

Annex IX: Accreditation assessment of applicant 112 (APL112)

I. Introduction

1. Applicant 112 (APL121), Nacional Financiera, S.N.C., Banca de Desarrollo (NAFIN) is a national direct access entity based in Mexico. The applicant is a development bank that aims to contribute to the economic development of Mexico by providing access to affordable financing to micro, small and medium-sized enterprises (MSMEs) operating throughout the country, and to help Mexico meet its international sustainability commitments and transition into a low-carbon economy, in particular for transport and energy efficiency in MSMEs programmes.

2. The applicant submitted its application for accreditation to GCF via the online accreditation system on 29 July 2017. Accreditation fees were received from the applicant on 21 February 2018, thereby launching the stage I institutional assessment and completeness check. Stage I was completed on 19 November 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;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** medium;¹
- (d) **Fiduciary functions:**²
 - (i) Basic fiduciary standards;
 - (ii) Specialized fiduciary standard for project management; and
 - (iii) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** medium risk (category B/intermediation 2 (I-2)).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 in accordance with the GCF policies and standards below:

¹ 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 USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme.”

² Decision B.07/02.

³ As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category 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.”

- (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. The applicant had initially applied to be accredited for Project Management but withdrew from the criteria after stage I and prior to the start of the stage II assessment.

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. The applicant was established in Mexico on 30 June 1934 under public registry book 249, section 57, number 13672.

2.2 Institutional presence and relevant networks

6. NAFIN is a development bank wholly owned by the Mexican government. Its principal goal is to provide access to affordable financing to MSMEs operating throughout Mexico. In addition to its headquarters in Mexico City, NAFIN has four regional offices across the country: North East, North West, Western, South. As of May 2021, NAFIN has 952 employees.

7. NAFIN is committed to supporting Mexico’s efforts to tackle climate change. NAFIN provides financing for priority projects of the Mexican government that contribute to the achievement of Mexico’s climate agenda, mainly supporting projects that aim to reduce Greenhouse Gas Emissions. NAFIN’s Sustainable Projects Unit was created in 2009 to participate in the financing of environmentally friendly projects, and the Unit became the Department of Sustainable Projects in 2010.

8. Since 2010, NAFIN has supported several sustainable projects in the country, including priority projects of the Federal Government and programmes addressed to MSMEs. In 2015, NAFIN issued the first ever USD green bond of Mexico and third in Latin America, and in 2016 the first green bond denominated in Mexican peso (MXN).

9. The applicant is strongly committed to sharing knowledge and experience of the GCF’s accreditation process with other national entities that are interested in being accredited. The

applicant's experience as a development bank becoming accredited to GCF would encourage other development banking institutions and public trust funds in Mexico and the LAC region to pursue accreditation with GCF.

10. In order to advance the objectives of GCF, the applicant intends to undertake the following activities:
- (a) Use GCF funding to finance transport and energy efficiency in MSMEs projects and programmes that will help Mexico achieve its sustainable goals and international commitments and transition into a low-carbon economy;
 - (b) Expand the scale and impact of medium-sized programmes in areas of transport and energy efficiency in MSMEs in Mexico;
 - (c) Promote a paradigm shift within the institution and also for other development banking institutions and public trust funds in Mexico;
 - (d) Share its accreditation experience and know-how with GCF with other entities and ensure downstream entities to comply with GCF standards in project implementation; and
 - (e) Encourage other banking institutions in the region to seek accreditation, thus fostering country ownership.

