

## Annex II: Re-accreditation assessment of Korea Development Bank (KDB) for the second accreditation term

### I. Introduction

1. The Korea Development Bank (KDB) is a national entity headquartered in the Republic of Korea (Korea). KDB has a mandate to contribute to the development and promotion of industries, expansion of social infrastructure development, stabilization of financial markets and facilitation of sustainable growth. One of the pillars of the long-term strategy that KDB has identified is to align finance with the Paris Agreement for low-carbon and climate resilient pathways. Leveraging its strong partnership with world-leading financiers and a country presence in both developed and emerging countries (reflecting its mandate to operate globally), KDB strives to align its business operations with developing countries' priorities for financing low-emission and climate resilient development. KDB has a track record in promoting sustainable economic development through project finance, green, social and sustainable bonds. KDB's activities include construction of solar power generation facilities and railroads, renewable energy production facilities, clean transportation, and renewable energy projects.

2. KDB was accredited by the Board on 15 December 2016 in decision B.15/09, paragraph (d), for the following parameters, as recommended by the Accreditation Panel (AP), under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, national. The national designated authority (NDA) or focal point nomination from the Republic of Korea remains in effect for the re-accreditation application;
- (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 on-lending and/or blending (for loans, equity and guarantees);
- (e) **Maximum environmental and social risk category:** medium risk (category B/intermediation 2 (I-2));<sup>3</sup> and
- (f) **Indicative results areas for intended projects/programmes with GCF:**
  - (i) Energy generation and access;

<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 USD 50 million and up to and including USD 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, 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."

- (ii) Transport;
- (iii) Buildings, cities, industries and appliances;
- (iv) Infrastructure and built environment;
- (v) Ecosystems and ecosystem services; and
- (vi) Public, private and cross-cutting types of projects/programmes.

3. KDB signed its accreditation master agreement (AMA) with GCF on 6 April 2017, which became effective on 8 May 2017. With the AMA coming into effect, the AE's first accreditation term is from 8 May 2017 to 7 May 2022. The AE submitted its application for re-accreditation to GCF via the digital accreditation platform on 15 October 2021. Accreditation fees were not applicable since the AE is seeking re-accreditation for the same accreditation scope that it was previously accredited for; thus, the stage I institutional assessment and completeness check commenced upon submission of the re-accreditation application. Stage I was completed on 7 February 2022 and the applicant was progressed to the stage II (step 1) accreditation review by the AP, which has been concluded with the publication of this assessment.

4. The AE has applied for the same accreditation scope that it was previously accredited for, while updating the indicative result areas for projects/programmes it intends to submit to GCF, to the following:

(a) **Indicative results areas for intended projects/programmes with GCF:**

- (i) Energy generation and access;
- (ii) Transport;
- (iii) Buildings, cities, industries and appliances;
- (iv) Forests and land use;
- (v) Health and well-being, and food and water security;
- (vi) Infrastructure and built environment;
- (vii) Ecosystems and ecosystem services; and
- (viii) Public, private and cross-cutting types of projects/programmes.

## II. Stage I institutional assessment and completeness check

5. The AE applied for accreditation and was assessed by the Secretariat during stage I under the normal track re-accreditation process in accordance with GCF policies and standards to the extent applicable to accreditation below:

- (a) "Updated Strategic Plan for the Green Climate Fund: 2020–2023" (decision B.27/06);
- (b) "Matters related to the accreditation framework" regarding the re-accreditation process (decisions B.24/13 and B.26/01);
- (c) "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);
- (d) "Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach" (decision B.08/02);
- (e) "Policy on Prohibited Practices" (decision B.22/19);

- (f) “Anti-Money Laundering and Countering the Financing of Terrorism Policy” (AML/CFT Policy) (decision B.18/10);
- (g) “Policy on the Protection of Whistleblowers and Witnesses” (decision B.BM-2018/21);
- (h) “Revised Environmental and Social Policy” (decision B.BM-2021/18);
- (i) “Comprehensive Information Disclosure Policy of the Fund” (decision B.12/35) regarding the disclosure of environmental and social (E&S) information; and
- (j) “Updated Gender Policy and Gender Action Plan 2020–2023” (decision B.24/12).

## 2.1 Legal status, registration, permits and licences

6. The AE provided documents on its establishment and licences to operate, where relevant, as a part of the application. The AE confirmed that there had been no change in its legal status or licences to operate since the original accreditation application.

7. As indicated in paragraph 3 above, the AE and GCF entered into the AMA for the AE’s first accreditation term from 8 May 2017 (date of AMA effectiveness) to 7 May 2022. With the deadline for the AE to submit its re-accreditation application and a change in Board meeting dates, the accreditation term will expire after this assessment and recommendation is presented to the Board for consideration, and the consideration by the Board during its thirty-second meeting. As the AE has sought re-accreditation prior to the end of its first accreditation term, it shall remain designated as an AE during the period between its first and, if re-accredited and having a signed and effective amended and restated AMA, second accreditation terms.

8. Once re-accredited, the AE’s AMA would need to be amended and restated to account for the re-accreditation decision and any conditions of re-accreditation based on the AP’s assessment of the AE against the GCF standards and policies listed in paragraph 22 below, as well as to reflect the GCF policies and standards adopted by the Board that have become effective since the agreement between GCF and the AE of the AMA for its first accreditation term.

9. The AE confirmed at the time of publication of this recommendation that it is willing to engage with GCF on amending and restating the AMA to account for new GCF policies that have become effective after the agreement between GCF and the AE of the AMA for the first accreditation term and that it will provide the necessary resources to review the draft amended and restated AMA.

## 2.2 Accredited entity performance in contributing to GCF programming results

### 2.2.1. **Approved GCF projects under implementation and national designated authority participatory monitoring**

10. KDB does not currently have a portfolio of approved projects with GCF.

### 2.2.2. **Officially submitted entity work programme, concept notes, funding proposals and Project Preparation Facility requests**

11. **Entity work programme:** KDB, being accredited via the direct access entity modality, plays a unique role as a national development institution with a mandate from the national government to operate internationally. KDB’s business model does not foresee implementation of GCF projects/programmes within its country of nomination and therefore is not reflected in

the country's national programming process with GCF. KDB programming with GCF targets countries in the regions that are recipients of development support from the Republic of Korea and therefore strives to align with relevant national and regional priorities. KDB submitted a draft entity work programme on 30 July 2021 with one indicative project in the pipeline for GCF-1; this project, the "Cambodian Climate Financing Facility" (formerly "Green Financing Institution in Cambodia"), aims to provide the required green financing to catalyse development of a green economy in Cambodia. The draft entity work plan is yet to be finalized and hence has not yet been presented to the Secretariat's Climate Investment Committee.

12. **Concept notes/funding proposals:** KDB has three concept notes in the pipeline, with a total amount of USD 308 million in GCF funding. The first concept note is for a programme "Supporting Innovative Mechanisms for Industrial Energy Efficiency Financing in Indonesia with Lessons for Replication in other ASEAN Member States" (USD 135 million in GCF funding) which may be presented for Board consideration at B.34, subject to the AE's re-accreditation and signature of an amended and restated AMA for a second accreditation term beforehand. This programme aims to support increasing access to finance and the uptake of energy efficiency in the energy-intensive industrial sector across the ASEAN Member States; initiating pilot climate actions in Indonesia and subsequently its neighbours throughout South-East Asia; and is aligned with the country national climate priorities.

13. The second concept note is on the "Collaborative R&DB [Research and Development Business] Programme for Promoting the Innovation of Climate Technopreneurship" programme (USD 113 million in GCF funding) which may be presented for Board consideration at B.34, subject to the AE's re-accreditation and signature of an amended and restated AMA for a second accreditation term beforehand. This programme aims to promote innovative technology solutions and empower local ecosystems for climate technopreneurship through a R&DB platform and USD 200 million investment fund. The Project Preparation Facility (PPF) support approval for this concept note was announced at COP26 to demonstrate the joint efforts of GCF and KDB in climate innovation and technology. The PPF support was provided to prepare the feasibility studies as well as the environmental, social and gender studies and management and action plans. The preparatory studies have been conducted on two tracks at both national and regional level under KDB supervision.

14. The third concept note, received on 13 January 2022, is for the "Cambodian Climate Financing Facility" programme (USD 60 million in GCF funding), a dedicated national climate finance vehicle to contribute to Cambodia's low-emission and climate resilient pathways. It is specifically designed to leverage much needed public and private sector funding to accelerate Cambodia's NDC implementation and post COVID-19 pandemic green economic recovery. Although not directly featured in the Cambodia country programme with GCF that was prepared in 2020, the concept note is in line with national climate priorities identified by the above country programme.

