two recent meetings of its Integrity Committee to demonstrate oversight of the ethics function;
  - (ii) Condition to be met with the submission of the first funding proposal to GCF:
    - 1. Provision by the applicant of a monitoring and evaluation plan containing environmental and social monitoring indicators and mitigation measures to be monitored for the proposed project/programme;
  - (iii) Condition to be met within three years of the first disbursement by GCF for the first executed Funded Activity Agreement for a project/programme to be undertaken by the applicant:
    - 1. Provision by the applicant of a final report prepared by an independent body assessing the effectiveness of the implementation of the applicant's environmental and social management system, which shall include examples of its application and of lessons learned;
  - (iv) Conditions to be met on an annual basis for two consecutive years starting from the date of the first disbursement by GCF for the first executed Funded Activity Agreement for a project/programme to be undertaken by the applicant:
    - 1. Provision by the applicant of at least one report per year on the assessment of the procurement procedures and/or practices of executing entities, project sponsors or beneficiary institutions for the first executed Funded Activity Agreement for a GCF project/programme;
    - 2. Provision by the applicant of evidence of public disclosure on its website of procurement awards in relation to the first executed Funded Activity Agreement for a GCF project/programme; and
    - 3. Provision by the applicant of evidence of public disclosure of information regarding the applicant's decisions on on-lending, blending, equity investment and/or guarantee operations for the first GCF-funded project/programme that involves the specialized fiduciary standard for on-lending and/or blending for loans, equity and/or guarantees; and
  - (v) Condition to be met within one year of completing the implementation of the first approved GCF project/programme to be undertaken by the applicant:
    - 1. Provision by the applicant of evidence of public disclosure on its website:

- a. The list of beneficiaries under the first approved GCF project/programme; and
- b. The results and outcomes of the first approved GCF project/programme.

71. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 70 above, and agrees to the recommendation.

### 4.3 Remarks

72. The applicant is already taking steps to meet the conditions identified in paragraphs 70(b)(ii) and 70(b)(iii) above.