11. Currently Mexico does not have a Country Programme with GCF, nor is a draft available yet. In 2019, readiness request MEX-RS-001 to support Mexico's Country Programme was approved, which includes continued support to direct access applicants (NAFIN, the applicant, and Banco Nacional de Obras y Servicios Públicos/BANOBRAS, more recently nominated). In addition, the national designated authority (NDA) requested and received readiness resources to support the applicant in preparing for the accreditation process through its Gender Assessment and Action Plan (GAP). One of the main objectives of the NDA in having this applicant accredited to GCF is to have a public institution that can bring private sector projects/programmes, with positive track record on climate change projects, and with sectorial expertise focusing on mitigation. The applicant will be complementary to the already accredited national direct access entity (DAE), Fondo Mexicano para la Conservación de la Naturaleza A.C., which is accredited for the micro-size category, fiduciary functions to manage projects and award grants, and the E&S risk category C/intermediation 3, whereas the current applicant is seeking accreditation for the medium-size category, fiduciary functions to on-lend, blend and provide guarantees, and E&S risk category I-2.

2.3 Track record

12. Since being established by the Mexican government in 1934, the applicant has been providing access to affordable financing to MSMEs throughout Mexico. The applicant is specialized mainly in the industry, trade and services sectors, and has supported priority projects aligned with the Mexican government's strategy on sustainability and climate change.

13. The applicant's track record in financing sustainable development and climate change-related projects to date includes the following examples, among other projects:

- (a) USD 54 million (loan), out of a total financing of USD 147 million, for the Oaxaca Wind Project 1 in Mexico;
- (b) USD 110 million (loan), out of a total financing of USD 565 million, for the Tamaulipas Wind Project in Mexico;

- (c) USD 200 million (loan), out of a total financing of USD 200 million, for the Gas & Combined Heat and Power 1 Project in Mexico; and
 - (d) USD 75 million (loan), out of a total financing of USD 339 million, for the Wind Farm Zacatecas Project in Mexico.
14. The applicant has experience with projects/programmes related to the following GCF results areas:
- (a) Mitigation;
 - (b) Energy generation and access;
 - (c) Transport; and
 - (d) Buildings, cities, industries and appliances.

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 GCF policies and standards identified in paragraph 3 above.
16. As part of this assessment, the AP consulted the applicant's website and third-party websites to complement the information provided in the application.

3.1 Fiduciary standards

3.1.1. Basic fiduciary standards: key administrative and financial capacities

17. As a Mexican government-owned development bank, channelling affordable financing to small and medium-sized companies, the applicant has strong and effective systems of oversight and financial management. The 12 directors and 12 alternates of the board of directors include representatives of the government ministries of economy, energy and finance as well as heads of chambers of commerce, two independent members and a secretary of the board. The executive management team is headed by a general director who manages a team of 10 deputies who lead the various departments of NAFIN. There are 16 sub-committees of NAFIN's board and executive management team, overseeing the following areas: audit and internal audit, ethics and prevention of conflicts of interest, transparency, investment and divestment, internal risk management, control and communications, procurement, human resources and institutional development, credit, trust business, evaluation and system planning, financial products and efficient use of energy. Each of these committees has its own manual and operating rules with detail of legal basis, objectives, role and responsibilities, appointments of members and alternates, meeting schedules and minutes, voting and quorum and follow-up agreements.

18. The Government of Mexico plays an active role in the strategy of the applicant, which is aligned with Mexico's National Development Plan and National Financing Programme. Strategic plans have been provided with corresponding budgets for 2017–2019 together with the process whereby plans are approved within the organization and at Government level. NAFIN's strategic plan and objectives for 2020—2024 are published in an official gazette. During the implementation of strategic plans, department heads report to the general director on performance against the plan. Indicators and metrics are set for each department and evidence has been provided of the actions resulting from periodic evaluations of the working plan performance.

19. Audited financial statements are prepared by the applicant's external auditor using International Auditing Standards and are published in Spanish and English on NAFIN's website. The external auditor's report states that the accounting principles conform with the general provisions applicable to lending institutions issued by the Mexican National Banking and Securities Commission (CNBV). NAFIN has a comprehensive Management Information System (MIS) with reports generated in three key areas: consolidated accounting statements, consolidated income statements and the credit portfolio integration report. The applicant has provided manuals for financial management, risk assessment, control framework and payments and disbursements, as well as their investment credit manual.