#### 2.2.3. **Risk flags incurred by the projects, accredited entity or country during the previous accreditation term**

15. Specifically with regard to integrity risk related to the GCF AML/CFT Policy and Policy on Prohibited Practices, the Secretariat is not aware of any relevant risk flags during the current accreditation term. Furthermore, the Secretariat also consulted with the Independent Integrity Unit regarding knowledge of any integrity risks.

### 2.3 Accredited entity-level reporting on continuing to meet GCF accreditation standards

16. In line with the AMA clause 15.02(c)(i) and 5.03(b)(iv), KDB has submitted the required AE-level reports throughout its 5-year accreditation term within the deadlines stipulated in the AMA. These include annual self-assessments for calendar years 2017 and 2018 followed by a midterm accreditation review that included the self-assessment for calendar year 2019, and another self-assessment for calendar year 2020. KDB's re-accreditation application includes the self-assessment for calendar year 2021.

17. In the annual self-assessments, KDB did not report any changes in the areas related to fiduciary standards and gender requirements against which KDB was assessed for its original accreditation except for a change in its organizational structure in 2020 that was reported as having led to positive outcomes in its capabilities to identify and manage environmental and social (ES) risks.

18. As detailed in document GCF/B.27/03/Add.02, the AP and Secretariat reviewed the midterm review report covering calendar year 2019 and found that the AE continued to meet the relevant GCF accreditation standards and obligations as an AE per its AMA with GCF in the context of its accreditation scope.

## 2.4 Overall portfolio of activities of the accredited entity beyond those funded by GCF

19. As per the Updated Strategic Plan (USP) for the GCF: 2020–2023,<sup>4</sup> the re-accreditation process,<sup>5</sup> and the monitoring and accountability framework,<sup>6</sup> the Secretariat and the AP are requested to provide an assessment of the extent to which the overall portfolio of activities of the AE beyond those funded by GCF has evolved during the accreditation period, in order to advance the goal of GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development.

20. KDB has announced strong commitments to financing and investing in green transformation towards a low-carbon economy and industrial structure adjustment. In particular, aligning finance with the Paris Agreement is identified by KDB as a critical pillar of its long-term strategy to restore the growth momentum as being faced with uncertainties in the post COVID-19 pandemic era. KDB strategically concentrates its resources bank-wide for climate alignment, environmental, social and governance (ESG) integration, and just transition. KDB plans to increase its share of finance dedicated to green and climate investments, including investments in associated green areas and environmental service areas, up to over 30 per cent by 2025 and beyond.

21. All KDB projects under scope of the Equator Principles (EPs) have climate change vulnerability assessment. Since joining the Task Force on Climate-Related Financial Disclosure (TCFD), KDB has streamlined the internal system to disclose the share of projects with climate change relevance. According to internal KDB requirements, all projects with expected greenhouse gas (GHG) emission levels exceeding 100,000 tonnes of CO<sub>2</sub> equivalent annually, undergo a climate change risk assessment which includes consideration of relevant climate transition risks as defined by the TCFD, and an analysis evaluating alternatives that are less GHG intensive.

22. The AE provided the following information with regard to the seven guiding questions established in the baseline methodology:

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<sup>4</sup> Decision B.27/06 and annex VI thereto.

<sup>5</sup> Decision B.24/13 and annex XXVI thereto.

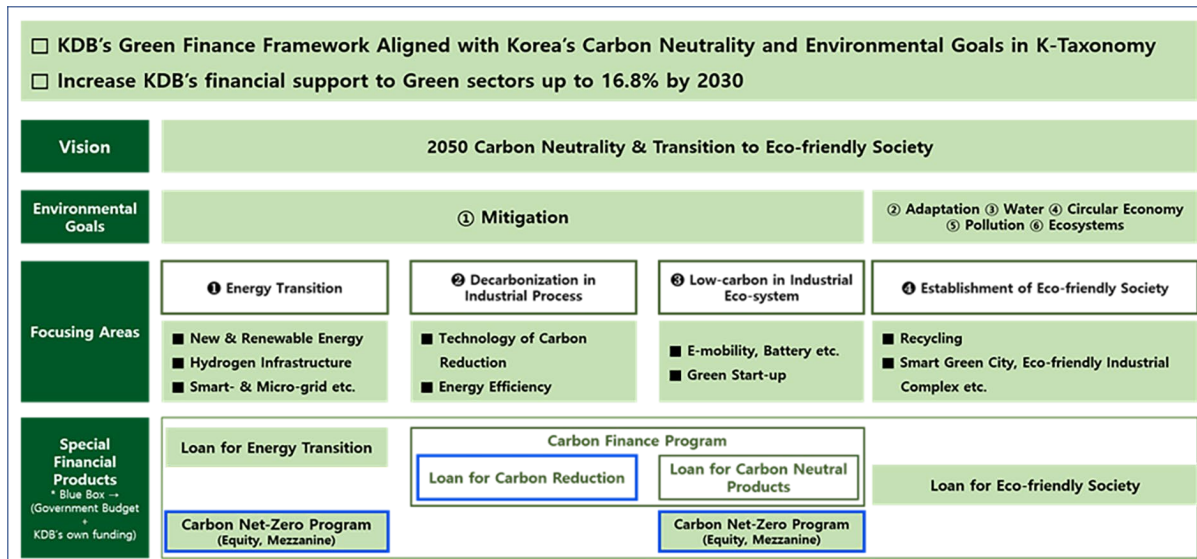
<sup>6</sup> Decision B.11/10 and annex I thereto.

- (a) Guiding question 1. Has the entity established policies or commitments in the short, medium, or long term regarding investment in climate projects?
- (i) The AE's short and medium-to-long term policies and commitments regarding carbon-intensive exposure are as follows:
  - (ii) **(Coal Sector)** Along with Carbon Neutrality 2050, the Korean government published the very recent 9th National Basic Plan for Electricity Supply that excludes construction of new coal power plants with strategies to lower the share of coal in electricity mix to achieve the goals of carbon neutrality by 2050. The Korean government also announced its immediate action to stop state-backed overseas coal finance through public financial institutions. As a leading policy financial institution of Korea, KDB has been supporting such governmental endeavours by strictly implementing 'Guidelines for Lending and Investments in the Coal Sector' which includes prohibition of financing new overseas coal projects – both construction and equipment support.
  - (iii) **(Other Carbon-Intensive Sectors)** KDB has managed five (5) carbon-intensive industrial sectors (power, steel, chemicals, oil-refining, and cement) in terms of exposure management and the bank's climate risk (scope 3) management, which have contributed to the government's objectives of 2050 Carbon Neutrality. In addition, as for a just transition of such hard-to-decarbonize-sectors, KDB has newly introduced special financial products that target technologies – e.g., hydrogen reduction process (HyREX), bio-based chemicals processing, floating offshore windfarm, CCUS – at stages before commercialization for the sake of the industries' carbon neutrality.
  - (iv) KDB Climate Investment:
  - (v) **(Short-term target)** The AE continues to increase its climate portfolio with the aim to increase it in 2022 by more than 15 per cent over 2021.
  - (vi) **(Medium to long-term target)** The AE is aggressively ramping up its climate actions in line with the Korean government policy of "Net Zero by 2050"<sup>7</sup> and the AE aims to devote around 17 per cent out of total funds (approximately 13 trillion South Korean won (KRW), circa. 10,5 billion USD) into a green climate portfolio by 2030 to be able to contribute to the country's goal of reaching net zero emissions by 2050.
  - (vii) The AE has been expanding support for climate projects by providing low interest, long-term funds through specialized financial products for climate projects, such as the "Carbon Finance Programme" and "Net Zero Programme" which can be viewed in the AE's Climate Finance Framework (Summary) as shown below in Figure 1.

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<sup>7</sup> See <https://cleanenergynews.ihsmarkit.com/research-analysis/south-korea-passes-bill-to-mandate-carbon-neutrality-by-2050.html> and <https://www.spglobal.com/platts/en/market-insights/latest-news/energy-transition/101921-south-korea-finalizes-2050-carbon-neutrality-roadmaps>.

