

GREEN
CLIMATE
FUND

Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach

GCF/B.08/02*

5 October 2014

Meeting of the Board

14-17 October 2014

Bridgetown, Barbados

Agenda item 6 (a)

* Owing to time constraints, this document is unedited.

Recommended action by the Board

It is recommended that the Board:

- (a) Take note of the information presented in document GCF/B.08/02 *Guidelines for the Operationalization of the Fit-for-Purpose Accreditation Approach*; and
- (b) Adopt the decision presented in Annex I to this document.

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Guidelines for the operationalization of the fit-for-purpose accreditation approach

I. Introduction and Background

1. The Governing Instrument mandates the Board to develop, manage and oversee an accreditation process for all implementing entities (IEs) based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards (ESS).
2. At its fifth meeting in October 2013, by its decision B.05/08, the Board noted convergence on the need to develop a guiding framework and procedures for the accreditation process of the Fund which should:
 - (i) Enhance country ownership;
 - (ii) Accommodate different capacities and capabilities of countries; and
 - (iii) Accredite entities in a transparent, objective and credible manner, in line with the Fund's objectives, results and guiding principles.
3. At its seventh meeting in Songdo in May 2014, by decision B.07/02, the Board adopted or established the following:
 - (a) An initial guiding framework for the Fund's accreditation process, recognising that it also applies to private sector entities, which also includes specific guiding principles for the accreditation process of the Fund that call for a dynamic process that is reliable, credible and flexible;
 - (b) A set of initial fiduciary principles and standards, which distinguishes between basic and specialized fiduciary standards;
 - (c) On an interim basis, the Performance Standards of the International Finance Corporation (IFC), which will be implemented through a scaled, risk-based approach until the Fund's own environmental and social safeguards (ESS) are fully developed;
 - (d) An Accreditation Committee comprised of four Board members;
 - (e) An independent technical Accreditation Panel to advise the Board on matters related to the accreditation of implementing entities (IEs) and intermediaries to the Fund, which will be in charge of conducting the accreditation process.
4. Furthermore, the Board agreed at its seventh meeting on a fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the fiduciary standards and ESS. The Board requested the Secretariat to elaborate guidelines for the operationalization of the fit-for-purpose accreditation approach, under the guidance of the Accreditation Committee and Panel.
5. This document sets out the guidelines for the operationalization of the fit-for-purpose accreditation approach. In developing this document, the Secretariat consulted with a wide range of experts and conducted a thorough review of the experiences and lessons from existing funds and institutions that have an accreditation or comparable process for assessing the conformity of an entity with a set of standards.

II. Rationale for the fit-for-purpose accreditation approach

6. An accreditation process can be seen as a means to ensure that the Fund's resources are used towards advancing the principles and objectives of the Fund, in ways that minimise the risk of fiduciary mismanagement or inadvertent environmental or social harm. It is thus one of several mechanisms that the Fund has at its disposal to ensure that its funding is used in a transparent, accountable and effective manner.

7. The initial guiding framework for the Fund's accreditation process includes a set of core guiding principles that, among other principles, aim for a dynamic process that is reliable, credible and flexible. This particular guiding principle intends to ensure that the operational modalities of the Fund's accreditation process will pursue rigorous, independent, objective and systematic assessment and review processes, while giving due attention to special circumstances of applicant entities. A dynamic accreditation process will also aim at enabling potential entities to increase their scope of activities as their capacity increases over time, should they want to do so. The fit-for-purpose accreditation approach is consequential with this guiding principle and provides an operational framework for its practical application in the Fund's accreditation process

8. Given the broad mandate of the Fund to finance and invest in measures in a diverse range of sectors and regions through various instruments, the Fund's accreditation process should accommodate the gamut of capacities needed to deliver on its mandate, while preserving the consistency, credibility and transparency of its accreditation process.