20. NAFIN has an effective and well-staffed audit committee that meets regularly with responsibility for reviewing external audits and overseeing the internal audit function. The head of internal audit reports to the audit committee which in turn reports to NAFIN's board. Internal audit follows national and international standards and is monitored and assessed regularly for overall effectiveness, with regulatory oversight of the CNBV. The operations of NAFIN's internal audit function have been demonstrated with examples of minutes of meetings, internal audit plans and reports, and status of action on findings and recommendations.

21. The policy and procedures for internal control have been explained in the input data and track record demonstrated in the internal control reports provided. The applicant's risk management manual has also been provided. Procurement is governed by Mexican regulations and meets GCF basic fiduciary standards on key administrative and financial capacities. Supporting documents for 2 large procurements have been provided in Spanish with summaries in English. Full details of procurements are published on NAFIN's website. The non-public sector intermediaries that work with the applicant do not have to comply with government procurement policies. However, NAFIN has a team that is specialized in the procurement policies of the World Bank and Inter-American Development Bank. This team has experience assisting executing entities to ensure procurement processes align with required standards. This team has the capability to oversee the procurement processes of beneficiaries of GCF supported projects. Examples of procurements and oversight reports have been provided. The procurement manual includes the dispute resolution process and examples of three procurement complaints have been provided.

22. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, fully meet the GCF basic fiduciary standards on key administrative and financial capacities.

3.1.2. Basic fiduciary standards: transparency and accountability

23. The applicant's code of conduct is available on its website and communicated to staff via email. New employees are required to sign a confirmation of acceptance of this code of conduct. A summary has been provided of the process followed in cases of violation of the code and the involvement of the board's subcommittee for ethics and prevention of conflicts of interest. In addition to addressing potential conflicts of interest, NAFIN's 2020 updated code of conduct addresses financial mismanagement and obstructive practices consistent with GCF's Policy on Prohibited Practices, as well as the GCF Policy on the Protection of Whistleblowers and Witnesses. General management promote a culture conducive to fairness, accountability and full transparency together with a policy of zero tolerance for fraud, financial mismanagement and malpractice.

24. All Government of Mexico employees, including NAFIN staff, have to present and sign on an annual basis a declaration of assets and disclosure of conflict of interest, in order to comply with national regulations. Examples of the electronic invoice issued by the authorities after staff

present and sign their declaration have been provided. The applicant has shared its conflict-of-interest review and resolution procedures.

25. The claims and allegations operating manual explains the investigation function and disciplinary procedures in the event of breaches of the code of conduct. While the applicant does not track case trends, there is an internal procedure to detect patterns of complaints made. Detailed summaries of cases and reports of violations have been provided for 2017 to 2019.

26. The applicant has a robust anti-money laundering and combatting of terrorism (AML/CFT) policy and know your customer (KYC) procedures within its compliance manual. The KYC processes for assessing client risk and the examples provided demonstrate NAFIN's capacity to meet GCF AML/CFT Policy. Mechanisms to trace and monitor electronic funds transfer have also been demonstrated.

27. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, fully meet the basic fiduciary standards on transparency and accountability, the Policy on the Protection of Whistle-blowers and Witnesses,⁴ the Policy on Prohibited Practices⁵ and the AML/CFT Policy.⁶

3.1.3. Specialized fiduciary standard for project management

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

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

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

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

30. NAFIN's on-lending is governed by its credit manual, which includes due diligence as well as monitoring and evaluation procedures. The manual details the criteria for assessing eligibility of intermediaries. Due diligence track record has been demonstrated with two reports on credit lines to non-bank financial intermediaries. In addition, two reports have been provided with analysis of the lending portfolio of financial intermediaries.