**Figure 1. KDB Climate Finance Framework (Summary)**



- (b) Guiding question 2. Does the entity receive resources from third parties for the financing of climate projects?
- (i) KDB recently received KRW 130 billion (circa.105 milion USD) in equity to support promising domestic small and medium enterprises (SMEs) for projects in low-carbon industry, from the Climate Response Fund established by the Republic of Korea. These funds would be dedicated to support the country’s low carbon industry transition and high-risk renewable energy projects such as hydrogen power, offshore wind power, among others. This can be found in the press release.<sup>8</sup>
  - (ii) The AE has supported climate projects through the issuance of a Green and Sustainability Bond. Of KDB’s mid- to long-term funds raised in 2021, 27.1 per cent was raised through the Green and Sustainability Bond framework, and KDB (Standard & Poor’s rating AA is a renowned global bond issuer with established benchmarks (Figures 2 and 3).

**Figure 2. KDB’s Commitment to Sustainability**

<b>1. KDB’ Commitments</b>			
<ul style="list-style-type: none"> <li>• Support Sustainable and quality economic growth</li> <li>• Enhance sustainability of public and private sector operations</li> <li>• Engage in innovative investment and support adaptation measures</li> </ul>			
<b>2. Regular Green, Social, and Sustainability Bond Issuances by KDB</b>			
Bonds	Issue Year	Issue Size	Use of Proceeds
Green Bond	2021	KRW 300bn	Project for construction of Solar power generation facilities; and rail-roads

<sup>8</sup> Available at [https://www.moef.go.kr/nw/nes/detailNesDtaView.do?searchBbsId1=MOSFBBS\\_00000000028&searchNttId1=MSF\\_00000000058326&menuNo=4010100](https://www.moef.go.kr/nw/nes/detailNesDtaView.do?searchBbsId1=MOSFBBS_00000000028&searchNttId1=MSF_00000000058326&menuNo=4010100) (in Korean).

<b>Green Bond</b>	<b>2021</b>	<b>USD 300mn</b>	Projects related to the manufacture of rechargeable batteries, renewable energy production facilities
<b>Green Bond</b>	<b>2021</b>	<b>USD 700mn</b>	Renewable energy Projects(solar power, wind power) and Clean transportation projects(rechargeable batteries)
<b>Social Bond</b>	<b>2020</b>	<b>USD 500mn</b>	COVID-19 Pandemic Support (SMEs & SOHOs)
<b>Green Bond</b>	<b>2020</b>	<b>KRW 200bn</b>	Projects for construction of solar power generation facilities; and rail-roads
<b>Social Bond</b>	<b>2020</b>	<b>KRW 1000bn</b>	COVID-19 Pandemic Support (SMEs & SOHOs)
<b>Social Bond</b>	<b>2019</b>	<b>KRW 400bn</b>	Job creation
<b>Green Bond</b>	<b>2019</b>	<b>EUR 500mn</b>	Renewable energy Projects such as solar power, wind power
<b>Sustainability Bond</b>	<b>2019</b>	<b>KRW 400bn</b>	Job creation; adaptation measure
<b>Social Bond</b>	<b>2018</b>	<b>KRW 400bn</b>	Job creation
<b>Green Bond</b>	<b>2018</b>	<b>KRW 400bn</b>	Project for construction of solar power generation facilities; and rail-roads
<b>Green Bond</b>	<b>2017</b>	<b>EUR 300mn</b>	Renewable energy projects such as solar power; wind power




### 3. International Participation for Sustainability

<b>2007</b>	United Nations Global Compact	(iii) Signed in 2007, KDB has been publishing annual report encompassing KDB's achievement in sustainability and social responsibility activities	(iv) 2007
<b>2014</b>	IDFC(International Development Finance Club)	Through the legacy KoFC, KDB is a founding member of International Development Finance	2014



		Club("IDFC") established in 2014	
2016. 12.	GCF	Since December 2016, KDB has been an accredited entity elected by the Green Climate Fund(GCF) to carry out the GCF-funded projects.	2016. 12.

**Figure 3. KDB Sustainable Bond Framework**

<p><b>KDB Sustainable Bond Framework</b></p> <ul style="list-style-type: none"> <li>In 2017, KDB established the KDB Green Bond Framework setting out procedures for green financing such as Use of Proceeds, Process for Project Evaluation &amp; Section, Management of Proceeds and Reporting of Use of Proceeds.</li> <li>In 2019 KDB replaced the 2017 Framework with KDB Sustainable Bond Framework to encompass financing areas for both green projects and social projects. This 2019 Framework is aligned with 1) Green Bond Principles 2) Social Bond Principles and 3) Sustainability Bond Guidelines introduced by international Capital Market Association (ICMA)</li> <li>A Second-party Opinion by Sustainalytics on the 2019 Sustainable Bond Framework was obtained in 2019 and is available on KDB's official internet website.</li> </ul>	
  	
<p><b>Green Eligible Categories</b></p>	
<p><b>Renewable Energy</b></p>	<p>-Development, Construction of or production transmission of energy from renewable resources</p>
<p><b>Clean Transportation</b></p>	<p>-Low-carbon transportation including electric or hydrogen-powered cars, etc. -Marine Vessels which use clean fuels</p>
<p><b>Energy Efficiency</b></p>	<p>-Energy storage systems, smart grids, appliances and products in new and refurbished buildings</p>
<p><b>Pollution Prevention And Control</b></p>	<p>-Facilities and technologies for preserving or restoring natural landscape, preventing soil contamination or air pollution</p>
<p><b>Sustainable Water Management and wastewater management</b></p>	<p>-Development and/or purchase of sustainable infrastructure for wastewater treatment, technology for recovering hydro-ecological environments -Development and/or construction of facilities for preventing water pollution</p>

<b>Employment Generation</b>	Loans to SMEs with ≤ 300 employees failing water : -Outperforming job-creating companies certified by the central or local governments -Environment-expanding companies receiving tax benefits
<b>Social Enterprise</b>	-Social enterprises defined in the article 2.1 or “social Enterprise Promotion Act” -Preliminary social enterprises <sup>5</sup> certified by the head of local government or head of an administration department of central government

(c) Guiding question 3. Does the AE calculate and reduce its greenhouse gas emissions at the corporate level?

- (i) KDB is designated as an institution subject to “GHG & Energy Management System for Public Institutions” and its GHG emissions corresponding to scope 1 and scope 2 are calculated and disclosed on the National Gas Management System site and presented in table 1 below for the period 2018–2020.

**Table 1. KDB GHG emissions (scope 1 and 2, tCO<sub>2</sub>eq)**

Year	Category	Scope1	Scope2	Sub-total	Gross total	Increase or decrease (%)
2018	Building	517.503	9,880.36	10,397.86	10,629.68	-
	Transportation	231.82	-	231.82		
2019	Building	467.292	8,591.21	9,058.50	9,300.49	▼12.49
	Transportation	241.985	-	241.99		
2020	Building	338.905	7,745.14	8,084.05	8,334.70	▼ 10.39
	Transportation	250,659	-	250.66		

- (ii) At the corporate level, KDB takes various and specific measures to reduce its GHG emissions, such as providing more electric charging stations to encourage purchase of electric cars, and building energy efficiency, and use of renewable energy for daily banking operations, among other facilities. KDB is determined to participate in the Korean Renewable 100 Percent (K-RE100) initiative and has established its own Electric Vehicles 100 Percent (EV100) roadmap and plans to achieve EV100 by 2024 and RE100 by 2040. Recently, KDB has initiated an external independent advisory process for improvement of its GHG emission management system; with the consultation ongoing, the final report is yet to be released.

(d) Guiding question 4. Does the AE evaluate the climate risks of its portfolio?