9. A uniform or one-size-fits-all approach to accreditation would impose unnecessary burdens to many applicant entities, thereby limiting the operations of the Fund, its swiftness, and the ability of smaller entities to access resources for low-risk interventions. The fit-for-purpose accreditation approach recognises the role of a wide range of entities, which differ in the scope and nature of their activities, as well as their capacities, in advancing the objectives of the Fund. It accommodates this diversity by matching the nature, scale and risk of intended activities to the application of the fiduciary standards and ESS.

2.1 Objectives of the fit-for-purpose accreditation approach

10. The objectives of the fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the fiduciary standards and ESS are the following:

- (a) To reach an impact of the Fund by enabling it to work through a wide range of entities at international, regional, national and sub-national levels; including through private sector entities;
- (b) To recognize the different institutional context of different types of entities (e.g. international, regional, national, sub-national, private, etc.), and different compliance parameters in accordance with the intended scale of activities of the applicant entity with the Fund's resources;
- (c) To avoid creating an unnecessarily long and burdensome accreditation process for entities that will expose the Fund to little or no financial, environmental and social risks.

2.2 Scope of the fit-for-purpose accreditation approach

11. The initial guiding framework for the Fund's accreditation process adopted through decision B.07/02 establishes an accreditation process which will ascertain whether applicant entities:

- (a) Meet the Fund's basic fiduciary standards and applicable specialized fiduciary standards; and
- (b) Have the capacity to manage relevant environmental and social risks in line with the Fund's ESS and scaled, risk-based approach.

12. The proposed guidelines set out in more detail how the Fund's fiduciary standards and ESS will be assessed in the accreditation process; and the criteria that define how applicant entities will meet the established requirements in order to be accredited to access the Fund's resources.

III. Operationalization of the fit-for-purpose approach

13. The accreditation process will take into account the scale and type (e.g. financial instrument) of funding that the entity intends to access, as well as nature of its intended activities. This approach will ensure that the assessment of the applicant entity's conformity with the fiduciary standards, and relevant capacities related to the Fund's ESS, in the accreditation process is commensurate with the level of fiduciary and non-financial (e.g. environmental and social) risk to which the Fund will be exposed through the activities of implementing entities and intermediaries.

14. The fit-for-purpose accreditation approach will therefore:

- (a) Assess conformity with the Fund's fiduciary standards;
- (b) Assess capacities for conformity with the Fund's ESS.

15. The assessment for accreditation taking into account the fit-for-purpose approach will be conducted on the application for accreditation and supporting information, including their track record, provided by the applicant during the application process.

16. After the accreditation of an entity, the entity's track record of experiences in achieving the results of the Fund's results management framework may be taken in account in the review of the entity's accreditation status.