31. In response to an AP request, NAFIN has updated its website to include a section for publishing details of future on-lending. The framework of this new section is available on the website and will in future include information regarding GCF concept notes, supported projects and beneficiaries' reports. Since Mexico has legislative elections in June 2021, there is currently a ban on government agencies publishing information until after the elections, in order to maintain a fair playing field during the campaigns. This means that the applicant, as well as all government agencies, temporarily cannot make changes or publish anything on its website. However, examples of information that is already published on projects managed by the applicant as a financial agent of the Government of Mexico, and those the applicant manages with the support of multilaterals, are already on the website and demonstrate NAFIN's intention and capacity to publish details of GCF funded projects.

32. As a national development bank, the applicant operates under the Government's objectives and priorities. This includes NAFIN's treasury operations which are governed by a

⁴ Decision B.21/25 and annex II thereto.

⁵ Decision B.22/19 and annex XIV thereto.

⁶ Decision B.18/10 and annex XIV thereto.

treasury operations manual and a money desk manual and for the management of liquidity and investments. Two investment portfolio management reports have been provided.

33. Details have been provided of the computer systems used to ensure funds are transparently channelled as well as the process of monitoring compliance with on-lending obligations and agreements. Financial performance of non-bank intermediaries and direct borrowers is also analysed periodically.

34. The risk management sub-committee of NAFIN's board is responsible for reporting on management of assets and liabilities as well as ensuring adherence with NAFIN's financial risk management policies. A general risk management strategy has been provided as well as a recent risk report. Evidence of the effectiveness of risk management strategy and operations are evidenced in a recent internal audit report on the risk management function. Minutes of recent meetings of the risk management committee as well as minutes from three recent Asset Liability Committee (ALCO) meetings have been provided. Details have also been provided of the segregation of duties and approval authorities between treasury and operations.

35. The applicant has an extensive track record of working with international organizations for on-lending operations. NAFIN's annual funding plans for the last three years have been provided with details of financial resources raised locally and internationally. This includes credit lines and financing programmes from Inter-American Development Bank, Corporación Andina de Fomento, Kreditanstalt Für Wiederaufbau (KfW) and the World Bank in USD and in EUR totalling over USD1.2 billion. The applicant's on-lending operations include direct lending to beneficiaries, lending to other financial intermediaries for on-lending to small companies and acting as a financial agent for the Government of Mexico to channel multilateral funding to government-supported projects. Documents for three clean energy on-lending projects demonstrate the applicant's track record.

36. The AP finds that the applicant's policies, procedures and capacity, supported by evidence of its track record, fully meet the specialized fiduciary standard for on-lending and blending for loans and guarantees.

3.2 Environmental and social safeguards

3.2.1 Environmental and social policy

37. The applicant's Environmental and Social Risks Management System (ESRMS), abbreviated as SARAS in Spanish, is described in the SARAS manual. The ESRMS lays out the process for the applicant's review and due diligence of potential environmental and social impacts of the projects/programmes of its clients applying for credit for their first tier (direct) loans.

38. Specifically, the ESRMS directs the applicant to:

- (a) Identify, evaluate, mitigate, and monitor the environmental and social risks of the applicant's operations;
- (b) Validate compliance with national legislation, as well as the alignment with international environmental and social standards of the projects/programmes financed by the applicant; and
- (c) Oversee the environmental and social performance of the applicant's clients, investors, and other stakeholders in projects/programmes financed by the applicant.

39. The applicant voluntarily adheres to the Equator Principles (EP) including the performance standards (PS1-8) of the International Finance Corporation (IFC). The ESRMS

manual and adjoining annexes are in line with the implementation requirements of the national policies of the United Mexican States (e.g. Federal Law of Environmental Responsibility, and General Law for Ecological Equilibrium and Environmental Protection). E&S management has been periodically updated over the past several years to integrate the evolving E&S safeguard requirements of the applicant's international financing partners, leading to the formal approval of the SARAS manual by the applicant's senior management in June 2020. This SARAS largely reflects the internal organizational changes and related E&S review responsibilities. The ESRMS is within the purview of the applicant's credit review and approval process for its loans. The Coordinator of ESRMS is responsible for ensuring its conformance and for its execution. The SARAS Coordinator reports directly to the Deputy General Director of Credit, who in turn reports directly to the General Director. The ESRMS manual has been communicated to all levels within the organization and is available on the applicant's website. The applicant provided evidence on having organized a training course for all the staff on the application of the ESRMS in September 2020.