- (i) The AE's E&S framework demands climate change risk assessment for all category A and B projects, in accordance with the EPs. For all projects with expected GHG emission levels exceeding 100,000 tons of CO<sub>2</sub>eq annually, KDB requires a climate change risk assessment which includes consideration of relevant climate transition risks, and an analysis to evaluate alternatives that are less GHG intensive. The AE submitted evidence of its track record on climate change risk assessment in an environmental impact assessment (EIA) for its project to construct and operate a hydropower dam for renewable energy.
- (ii) The AE is also promoting the financial disclosure that indicates climate risk and factors in stages according to the recommendations of Task Force on Climate-related Financial Disclosures (TCFD), and an advanced climate risk assessment system is being established accordingly. The long-term plan and drafts for TCFD reporting are currently being conducted by external advisors (the final report is not published yet but will be made available to GCF and the public on completion).
- (e) Guiding question 5. What are the main sectors of activity of the AE?
- (i) The AE is highly committed to supporting the green and climate sectors in line with the Korean national strategy of "Transition to a Sustainable Economy" prepared by the Korean Government such as by expanding investment in climate projects or businesses; issuing green bonds; and playing a role as a market creator for certified emission reduction. As a result, the climate portfolio of KDB was worth above KRW 12 trillion as of the end of 2021, which accounts for 14.7 per cent of total funds, an increase of KRW 3.5 trillion compared to 2020. In the case of carbon-intensive sectors such as coal, there are few new exposures other than the disbursement under financial agreements already signed, since the AE's aforementioned internal guideline including suspension of support for new coal-fired plant projects has been established and implemented only recently.
- (ii) The AE has classified its assets of KRW 251.8 trillion (as of 2020, approximately USD 250 billion) into 37 sectors, contextually customized on the basis of the Korean Standards Industry Classification which was developed from the International Standard Industrial Classification adopted by the United Nations.
- (iii) According to this classification, the top 10 sectors of KDB's portfolio include construction, water transportation, automotive, shipbuilding, equipment, food and beverage, and machinery, all of which are sectors where KDB intends to develop GCF climate response projects.
- (f) Guiding question 6. Is the AE investing in mitigation projects/operations?
- Carbon intensive investment:**
- (i) (Power generation projects) The AE, as a development financial institution supporting growth of the Korean national economy, has also contributed greatly to expansion of the national electricity supply. The credit balance for fossil fuelled (coal, gas) power generation accounted for more than 60 per cent of total power generation credit balance in 2017, but as a result of the AE's efforts for climate finance after GCF accreditation, it decreased to 24 per cent by the end of 2021 and renewable energy accounted for 76 per cent (see figure 4 and table 2 below)

Figure 4. KDB portfolio in power generation project

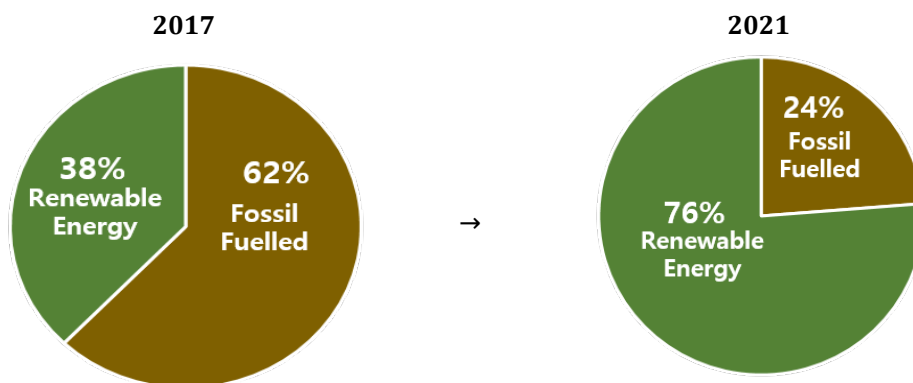
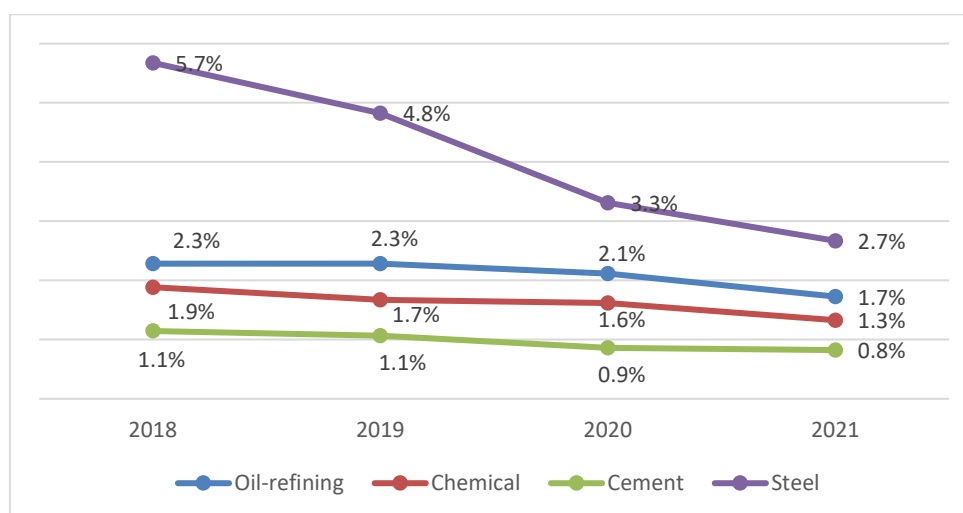


Table 2. KDB credit balance in power generation projects

	Fossil Fuel (Coal+Liquified Natural Gas)	Renewable Energy
Dec. 2017	62.2%	37.8%
Dec. 2018	51.3%	48.7%
Dec. 2019	34.3%	65.7%
Dec. 2020	24.8%	75.2%
Dec. 2021	23.8%	76.2%

- (ii) Since GCF accreditation KDB has also made efforts to reduce support for the carbon intensive sector. Its portfolio for the carbon intensive sector, including oil-refining, chemical, cement and steel, has continued to decrease (figure 5).

Figure 5. Trends in KDB carbon-intensive sector portfolio



**Investment in mitigation projects:**

- (iii) (Overseas) KDB has been investing in overseas mitigation projects. The list of overseas renewable project financing businesses (from time of accreditation to 2021) is submitted as evidence of its continuing commitment towards reduction of GHG emissions. The total size of KDB's overseas renewable energy portfolio is

approximately USD 55.7 billion indicating KDB's commitment to transition to renewable energy investment.

- (iv) (Domestic) KDB has established customized financial products to reduce domestic GHG emissions in Korea and is supporting various mitigation projects with these products which have low interest rate, long-term maturities. In 2021, KDB made investments in the mitigation projects through these products to the amount of about USD 6.1 billion.
- (g) Guiding question 7. Is the AE investing in adaptation projects/operations?
  - (i) (Overseas) KDB has been investing in overseas projects with adaptation and/or cross-cutting impacts as per the GCF criteria. For instance, as of the last year, KDB invested USD 3,316 million in water or waste management projects.
  - (ii) (Domestic) KDB has also established customized financial products for projects with adaptation impacts in Korea. In 2021, applying these products KDB investment in domestic adaptation projects amounted to about USD 1.8 billion.

23. The AP consider that the evidence provided for the first accreditation term demonstrates the continuous positive trend of developing climate change mitigation and adaptation and cross-cutting activities. Both the strategy and the trend of activities are aligned with the GCF mandate and objectives.

### III. Stage II re-accreditation review assessment

24. The AE applied under the normal track accreditation process. Its application has been assessed by the AP during stage II (step 1) against the standards of GCF in accordance with the re-accreditation requirements to the extent applicable to accreditation identified in paragraph 5 above.

25. As part of this assessment, the AP consulted the AE'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

26. KDB did not have any conditions with regard to the basic fiduciary standards on key administrative and financial capacities recommended by the AP for the first accreditation term.

27. Established in 1954 as a public bank of the Republic of Korea, KDB has many years of experience managing projects that have contributed to national development. With its track record in public businesses, KDB is now also financing global infrastructure projects in developing countries. In addition, KDB is an active issuer of bonds and arranger of joint financing with domestic and international financial institutions. As a government-controlled entity, KDB is strongly regulated and supervised by the Korean authorities. The Korea Development Bank Act (KDB Act) defines the entity's governance structure and operations. According to the current organization chart, KDB consists of 9 divisions, 9 centres and 60 departments, including a Strategy-Green Finance Planning Division. In addition, the AE has a board of directors consisting of the Chief Executive Officer (CEO), the Chief Operating Officer and five independent members. Several sub-committees support the Board, including risk management and compensation committees. There is no audit or ethics committee and these functions are well handled by other teams, as described later in this recommendation.

28. KDB has provided its short (annual plans), medium (2019–23 mid-term management plan) and long-term strategic plans (KDB vision for 2040). The general management plan for 2020–2021 includes green financing and incorporates the partnership with GCF. The key goals include leading the transition to a low-carbon economy in the Republic of Korea and reinforcing a foundation for sustainable financing. To this end, KDB set goals for supplying green finance in 2020–2021 and these goals were applied to all business departments such as corporate finance, SMEs and project finance to align business activities with the organization’s mission. KDB has a well-managed process for setting objectives with comprehensive evaluation and indicators to measure the defined objectives. Interim progress on objectives and indicators is checked quarterly, semi-annually and annually. The team charged with establishing and monitoring the standards and indicators that assess progress on objectives reports regularly to the CEO as well as to the departments responsible for meeting each objective, with corrective actions as necessary. The CEO is regularly informed of the results of this process. KDB provided internal documents demonstrating that organization-wide objectives provide clear guidance on what KDB expects to achieve.