17. The operationalization of the fit-for-purpose accreditation approach is shown in the following figure:

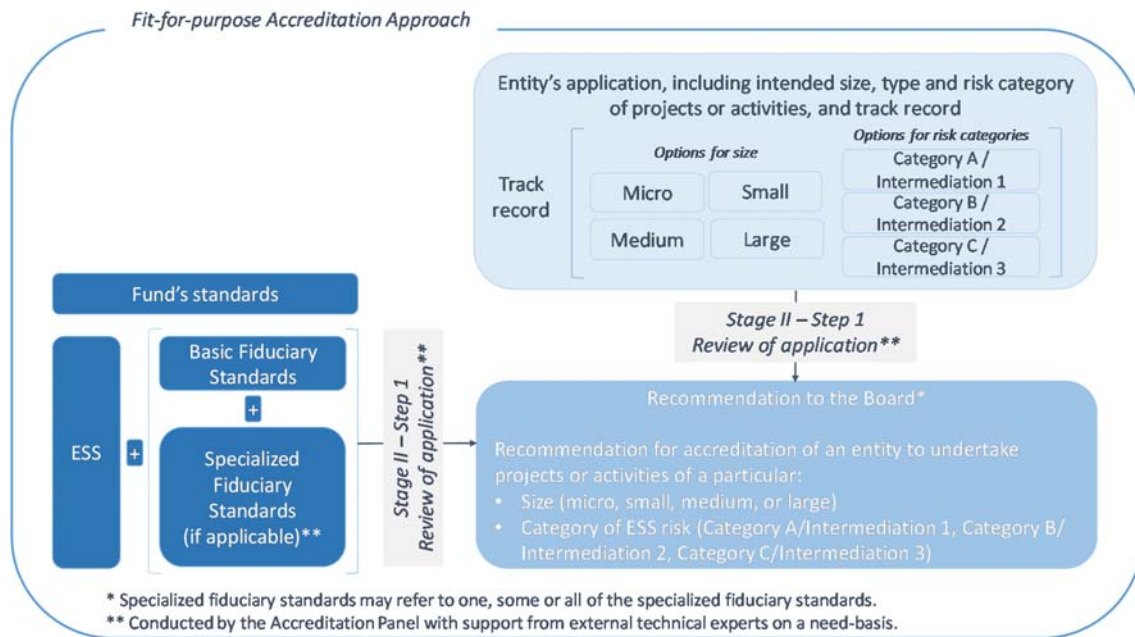


Figure 1: Fit-for-purpose Accreditation Approach

3.1 Assessing conformity with the Fund's fiduciary standards

3.1.1 Nature of the fiduciary risk

18. The Fund's fiduciary standards, which are set out in Decision B.07/02, already distinguish between the different types of fiduciary risks that are implied depending on the nature of the activities that an entity may take on, and therefore on the type of financial instruments. The basic fiduciary standards, which will apply to all implementing entities and intermediaries, comprise the set of administrative and financial capacities and requirements for transparency and accountability that any entity will need to possess in order to access funding from the Fund. The specialised fiduciary standards recognise the wide ranging nature of activities that accredited entities may take on, which will require specialised fiduciary capacities.² These will be applied only to entities that will be undertaking relevant activities, as follows:

- (a) **Project management:** the role of an accredited entity in project or programme management will depend on whether it is implementing projects (as an implementing entity), or intermediating funding through a grant award, on-lending or blending mechanism. In the former case, the project management capacities of the applicant entity will be assessed; while in the latter case, the assessment will look at the capacities of the applicant entity to exercise appropriate oversight and hold to account, across the defined fiduciary requirements in this category, the entities that will access the funding that it intermediates.

² Further criteria may be added to reflect additional specialized fiduciary standards deemed necessary to effectively accommodate all institutional capacities required in IEs and intermediaries in the initial phase of operations of the Fund, in line with decision B.07/02.

- (b) Grant award and/or funding allocation: This set of criteria will apply to any entity that will intermediate funding in the form of grants through a grant award or funding allocation mechanism.
- (c) On-lending and/or blending: This set of criteria will apply to any financial or other entity that will intermediate funding in the form of loans through on-lending or blending with resources from other sources.

3.1.2 Scale of intended activities

19. In order to maximise the reach and impact of its funding and in line with its objective to enhance country ownership, the Fund will endeavour to enable direct access to its resources by a wide range of entities. The entities that will access the Fund will differ widely in the scale at which they operate, from large multilateral and national development banks that fund activities in the range of hundreds of millions of dollars, to much smaller government and non-government entities at national and sub-national levels that manage activities of a few million dollars or less. Entities operating at different scales have different, although equally important, roles to play in implementing or intermediating activities that will enable a paradigm shift to low-carbon, climate resilient development.

20. Irrespective of the scale of activities to be funded with the Fund's resources, all entities will have to meet the Fund's basic fiduciary standards and any applicable specialised fiduciary standards in order to be accredited. The manner in which an entity carries out a particular fiduciary function is likely to be, in part, determined by its scale (for example, the internal audit function of a small entity is very different to that of a large development bank). The fit-for-purpose accreditation approach intends to match the nature, scale and risks of proposed activities to the application of the fiduciary standards and ESS such that an entity can only access funding at a scale that is within its capacity to manage in accordance with the Fund's fiduciary standards.