40. The AP finds that the applicant's environmental and social management system, comprising the ESRMS, supported by evidence of its track record, fully meets the GCF Environmental and Social Policy and interim GCF ESS standards for maximum E&S risk category I-2 projects/programmes with respect to performance standards 1-8.

3.2.2. Identification of environmental and social risks and impacts

41. The SARAS manual describes the applicant's procedure on the identification of E&S risks and impacts including E&S risk categorization including the responsibilities for determining the categorization and its implementation. The applicant's E&S experts propose an initial E&S risk screening and categorization of projects/programmes into E&S risk level A, B or C, and according to the classification by industrial activity and associated sector, as defined in the ESRMS manual. The ESRMS Coordinator validates the proposed E&S risk category. The E&S manual contains checklists and scorecard template to guide the applicant's E&S experts in conducting the E&S screening and categorization based on the PS1-8.

42. The applicant provided examples of E&S risk screening scorecards for two projects, a photovoltaic solar park and a wind project, categorized as E&S risk category B, including the indication on who within the organization determined the categorization in line with the SARAS manual.

43. 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 interim GCF ESS standards for maximum E&S risk category I-2 projects/programmes with respect to performance standards 1-8.

3.2.3. Environmental and social management programme

44. The SARAS manual describes the applicant's institutional process for managing mitigation measures and actions stemming from the E&S risk identification process. The project developer is responsible for preparing an Environmental Impact Statement (Spanish acronym, MIA) or Preventive Report, which is a mandatory document for the development of any construction project that the project developer must submit to the Ministry of the Environment and Natural Resources (SEMARNAT). The MIA evaluates the environmental and social impacts of a project, including the mitigation measures to be implemented by the project developer and approved by the SEMARNAT. The MIA defines the actions and related milestones for environmental and social compliance to be followed by the applicant's borrowers throughout the life of the project.

45. The applicant initially conducts a desk-level risk assessment to review the E&S scorecards to verify the E&S risk categorization. This is followed by the applicant's E&S due diligence (ESDD) and recommendation on an E&S corrective action plan for implementing the identified E&S mitigation measures. The ESDD findings are submitted to the Credit Committee for its review and determination on whether to finance a project. If approved, the legal team integrates the E&S corrective action plan into the legal contract with the applicant's borrowers.

46. The applicant provided the ESDD documents for the photovoltaic solar park and wind projects processed in line with the SARAS manual. The applicant also provided technical feasibility reports prepared by the developers of these projects, which further detailed their E&S assessment.

47. The applicant does not have evidence of its experience with E&S risk and impacts identification, mitigation management and monitoring and reporting for its projects/programmes involving guarantees. However, the applicant's track record on E&S management provided for its projects/programmes involving loans provides sufficient evidence also for guarantees, as guarantees are a form of unfunded loan. Thus the lack of track record with respect to guarantees has not been identified as a gap. The applicant is willing to assess E&S impacts for its first GCF project/programme involving guarantees.

48. The applicant also confirmed that the SARAS has not undergone an independent audit of the effectiveness of its ESMS and has indicated its willingness to commission an independent audit of its ESMS during the implementation of its first funding proposal to GCF.

49. The AP finds that the applicant's management programme fully meets the GCF Environmental and Social Policy and interim ESS standards for maximum E&S risk category I-2 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 48 above and is reflected by the corresponding condition of accreditation in section 4.2.