29. KDB has in place a clear and complete set of financial statements that report periodically on assets, liabilities and cash flow, as well as financial performance, changes in reserves and fund balances and description of the accounting policies. The annual reports and supporting documents of KDB and its subsidiaries’ consolidated financial statements for 2019 and 2020 are prepared according to Korean International Financial Reporting Standards (K-IFRS). The IFRS standards adopted in Korea are those issued by the International Accounting Standards Board without modifications.<sup>9</sup> They are the required standards for Korean listed companies and financial institutions which includes KDB.

30. KDB has explained how the normal functions of an audit and an ethics committee are addressed even though specific audit and ethics committees are not part of KDB’s organizational structure. KDB has a Standing Auditor who participates in general audit work and reports directly to the board of directors. The terms of reference and work scope of the Standing Auditor have been provided. This Auditor is appointed by the Financial Service Commission, a government agency, which ensures independence from the bank’s internal organization, pursuant to the KDB Act. This Auditor also participates in most audit business and has the authority to review and approve internal and external audit work. The Procedure for Enforcement of Audit and Inspection Policy describes the roles and responsibilities of the Chief Audit Officer. KDB’s Audit and Inspection Policy and its Procedure of Internal Audit demonstrate that the internal audit function is independent from the management and other departments being audited, with each branch and department having a designated audit manager and chief audit manager. Two samples of annual internal audit reports were provided. There is also an annual assessment on the internal audit and an example report has been provided. The internal audit reports are registered in the public audit information system.

31. Regarding external audit, KDB is subject to audit by the Board of Audit and Inspection of Korea, which is a government agency. An independent external auditor is designated every five years, following the Act on External Audit of Stock Companies and the bank-related accounting standards established by the Financial Services Commission in the Articles of Incorporation of KDB. Therefore, the external financial audit function ensures an independent review of financial statements and internal controls, as defined by the International Federation of Accountants. The Audited Financial Statements for 2019 and 2020 indicate KDB’s financial capacities and track record in financial management.

32. KDB has an organic risk management system that encompasses all levels of the organization, from the front desk to the Risk Management Committee, which is the highest

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<sup>9</sup> As provided in <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/view-jurisdiction/south-korea/>.

decision-making organ managing the various risks associated with the business. Changes in the external and internal environment, including the introduction of Basel III, have made risk management all the more important. Thus, KDB has exerted continued efforts to further strengthen its risk management capability with a view to fulfil its policy finance mandate. All risk information extracted from financial management sectors is measured, managed, and reported through an internal information system. Various risk reports, including credit, market and operating risk, were provided. In addition, KDB establishes and coordinates a risk management policy and makes major risk management decisions such as determining total risk limits that KDB can withstand and approving capital adequacy assessment in accordance with its policies on risk management.

33. The AE has a strong internal control framework which covers the control environment, risk assessment, internal control activities, financial control procedures, monitoring and procedures for information-sharing. The internal control framework of KDB ensures internal control activities of KDB have reliability, integrity and punctuality of financial and managerial information. To demonstrate this, KDB provided its Internal Control Policy with other documents on policies and regulations on financial reporting, including Policy on Internal Control over Financial Reporting, Regulation on Risk Management Committee, Regulation on Division of Works, and Regulation on Compliance.

34. Regarding procurement, KDB has provided details on the nature and types of its procurements, including internal and external guidelines to monitor any complaint or issue arising from the procurement process. KDB is overseen and monitored by the Korean National Contract Dispute Arrangement Committee. Complaints related to GCF-funded projects would be eligible for review and mediation by this committee. Bidders for GCF-funded projects or programmes would also be protected from complaints or issues that may arise from the procurement process under KDB's internal and external policy and regulations. In addition, KDB is planning to develop and maintain a register of procurement complaints especially for GCF-funded projects.

35. The AP finds that the AE'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**

36. KDB did not have any conditions with regards to the basic fiduciary standards on transparency and accountability recommended by the AP for the first accreditation term.

37. KDB's Code of Conduct documents its code of ethics and applies equally to employees and consultants. The overall approach is to enhance consumer rights and spread a culture of integrity both within and outside of KDB by strengthening its ethical management principles. The Code of Conduct details the various malpractices which may occur and demonstrates KDB's management policies to promote an organizational culture that is conducive to fairness, accountability and transparency across all business activities.

38. KDB's Chief Compliance Officer oversees the Code of Conduct and prepares annual compliance monitoring reports. Examples from the past two years demonstrate the ethical management work of KDB. Formal complaints under the Code of Conduct are received by an online system which is also used to address and prevent conflicts of interest. Three samples of these reports have been provided to demonstrate track record in ethics and conflict management. Regarding systems and regulations for how executives and employees must comply to protect investors in performing their businesses, KDB applies its Guideline on Prevention of Conflicts of Interest in Financial Investment Business to manage such potential conflicts of interest between bank and investor.

39. KDB is subject to the Korean Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission which is aligned with the GCF Policy on Prohibited Practices. The provisions of this act apply to all those working directly or indirectly with KDB, including direct employees, consultants, independent experts and all individuals contracted or functionally related to KDB. All employees are required to sign a pledge to comply with all KDB's codes of conduct and ethics. These policies and procedures on ethics, supported by track record, are deemed adequate for the organization's size and nature of business.

40. Whistle-blower protections are detailed in specific guidelines which use articles about the protection of whistle-blowers and witnesses to illustrate the process of reporting suspected wrongdoings with the channels and tools available. These guidelines can be accessed through KDB's official website<sup>10</sup> KDB is also operating an Integrity Ombudsman System to enhance procedural transparency and integrity through inspection by external institutions on wrongdoing. KDB provided inspection reports to evidence its track record.

41. The approach to anti-money-laundering and combatting the financing of terrorism (AML-CFT) is covered in specific policies and regulations. AML-CFT guidelines include mechanisms to trace and monitor electronic transfers and wiring of funds. Examples of "know-your-customer" (KYC) investigations and related due diligence demonstrate track record in this area. The data summarizes the KYC due diligence on a total of 107 customers.

42. The applicant's investigations function is headed by the Chief Compliance Officer who is obligated to report to the chairman and the board of directors. The procedures for processing and handling cases are stipulated in detail in KDB's Procedures for Compliance Monitoring. Details are recorded through compliance monitoring checklists and compliance monitoring activity reports. Complaints are handled pursuant to a KDB regulation regarding disciplinary measures following the outcome of an investigation. The overall procedures are aligned with the GCF AML-CFT Policy and the GCF Policy on Prohibited Practices, including KYC procedures for due diligence on external parties.

43. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the basic fiduciary standards on transparency and accountability, and to the extent applicable to accreditation, the GCF Policy on Prohibited Practices, the GCF Policy on the Protection of Whistle-blowers and Witnesses, and the GCF AML-CFT Policy.

### 3.1.3. Specialized fiduciary standard for project management

44. KDB did not have any conditions with regard to the specialized fiduciary standard for project management recommended by the AP for the first accreditation term.

45. Regarding project management, KDB has demonstrated how it comprehensively examines the credit and feasibility of the target business and project, including assessing the validity of the technology being applied in the project. The feasibility study is divided into preparation work, including base data preparation and appraisal and business and project investigation. KDB has a strong track record of capability and experience in the identification and design of projects for various long-term financing facilities in different industries. For overseas project finance, KDB provided its Guidelines for Project Finance and Syndication as well as recent presentations and credit approval applications for two projects with supporting materials.

46. KDB operates an internal recruiting system for sectors that require expertise, such as shipping finance, mergers and acquisitions, private equity, international bond issuance and syndications, or special skills, including foreign languages. Applications from staff members who

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<sup>10</sup> See [www.kdb.co.kr](http://www.kdb.co.kr).



want to work in each sector are evaluated and selection is based on factors such as language, mutual evaluation, job competency, organizational contribution and work suitability for each individual. Accordingly, KDB can maintain its competitiveness in the market and continue to build on the track record of selected employees, especially in the investment sector. To support this, KDB is operating an in-depth internal project finance master training course which takes a total of two years to complete. This enables KDB to maintain its project finance capability and the expertise of staff who complete this course.