21. The Accreditation Panel will use its expert judgement to determine whether the capacity demonstrated by the applicant entity for each applicable fiduciary standard is adequate in light of the scale of funding it will access from the Fund. The Accreditation Panel may recommend to the Board that an entity be accredited to access funding within a range that is commensurate with its track record and demonstrated capacity.

22. Four categories are proposed under scale of intended activities:

- (a) Micro (applications for a maximum contribution from the Fund of up to and including US\$ 1 million for any financial instrument for an individual project or activity);
- (b) Small (applications for a maximum contribution from the Fund of above US\$ 1 million and up to and including US\$ 10 million for any financial instrument for an individual project or activity);
- (c) Medium (applications for a maximum contribution from the Fund of above US\$ 10 million and up to and including US\$50 million for any financial instrument for an individual project or activity);
- (d) Large (applications for a contribution from the Fund of above US\$ 50 million for any financial instrument for an individual project or activity).

3.1.3 Type of entity

23. As set out in the Governing Instrument of the Fund, implementing entities and intermediaries of the Fund may be international, regional, national or subnational; public or

private. This essentially provides for any type of entity, provided that it meets the accreditation requirements, to be accredited as an implementing entity or intermediary. Different types of entities have different systems for financial management, ensuring accountability, and for other fiduciary capacities, and are overseen and regulated by different bodies and norms. Thus, while all types of entities will be required to meet the Fund's basic fiduciary standards and any applicable specialised fiduciary standards, the documentation needed to demonstrate conformity will be tailored to different types of entities.

3.2 Assessing capacities for the conformity with the Fund's ESS

24. The Fund's ESS, which are set out in Annexes I and III of decision B.07/02 describe the eight performance standards that will be applied through a modular and scaled, risk-based approach to all Green Climate Fund-funded activities. The environmental and social management system (e.g. Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts) capacity of an implementing entity or intermediary to manage the execution of the Fund's ESS at the institutional level will be assessed during the accreditation process, whereas the initial proposal review process³ will verify that the specific project or programme is consistent with the ESS.

25. Consistent with this approach, the accreditation process will determine if the applicant entities possess the institutional capacity and a management system for screening funding proposals in order to identify the potential environmental and social risks and/or impacts, and the capacity to implement the ESS in a manner commensurate with the scale and nature of the potential risks and impacts.

3.2.1 Categories of environmental and social risk

26. Annex 1 of Decision B.07/02 also defines the level of environmental and social risk of Green Climate Fund-funded activities using three categories for projects and programmes (Category A being the highest risk and Category C being low to no risk projects) and three categories for financial intermediation (I-1 being intermediation of the highest risk activities and I-3 being intermediation of low to no risk activities). The accreditation process will examine the track record and demonstrated capacity of an applicant entity to manage projects or programmes of different risk categories and may recommend to the Board that an entity be accredited with a restriction on the risk category of activities it can carry out, if it deems that the applicant lacks the track record or demonstrated capacity to carry out activities at a higher risk level.

27. Following the application review, the Accreditation Panel will recommend to the Board whether an entity should be accredited and within the recommendation assign a risk categorization to the entity. Once an entity is accredited, it can submit funding proposals for projects or programmes through the initial proposal review process up to this categorization risk level assigned when the entity was accredited. For example, an entity assigned a risk category of Category B/I-2 can propose and, if approved, undertake projects or programmes with a risk level of Category B/I-2 or at the lower level of risk Category C/I-3 projects. The entity would not be accredited or eligible to propose or undertake projects or programmes at a

³ Decision B.07/03.

higher risk level Category A/I-1. If an entity seeks to become accredited for a lower or higher risk category, the entity can undergo an accreditation upgrade or downgrade.⁴

28. Annex 3 provides examples of illustrative types of activities that may be in each risk category while Annex 4 provides the key institutional capacity elements that are required in Performance Standard 1 and that will be assessed during the accreditation process in order to verify that the applicant entity has the capacity needed to manage that level of risk.