3.2.4. **Monitoring and review**

50. The SARAS manual describes the applicant's internal processes to support the E&S monitoring/supervision process that tracks and ensures completion of mitigation and performance improvement measures. The applicant or its executing entity, as applicable, hires an independent E&S expert for monitoring and reporting (M&R) for complex E&S risk Medium and High/A projects/programmes. The E&S Coordination Unit validates the independent expert's M&R reports. Each mitigation measure is monitored and followed throughout the project cycle to ensure full and timely implementation.

51. Once the financing of the projects is authorized, the applicant starts the contractual arrangement with the borrower on environmental and social monitoring. Specifically, this would involve monitoring of the Environmental and Social Action Plan (ESAP) for the construction and operation phases (Spanish acronym PAAS) of a project, as well as the Social Environmental Management System (Spanish acronym SGAS) and the Environmental and Social Management Plan (Spanish acronym PGAS), and reporting on the performance under the Equator Principles during the term of the loan.

52. E&S monitoring throughout the life of the credit is carried out semi-annually to review the E&S compliance of the financed operations and carry out an E&S supervision including a site visit if necessary. The monitoring and verification of the environmental and social contractual requirements of ESRMS is carried out through the System of Credit Monitoring platform (SISEC – Sistema de Seguimiento de Créditos in Spanish) to verify the degree of compliance of the borrowers. The Directorate of Supervision and Recovery is in charge of the SISEC and uses it to monitor all the credits offered by the applicant, ensuring they comply with

all the requirements established in the credit contracts. The contractual requirements of each credit are uploaded to the SISEC, including their periodicity and are monitored in the SISEC. The E&S Unit analyses all the monitoring data before issuing its E&S opinion for project disbursements.

53. The applicant provided a sample of the E&S monitoring and evaluation reports for the photovoltaic solar park and wind project based on the information provided by the developer and its subcontractors. The E&S monitoring reports are in line with the SARAS manual and the PS1-8.

54. The AP finds that the applicant's system of monitoring and review, supported by evidence of its track record, fully meets the GCF Environmental and Social Policy and interim GCF ESS standards for maximum E&S risk category I-2 projects/programmes with respect to performance standards 1-8.

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

55. The applicant has not provided information on its External Communication channels, such as provision on its website, to receive and register external communications including grievances. The applicant provided only a narrative without a written document on its institutional level grievance redress mechanism (GRM) outlining the procedure to receive, assess and resolve E&S grievances in line with the UN Guiding Principle No. 31 on Business and Human Rights. The applicant indicated that it plans to establish an independent unit to provide independent oversight of its GRM. The applicant indicated that it would provide a written document describing its institutional-level GRM, including the information on its external communication channels in the next few weeks.

56. In line with the Equator Principle No. 6, the applicant will apply the requirement for its executing entities to include grievance mechanism in projects/programmes. More specifically, for all E&S risk category A/I-1 and B/I-2 projects/programmes, the applicant will require its clients (executing entities) to establish effective grievance mechanisms which are designed for use by affected communities and workers, as appropriate, to receive and facilitate resolution of concerns and grievances about the project or programme's environmental and social performance. The grievance mechanisms required would be scaled to the risks and impacts of the projects/programmes, and will seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate, readily accessible, at no cost, and without retribution to the party that originated the issue or concern. Grievance mechanisms would not impede access to judicial or administrative remedies. The client will inform affected communities and workers about the grievance mechanisms in the course of the stakeholder engagement process.

57. The applicant has not formally adopted a policy on E&S information disclosure in line with the GCF Information Disclosure Policy (IDP) for maximum E&S risk category I-2 including the duration and language requirements. The applicant indicated that it would provide its formally adopted information disclosure policy in the next few weeks. The applicant's track record on the disclosure and consultation of E&S information for its projects/programmes complies with the requirements of the Equator Principles which falls short of the requirements of the GCF IDP, specifically as related to the types of E&S assessment documents to disclose and the duration and language of the disclosed documents. The applicant has indicated its willingness to comply with the E&S information disclosure in line with the GCF IDP for its GCF funded projects/programmes.