47. KDB annually conducts performance evaluations on the appropriateness, efficiency, sustainability, and socioeconomic effects of its projects. KDB's periodic monitoring and reporting is carried out by either an external technical advisor (typically for large syndication projects), or by a specialized internal department, such as KDB's internal Industry and Technology Research Centre. KDB has developed a loan monitoring system to detect project-at-risk situations during follow-up processes. Individual projects or borrowers are classified as normal, observation, precautionary or early alert through this loan monitoring system, with timely response measures assigned to each status in accordance with the KDB guidelines on follow-up management.

48. Supporting documents demonstrate KDB's credit review system and system for efficient and transparent appraisal process and credit review and approval. KDB also indicated that multiple consultative bodies, including its Credit Review Committee and other division-specific committees are involved to increase transparency in the decision-making process.

49. The AP finds that the AE's policies, procedures and capacity, supported by evidence of its track record, fully meet the specialized fiduciary standard for project management.

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

50. The AE did not apply for re-accreditation for this standard at this time.

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

51. At the time of KDB's first accreditation, the AP identified gaps with respect to the AE's track record related to disclosing information on its equity exit strategy, including information regarding the intended purchases of the equity participation upon the AE's exit. The AP recommended conditions of accreditation (which was approved by the Board for the AE's first accreditation term) that require (a) the AE to disclose information regarding its equity exit strategy, including information regarding the intended purchases of the equity participation upon the AE's divestment, and (b) equity investments through funds provided by third parties, such as the AE's subsidiaries or private equity funds, shall not be accepted. The AP recommended that the Secretariat ensure these conditions be met by the AE for every GCF funding proposal in which the AE seeks to provide equity funds.

52. In the course of the re-accreditation review, noting the gap upon which the original conditions were recommended, KDB was requested to explain to the AP its current approach to exit strategies. KDB's activities including equity investments are governed by Korea's Financial Investment Services and Capital Markets Act. In response to the AP's request, KDB provided its Guidelines for Investment. These guidelines were updated on 27 December 2021. The guidelines address key factors in formulating an exit strategy, such as: post-investment regular performance checks including progress towards exit; specific procedures for listed and unlisted stocks; timing of exit; use of external valuations; and internal approval process for exits. In addition, KDB provided examples of three exits, two via initial public offerings and one through exercising a tag-along option. Having analyzed this additional information and demonstration of

track record to address the gap identified during the original accreditation assessment, the AP finds the two aforementioned conditions are no longer necessary as the gap has been remedied, and thus recommends removing both conditions of accreditation.

53. As a 100 per cent state-owned bank, KDB is licensed by the Korean Government for all of its lending and other business areas as stipulated in the KDB Act that governs the constitution and operations of KDB. The operations manual that drives the organization's business processes and practices is consistent with the KDB Act. This manual describes KDB's overall approach to on-lending (for loans, guarantees and equity) and explains its systems and internal decision-making procedures.

54. KDB's track record of overseas business in the past three years is detailed in the 2020, 2019 and 2018 annual reports. One of the examples provided is the construction of a hydro-electric plant in Nepal, involving project finance from international organizations such as the International Finance Corporation, Asian Development Bank, Asian Infrastructure Investment Bank, and the Commonwealth Development Corporation of the United Kingdom CDC. KDB has international credit ratings of AA (Standard & Poor's), AA (Fitch), and Aa2 (Moody's). The full credit rating reports have been provided.

55. KDB has demonstrated its systematic approach to due diligence as well as to its review and appraisal process and post-closing oversight. The various documents that govern this due diligence are: the Regulation on Corporate Loans; the Regulation on Investment; the Regulation on Guarantees; the Credit Guidelines; and the Credit Review and Approval Guidelines. Two examples of due diligence reports have been provided. KDB have a comprehensive Credit Portfolio Management (CPM) system to prevent concentration of risk in particular sectors as well as detailed procedures for risk management approval limits. The 2021 annual credit portfolio limit report and a report on the operations of CPM have been provided.

56. As a public institution, KDB follows the public right-to-know and public participation in government administration in accordance with Korea's Official Information Disclosure Act. KDB also pursues transparency of government administration by specifying necessary matters regarding public request for information possessed by institutions and the disclosure obligation of public institutions. KDB established and abide by its Guidelines for Integrated Disclosure Operation of Public Institutions and its Bank Operation Guidelines. In accordance with the aforementioned regulations, KDB is implementing a system that discloses management and business information on projects that have a large impact on institutions or the national economy.

57. KDB establishes investment management goals every year and guidelines for credit products to achieve those goals. The credit products include all business areas such as loans, guarantees and equity. Key variables such as maturity and interest rate are used to manage the portfolio for all areas by setting the limits and goals for each credit product. The 2021 Credit Product Operation Plan has been provided to demonstrate how objectives are set and tracked. Also provided were the portfolio management reports for 2020 and 2019.

58. KDB's business operations include support activities such as confirmations, accounting, market-to-fair value reconciliation and customer information management, each governed by related rules and market practices and performed by the relevant department. These support functions ensure the funds provided by KDB are channelled transparently and utilized effectively. In addition, the department or person in charge of each operation is required to submit audit data to external and internal auditors, enabling transparent and sound financial transactions, records and accounting in accordance with international accounting standards. KDB has demonstrated its capacity to manage financial risk through its internal policy and regulations that drive its risk management system.

59. The AP finds that the AE'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, equity and guarantees.

## 3.2 Environmental and social safeguards

60. KDB did not have any conditions with regards to the GCF interim environmental and social safeguards (ESS) standards recommended by the AP for the first accreditation term with a maximum accreditation scope of a maximum E&S risk category B/intermediation 2.

### 3.2.1. Environmental and social policy

61. The AE's Environmental and Social Framework (E&S Framework) adopted in 2015 in its initial accreditation with GCF continues to be in force. The E&S Framework is aligned with the GCF interim environmental and social safeguards (ESS) standards and builds on the AE's experience in implementing its international projects based on the performance standards of the International Finance Corporation (IFC) and Environmental, Health, and Safety Guidelines of the World Bank group. The E&S Framework is designed to guide the AE's borrowers in fulfilling their national/international environmental and social obligations; enhance non-discrimination, transparency, stakeholder participation, accountability and governance; and improve the sustainable development outcomes of projects/programmes.

62. The E&S Framework is also consistent with the principles of the GCF Indigenous Peoples Policy and the IFC Performance Standard 7 including the principle of Free and Prior Informed Consent commitment, requiring the AE's clients to give due consideration for projects with potentially significant adverse impacts on projects affecting indigenous people. The AE has also provided evidence of its track record on addressing issues concerning indigenous peoples in one of its international projects.

63. The AE is a signatory of the EPs,<sup>11</sup> and has established operational policies and guidelines which set out the objectives, standards, and procedures for managing the E&S risks of projects/transactions in line with the EPs. The AE adheres to host country laws, regulations and E&S permitting requirements on E&S matters in its international projects/programmes.

64. The AE's Senior Deputy General Manager and Senior Manager of the Environmental, Social and Governance (ESG) New Deal Planning Department where the AE's E&S team is located are responsible for ensuring KDB compliance to the E&S Framework. The AE's E&S risk management practice involves coordination across relevant departments, especially E&S team, front office, credit review division, and senior management, each with varying roles and responsibilities. The E&S Framework identifies the roles and responsibilities of different units of the organization in implementing the policy at various phases of the project cycle. The E&S Framework has been communicated to all KDB departments through workshops and lectures.

65. The AP finds that the AE's environmental and social management system, comprising the E&S Framework and supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy<sup>12</sup> to the extent applicable to accreditation and GCF interim ESS standards<sup>13</sup> for maximum E&S risk category B/I-2 projects/programmes with respect to performance standards 1-8.

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<sup>11</sup> See <https://equator-principles.com/>.

<sup>12</sup> Decision B.BM-2021/18.

<sup>13</sup> Decision B.07/02 and annex III thereto.

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

66. The E&S Framework describes the AE's institutional process to identify E&S risks and impacts including the categorization process. The E&S risk identification and categorization is conducted by the AE's E&S team, independent from project implementation departments, with technical support from specialists in technology evaluation. department All projects/programmes are classified into one of the following three categories A, B or C, (as for the three-tier E&S risk categories used in the GCF ESS) according to the relevance of their potential negative environmental and social impacts. The AE has also developed a screening checklist for determining E&S categories based on due consideration of (a) the type, location, sensitivity and scale of the project; (b) the nature and magnitude of the potential environmental and social risks and impacts; and (c) including direct, indirect, cumulative and induced impacts in the project's area of influence. The project/programme E&S category provides a basis for the required level of E&S assessment, which may range from a full-scale assessment to specialized sectoral studies. For example, E&S risk category A and B projects/programmes are required to develop and maintain an Environmental and Social Management System (ESMS) and demonstrate effective stakeholder engagement.