58. The AP finds that the applicant's system of external communications, consultations, information disclosure and grievance redress mechanism do not meet the GCF Environmental and Social Policy, interim GCF ESS standards and GCF Information Disclosure Policy regarding E&S information disclosure requirements for maximum E&S risk category I-2 projects/programmes with respect to performance standards 1-8. Furthermore, the AP finds that the applicant's track record is insufficient. The relevant gaps are identified in paragraphs 55 and 57 that identify the gaps above and are reflected by the corresponding conditions of accreditation in section 4.2.

3.2.6. Organizational capacity and competency

59. The SARAS manual contains the organizational chart showing the key departments and units responsible for implementing the SARAS, along with the reporting lines. The General Department of Credit through its E&S Coordination Unit implements the ESRMS. The objective of the E&S Coordination Unit is to manage the E&S risks through application of the environmental and social risk management system in order to ensure that the operations and applicant's projects/programmes are aligned to legal and normative framework, as well as in line with best international practices. The CVs of the staff in the E&S Coordination Unit along with a description of their roles and responsibilities were provided attesting to their qualifications and experience with the IFC PS1-8. The applicant also provided CVs of its two environmental and social consultants who can also be hired to conduct specialized E&S due diligence tasks as required. The applicant provided a sample of work done by the staff and the external consultants including the E&S risk categorization of projects attesting to their experience in applying the PS1-8.

60. The AP finds that the applicant's organizational capacity and competency, supported by evidence of its track record, fully meet the GCF ESS standards for maximum E&S risk category I-2 projects/programmes with respect to performance standards 1-8.

3.3 Gender

61. The applicant provided its institutional standalone draft Gender Equality policy developed with the assistance of a consultant from the Global Green Growth Institute (GGGI). The Gender Equality policy is aligned with the commitments adopted by the United Mexican State to promote, respect, protect and guarantee the full exercise of girls and women's human rights, as well as the achievement of the UN Sustainable Development Goals; following the standards on gender equality established in both the national legal framework and the international commitments assumed by the State according to Article 1 of the Political Constitution of the United Mexican States.

62. The applicant provided its draft Gender Equality policy which is further guided by the National Programme for Equal Opportunities and Non-Discrimination against Women 2013-2018 (PROIGUALDAD) developed by the Government of Mexico and reflected in the applicant's institutional Code of Conduct. At the time of the accreditation review, the applicant has indicated that it would provide its approved gender policy in the next few weeks. The Code of Conduct expresses the applicant's commitment to promote gender equality within its own institution and across its operations, products and services and describes gender equality in the applicant's workplace, outlining the actions taken to ensure non-discrimination in the salaries provided to its staff. The applicant has allocated adequate human resources to implement the Code of Conduct and the related gender commitments through the appointment of qualified Gender Focal Points and the establishment of the Working Group for Labour Equality and Non-Discrimination (a committee that oversees gender issues). The applicant provided a gender tool

(checklist) developed by GGGI to guide the applicant in implementing its Gender Equality Policy.

63. The applicant has conducted a workshop for all its Deputy General Directors in February 2021 to familiarize them with the Gender Equality Policy and GCF Gender Policy requirements. As a result of this meeting, the Deputy General Directors appointed focal points of each area to be part of the Gender Working Group. The Gender Working Group was trained in February 2021 by GGGI's gender expert. They learned about gender equality, non-discrimination, sexism, national and international gender frameworks, and the importance of gender for GCF supported activities. The applicant provided CVs of the members of the Gender Working Group dedicated to implementing the Gender Equality policy. Furthermore, the applicant will continue to be advised on gender issues by the GGGI's gender specialist. The Director for the International Financial Institutions will oversee the monitoring, operation, and evaluation of the Gender Equality Policy.

64. The applicant provided documents on its 'Women Entrepreneur Program' and its achievements including the amounts of credits provided to women-led businesses as examples of its lending operations that specifically target women among project/programme beneficiaries. However, the applicant could not provide adequate evidence on its track record in conducting gender assessment in line with the GCF Updated Gender Policy.

65. The AP finds that the applicant's draft gender policy, when adopted, and procedures and capacities fully meet the Updated Gender Policy. Furthermore, the AP finds that the applicant's track record is insufficient. The relevant gaps are identified in paragraphs 62 and 64 above and are reflected by the corresponding conditions of accreditation in section 4.2.

IV. Conclusions and recommendation

4.1 Conclusions

66. The AP concludes, following its assessment of the application against the standards of the GCF in accordance with the accreditation requirements identified in paragraph 3 above:

- (a) The applicant 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;
- (b) The applicant meets the requirements of the specialized fiduciary standard for on-lending and blending for loans and guarantees;
- (c) The applicant partially meets Environmental and Social Policy, interim ESS standards and the Information Disclosure Policy on disclosure of E&S information in relation to the medium E&S risk (category I-2). The key gaps are (i) lack of an external audit of its ESMS; (ii) lack of policies on GRM including information on external communication channels to receive and register E&S complaints; and (iii) lack of E&S information disclosure policy and related track record in line with the GCF IDP; and
- (d) The AP finds that the applicant's draft gender policy, procedures and capacities partially meet the Updated Gender Policy. Furthermore, the AP finds that the applicant's track record on formulating a gender assessment and action plan, including addressing the linkage between gender and climate change for its projects/programmes, is insufficient. The relevant gaps are identified in paragraphs 62 and 64 above and are reflected by the corresponding conditions of accreditation in section 4.2.

4.2 Recommendation on accreditation

67. The AP recommends, for consideration by the Board, applicant APL112 for accreditation as follows:

- (a) **Accreditation type:**
- (i) **Maximum size of an individual project or activity within a programme:** medium⁷ (including micro and small);
 - (ii) **Fiduciary functions:**
 - 1. Basic fiduciary standards;
 - 2. Specialized fiduciary standard for on-lending and blending (for loans and, guarantees); and
 - (iii) **Maximum environmental and social risk category:** medium risk (category I-2) (including lower risk (category I-3⁸)).
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) 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 signature of the accreditation master agreement during stage III of the accreditation process:
 - 1. Provision by the applicant of evidence of the establishment of its external communication channel(s) such as a website to receive and register external inquiries including E&S related grievances;
 - 2. Provision by the applicant of a written document describing its institutional level GRM;
 - 3. Provision by the applicant of a copy of the adoption by its competent bodies of the E&S Information Disclosure Policy in line with the GCF E&S Information Disclosure Policy requirements for E&S risk category I-2 together with a copy of such policy; and
 - 4. Provision by the applicant of a copy of the adoption by its competent bodies of the Gender Equality Policy together with a copy of such policy.
 - (ii) Conditions to be met with the submission of the first funding proposal to GCF:
 - 1. Provision by the applicant of a gender assessment and action plan as part of its first funding proposal, including a narrative on gender consideration in the context of climate change, as relevant.
 - (iii) Conditions to be met with the submission of the first funding proposal in E&S risk category I-2 to GCF:

⁷ 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 USD 50 million and up to and including US\$ 250 million for an individual project or an activity within a programme.”

⁸ As per annex I to decision B.07/02, category C is defined as “Activities with minimal or no adverse environmental and/or social risks and/or impacts,” and intermediation 3 is defined as “When an intermediary’s existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts.”

1. Provision by the applicant of evidence of disclosure of E&S assessment in line with the requirements of the GCF Information Disclosure Policy; and
- (iv) Condition to be met within three years of the first disbursement by GCF for the first approved project/programme to be undertaken by the applicant:
1. Provision by the applicant of an independent audit report on applicant's environmental and social management system (ESMS) including a narrative on lessons learned.
68. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 67 above, and agrees to the recommendation.