67. The AE submits annually a report to the EP Board on the results of the AE's E&S due diligence process and experience. The report includes information on transactions which have been subject to the E&S due diligence process, broken down by E&S risk category (A, B, C), sector (power, infrastructure, etc.), and region (Americas, Europe, Middle East and Africa, and Asia-Pacific). The AE provided a sample of the reports it has submitted to the EP Board for the past several years. The AE also provided evidence on implementation of its E&S risks and impacts procedure which includes a sample of E&S screening and categorization documents in line with performance standards 1-8 for projects/programmes in various parts of the world where the AE is the lead arranger.

68. The AP finds that the AE's system of identification of E&S risks and impacts, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and GCF interim ESS standards for maximum E&S risk category B/I-2 projects/programmes with respect to performance standards 1-8.

### 3.2.3. Environmental and social management programme

69. The E&S Framework describes the AE's procedure for E&S mitigation and management. The AE's annual reports to the EP Board also include the description of the process of E&S due diligence throughout the AE's operation. The AE's E&S due diligence process starts with E&S risk categorization of projects/programmes based on the significance of their potential E&S risks and impacts. The higher risk projects/programmes financed by the AE are required to develop and maintain an ESMS, which should include components such as an environmental and social management plan (ESMP), environmental and social action plan (ESAP), resettlement action plan, and stakeholder engagement plan. The AE provided a sample of Common Terms Agreement made with lenders, which shows the AE's general practice of managing and monitoring compliance on E&S risks and impacts post credit approval.

70. For financing to or through financial intermediaries, the AE conducts due diligence to assess the potential environmental and social impacts and risks associated with the existing and likely future portfolio of the financial intermediary, and its commitment to and capacity in social and environmental management.

71. The AE's Executive Director leading the "Strategy and Green Finance Planning Division" ensures the effectiveness of the AE's ESMS at the institutional level. The AE's E&S appraisal reports of high-risk projects (category A) or large-scale projects are also reported to the

Executive Director prior to credit approval. Results of E&S due diligence (including project category, review of major risks and appropriateness of relevant management plan, incorporation of covenants linked to E&S compliance) are also periodically reported to the Executive Director.

72. As evidence on external audit of its ESMS the AE provided a copy of the report prepared by Sustainalytics,<sup>14</sup> a certified body specializing in Sustainable Bond Frameworks, which reviewed the AE's ESMS and submitted an opinion that it is appropriate for Sustainable Bond Framework Certification.

73. The AE provided a sample of environmental and social impact reports for its international projects/programmes for its loans, guarantees and equity structures as evidence on its track record of managing E&S risk and impact mitigation measures and actions stemming from the E&S risk and impact identification process. The AE also provided a sample ESMP, ESAP, project appraisal reports, and a sample of Common Terms Agreement with E&S compliance conditions and terms. The AE also provided a sample of the AE's financial intermediary Term Sheet with E&S Covenant, which show its E&S compliance commitment of executing entities for financial intermediaries.

74. The AP finds that the AE's E&S management programme, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and GCF interim ESS standards for maximum E&S risk category B/I-2 projects/programmes with respect to performance standards 1-8.

#### 3.2.4. **Monitoring and review**

75. The AE's monitoring and evaluation (M&E) policy was adopted in 2015. The M&E policy introduces a two-tiered approach that involves independent evaluation to assess the development effectiveness and long-term results of the AE's operations, policies and procedures. The M&E policy is supported by a set of guidelines and a manual, which indicates the AE's commitment to align its M&E practices with that of more established international development institutions.

76. The E&S Framework also describes the AE's process on E&S monitoring and evaluation. Through its due diligence and monitoring efforts the AE ensures that the projects/programmes financed by it are implemented in accordance with the requirements of its M&E policy. For all E&S risk category A, and as appropriate category B, projects, the AE requires its executing entity to appoint an independent environmental and social consultant or to retain qualified and experienced external experts to verify the monitoring information it shares with the AE. Such duties and responsibilities are prescribed in a loan agreement at the project/programme level.

77. The AE provided evidence on its track record in E&S monitoring of international projects including a sample of quarterly E&S monitoring reports and independent evaluation reports on the implementation of E&S risk and impact mitigation measures based on its E&S Framework.

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

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<sup>14</sup> Sustainalytics: [https://www.kdb.co.kr/wcmscontents/pdf/Second\\_Party\\_Opinion\\_by\\_Sustainalytics\\_2019.pdf](https://www.kdb.co.kr/wcmscontents/pdf/Second_Party_Opinion_by_Sustainalytics_2019.pdf).

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

79. The AE's public communications channel consists of three components: (a) a complaints and financial consumer protection system; (b) an information disclosure system; and (c) project-specific E&S information. The AE's integrated external communications channel allows stakeholders to file all types of project-related complaints, including those related to E&S issues. Such complaints or queries made via the contact information provided under the Helpdesk category on KDB website ([www.kdb.co.kr](http://www.kdb.co.kr)) are registered by AE's Consumer Protection Department and then channeled to the relevant department for follow-up and response. The AE tracks the complaints it receives and reports them in its annual reports to the management. For all E&S risk category A and, as appropriate, category B projects, the AE requires the client to establish a grievance mechanism as a part of the ESMS to receive and facilitate resolution of concerns and grievances about the project's environmental and social performance.

80. The AE has established and operates the Customer Protection Department as its independent grievance redress mechanism (IGRM) at the institutional level, equipped with policy, procedure and guidelines. As a state-owned bank of the Republic of Korea, the KDB independent grievance redress mechanism aims to maintain an enhanced level of financial consumer safeguard measures in compliance with the Financial Consumer Protection Act<sup>15</sup> which has been enacted in order to enhance the rights of financial consumers and strengthen overall public confidence in the financial industry. An English summary of KDB's Independent Grievance Redress Mechanism (IGRM) for Financial Consumer Protection can be found at ([www.kdb.co.kr](http://www.kdb.co.kr)) under category Helpdesk.

81. The AE adopted a new Public Communications Policy in 2015, which requires information disclosure of E&S documents of projects. The AE requires its borrowers to ensure that sufficient information about the potential risks and impacts of the project is made available in a timely manner, in an accessible place, and in a form and language understandable to project-affected people and other stakeholders, so they can provide meaningful input into project design and mitigation measures. Under the newly adopted guidance for GCF-funded projects, the AE will follow the disclosure guidelines for E&S information as required by the GCF information disclosure policy for E&S risk category B/I-2.

82. The AE has demonstrated its experience with project-level grievance mechanisms and the public disclosure and consultation in its internationally financed projects in line with its E&S standards.

83. The AP finds that the AE's system of external communications, consultations, information disclosure and grievance redress mechanism, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation, GCF interim ESS standards and GCF Information Disclosure Policy regarding E&S information disclosure requirements for maximum E&S risk category B/I-2 projects/programmes with respect to performance standards 1-8.

### 3.2.6. Organizational capacity and competency

84. To institutionalize the E&S Framework, the AE has developed a road map to strengthen its in-house E&S capacity, leading to set up an E&S policy team under its strategy and planning division with a dedicated E&S specialist. The E&S policy team is responsible for overseeing sustainability performance in the organization and building capacity regarding E&S and gender. The AE has established an independent team under the ESG-New Deal Planning Department

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<sup>15</sup> The Financial Consumer Protection Act is available at:  
[https://elaw.klri.re.kr/kor\\_service/lawView.do?hseq=54646&lang=ENG](https://elaw.klri.re.kr/kor_service/lawView.do?hseq=54646&lang=ENG).

with institutional green reforms under the Korean Government's announcement on Green New Deal Policy and Paris-aligned Transition through Organizational Structure Change with E&S focus.

85. AE's E&S team, composed of five persons at present, is part of the ESG department in charge of green and climate finance planning and strategy. The E&S team manages E&S policy; offers guidance to teams in project financing and corporate financing, among others; reviews E&S documents submitted as a pre-requisite for credit approval with E&S risk categorization; carries out all relevant activities, including reporting and information disclosure as a signatory of the EPs; and enhances internal E&S capacity-building activities such as annual training provision and production of manuals with frequently asked questions. The E&S team will annually monitor E&S compliance of investment teams, report directly to senior management, produce an annual E&S report, and publish it on the KDB website enabling transparent assessment of projects under E&S review by KDB with risk categorization. The ESG department also includes a gender specialist for compliance with the GCF gender policy. E&S risk management is implemented with joint collaboration of the Front Office, E&S Team, and Credit Review Division. and Senior Management.

86. The applicant has conducted workshops to improve awareness among executives and senior managers of the new E&S standards and has required its E&S staff to participate in safeguards training courses provided by international organizations. The AE has continued its efforts to enhance the capacities of its employees working on transactions, primarily by means of: (a) staff training sessions by the AE's E&S specialists on the standards and procedures for E&S risk management as stipulated in its internal manual; (b) expert seminars on emerging good practices of the financial industry in managing E&S risks supported by relevant case studies; and (c) e-learning modules developed by the Equator Principles Association covering key aspects of EP implementation.

87. The AP finds that the AE's organizational capacity and competency to implement the environmental and social management system, supported by evidence of its track record, fully meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation and GCF interim ESS standards for maximum E&S risk category B/I-2 projects/programmes with respect to performance standards 1-8.

### 3.3 Gender

88. KDB has fulfilled and closed conditions with regard to gender recommended by the AP and approved by the Board in its decision to accredit the AE for the first accreditation term.<sup>16</sup>

89. As a state-owned bank the AE strictly complies with the Korean Government's Framework Act on Gender Equality<sup>17</sup> which aims to promote gender equality in all areas of politics, economy, and society. The national framework act provides the foundation for the AE's system of promoting gender equality and women's empowerment at an institutional level. Under this umbrella act of the Korean Government, the AE has fully mainstreamed the principles of gender equality and women's empowerment through internal policies, procedures, guidelines, and strategies reflected in the pillar internal policies related to recruitment and hiring (employment), promotion and salary, welfare schemes including maternity protection and child-care, and human rights of female employees.

90. The AE has also established its own institutional-level Gender Equality Policy and Action Plan approved by its senior management, with recognition of the importance in global finance of gender and climate change issues. The AE assesses compliance with the Gender Equality Policy

<sup>16</sup> Refer to document GCF/B.18/09.

<sup>17</sup> See [https://elaw.klri.re.kr/eng\\_mobile/viewer.do?hseq=35143&type=part&key=38](https://elaw.klri.re.kr/eng_mobile/viewer.do?hseq=35143&type=part&key=38).

in the activity cycles of its projects/programmes from identification to completion and evaluation. The policy strictly prevents gender-caused discrimination in all activities throughout project/programme implementation, and is aligned with international standards, including the principles of the GCF updated Gender Policy. The policy also describes the process for addressing sexual harassment and violation of women's rights. The AE's Grievance Counselling Office for sexual harassment initially counsels and investigates sexual harassment complaints while mediation is conducted by the Grievance Committee to seek a solution depending upon the severity of the complaint. The policy specifies the criteria for gender mainstreaming that the AE's borrowers must comply with to implement projects/programmes.

91. The AE has also formulated the Guidance for GCF-Funded Projects that clearly stipulates the duties and responsibilities of effective gender mainstreaming across projects/programmes with which the AE's employees and borrowers must comply.

92. The AE has also produced the Gender Manual and Toolkit for the Promotion of Gender Equality to support its employees to carry out a more structured approach for promoting gender equality and women's empowerment in designing, implementing, monitoring and evaluating climate change mitigation and adaptation transactions. The manual offers practical operational guidance on how to mainstream gender throughout the business cycle from preparation, implementation and closure to ex-post management and includes a gender glossary. The AE's project cycle comprises four phases: (a) preparation; (b) implementation; (c) closure; and (d) monitoring and maintenance. The AE has institutionalized ten specific gender-responsive procedures in the project cycle, in line with the GCF updated Gender Policy: (a) gender trend analysis; (b) preliminary gender sensitivity and capacity evaluation (based on the OECD Gender Marker);<sup>18</sup> (c) solution design; (d) gender action plan; (e) implementation; (f) interim monitoring and evaluation; (g) grievance redress; (h) data collection; (i) final evaluation; and (j) ex-post progress check.

93. The AE's borrowers, in line with the Gender Equality Policy and Action Plan, are responsible for gender-responsive project identification, implementation and monitoring, completion and evaluation of projects /programmes, as well as technical support and capacity-building related to gender at the projects/programmes level.

94. The AE provided its organizational structure with a gender focus in which its gender and E&S specialists are situated in the ESG department for cooperative synergy and facilitate daily business routines. The ESG department closely collaborates with other departments including: Personnel Department to ensure employment without gender discrimination and manage sexual harassment issues; Compliance Department for legislative monitoring; General Affairs Department for procurement priority on women-owned SMEs; and Project Finance Division to promote gender-mainstreaming in overseas renewable transactions. The AE provided the curriculum vitae of its internal gender experts and of an external gender consultant.

95. As evidence of its track record on effective implementation of its Gender Equality Policy, the AE provided several gender and E&S assessment reports that integrate a gender perspective to demonstrate the mainstreaming of gender considerations throughout climate change transactions. The AE has conducted several gender-related capacity-building programmes and activities that have been carried out institution wide.

96. The AP finds that the AE's gender policy, procedures, capacities and competencies, supported by evidence of its track record, fully meet the updated GCF Gender Policy to the extent applicable to accreditation.

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<sup>18</sup> <https://www.oecd.org/dac/gender-development/dac-gender-equality-marker.htm>.



## IV. Conclusions and recommendation

### 4.1 Conclusions

97. Following its assessment, the Secretariat concludes the following in relation to the application with respect to the potential to continue in the role of an AE and to support the mandate and objectives of GCF: the AE can continue to contribute to GCF in implementing its updated Strategic Plan for 2020–2023 with respect to:

- (a) Alignment of the AE's GCF portfolio with the climate-related national priorities of the countries where the AE operates;
- (b) Contribution to the adaptation and mitigation balance in the GCF portfolio since the AE has the ability to include adaptation components in its activities;
- (c) Supporting diversity in GCF results areas such as energy generation and access; buildings, cities, industries and appliances; forests and land use; ecosystem and ecosystem services; and livelihoods of people and communities;
- (d) Enhancing private sector participation as the AE can leverage private sector funding to finance dedicated climate finance vehicles and to invest in industrial energy efficiency by promoting innovative technology solutions and empowering local ecosystems for climate technopreneurship through R&DB platforms;
- (e) Diversification of the use of financial instruments, particularly as a Direct Access Entity being able to use equity, guarantees and loans; and
- (f) Mobilizing climate finance at scale since the AE is seeking to undertake medium and large-size project/programme activities.

98. Following its assessment, the AP concludes the following in relation to the application with respect to the AE's ability to meet the GCF accreditation standards and GCF policies relevant for re-accreditation:

- (a) The AE meets the requirements of the GCF basic fiduciary standards, and to the extent applicable to accreditation, the GCF Policy on the Protection of Whistle-blowers and Witnesses, the GCF Policy on Prohibited Practices, the GCF AML/CFT Policy and the specialized fiduciary standard for project management and specialized fiduciary standard for on-lending and blending for loans, equity and guarantees;
- (b) The AE meets the GCF Revised Environmental and Social Policy to the extent applicable to accreditation, GCF interim ESS standards and the GCF Information Disclosure Policy on disclosure of E&S information in relation to the medium E&S risk (Category B/12); and
- (c) The AE has demonstrated that it has a policy, procedures and competencies in order to implement its gender policy, which is found to be consistent with the GCF Updated Gender Policy to the extent applicable to accreditation, and has demonstrated that it has experience in gender consideration in the context of climate change.

### 4.2 Recommendation on re-accreditation

99. The AP recommends, for consideration by the Board, KDB for re-accreditation for its second term as follows:

- (a) **Accreditation type:**

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- (i) Maximum size of an individual project or activity within a programme: medium<sup>19</sup> (including micro and small);
- (ii) **Fiduciary functions:**
- (1) Basic fiduciary standards;
  - (2) Specialized fiduciary standard for project management; and
  - (3) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (iii) **Maximum environmental and social risk category:** medium risk category B/I-2 (including lower risk category C/I-3<sup>20</sup>); and
- (b) **Conditions:** none. The conditions contained in paragraph 62(b)(ii) of annex VI to decision B.15/09 shall be removed and do not apply starting from the second term of accreditation.
100. The AE has been informed of the recommendation for accreditation, including the accreditation type, as identified in paragraph 99 above, and agrees to the recommendation.

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<sup>19</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 USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme.”

<sup>20</sup> As per the revised Environmental and Social Policy adopted in decision B.BM-2021/18, 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.”