29. Decision B.07/02 sets out a three step accreditation process which will be triggered by the submission of a full accreditation application by an entity.

3.3 Additional considerations for the fit-for-purpose accreditation process

30. **Additional requirements for entities with a limited track record:** In the case of an entity that meets the accreditation criteria in most respects, but has a limited track record of managing projects or funding:

- (i) of the type;
- (ii) at the scale; and/or
- (iii) at the risk level that the entity intends to undertake,

the Accreditation Panel may recommend that the entity be accredited with a more frequent reporting requirement, which would be lifted after the first two years of its accreditation subject to satisfactory performance. The Accreditation Panel may also, for example, recommend a more frequent, but smaller, disbursement of funding tranches subject to review after the first two years of the applicant's accreditation. The Accreditation Panel will determine on a case-by-case approach the appropriate recommendation or conditions that may apply to the entity in circumstances where there is a limited track record.

31. **Accreditation of additional capacities:** In the event that an entity that has been accredited with certain restrictions on its activities subsequently wishes to take on additional activities, prior to the five year review process, it may re-apply for accreditation of these additional capacities. It will go directly to Stage II of the accreditation process and the assessment will focus only on those additional capacities and not on those already accredited, unless the applicant entity wishes to go through Stage I of the accreditation process for the purposes of readiness assessment and eventual support on those capacities for which it may seek further accreditation.

32. **Review of accreditation:** Accreditation will be reviewed every five years, through modalities to be developed which will consider the performance and continued conformity of the implementing entity or intermediary to the Fund's fiduciary standards and ESS. The Secretariat or the Accreditation Panel may also recommend a focused review of specific elements of the fit-for-purpose accreditation approach as needed.

⁴ To be considered by the Fund as contained in document GCF/B.08/04.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.08/02 *Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach*:

Approves the guidelines for the operationalization of the fit-for-purpose accreditation approach set out in Annex II.

Annex II: Guidelines for the operationalization of the fit-for-purpose accreditation approach

I. Objectives and scope of the fit-for-purpose accreditation approach

1. The initial guiding framework for the Fund's accreditation process adopted through decision B.07/02 establishes an accreditation process which will ascertain whether applicant entities: (a) meet the Fund's basic fiduciary standards and applicable specialized fiduciary standards; and (b) have the capacity to manage relevant environmental and social risks in line with the Fund's ESS and scaled, risk-based approach.
2. The guidelines for the operationalization of the fit-for-purpose accreditation approach set out how the Fund's fiduciary standards and ESS will be assessed through a fit-for-purpose accreditation process; and the criteria that entities need to meet in order to demonstrate compliance so as to be accredited to access the Fund's resources.
3. The objectives of the fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the fiduciary standards and ESS are the following:
 - (a) To reach an impact of the Fund by enabling it to work through a wide range of entities at international, regional, national and sub-national levels; including through private sector entities;
 - (b) To recognize the different institutional context of different types of entities (e.g. public and private), and different compliance parameters in accordance with the intended scale of activities of the applicant entity with the Fund's resources;
 - (c) To avoid creating an unnecessarily long and burdensome accreditation process for entities that will expose the Fund to little or no financial, environmental and social risks;
4. The accreditation process will take into account the scale and type (e.g. financial instrument) of funding that the entity intends to access, as well as nature of its intended activities. This approach will ensure that the assessment of the applicant entity's conformity with the fiduciary standards, and relevant capacities related to the Fund's ESS, in the accreditation process is commensurate with the level of fiduciary and non-financial (e.g. environmental and social) risk to which the Fund will be exposed through the activities of implementing entities and intermediaries.
5. The assessment for accreditation taking into account the fit-for-purpose approach is conducted on the application for accreditation and supporting information, including their track record, provided by the applicant during the application process.
6. After the accreditation of an entity, the entity's track record of experiences in achieving the results of the Fund's results management framework may be taken in account in the review of the entity's accreditation status.
7. The operationalization of the fit-for-purpose accreditation approach is shown in the following figure:

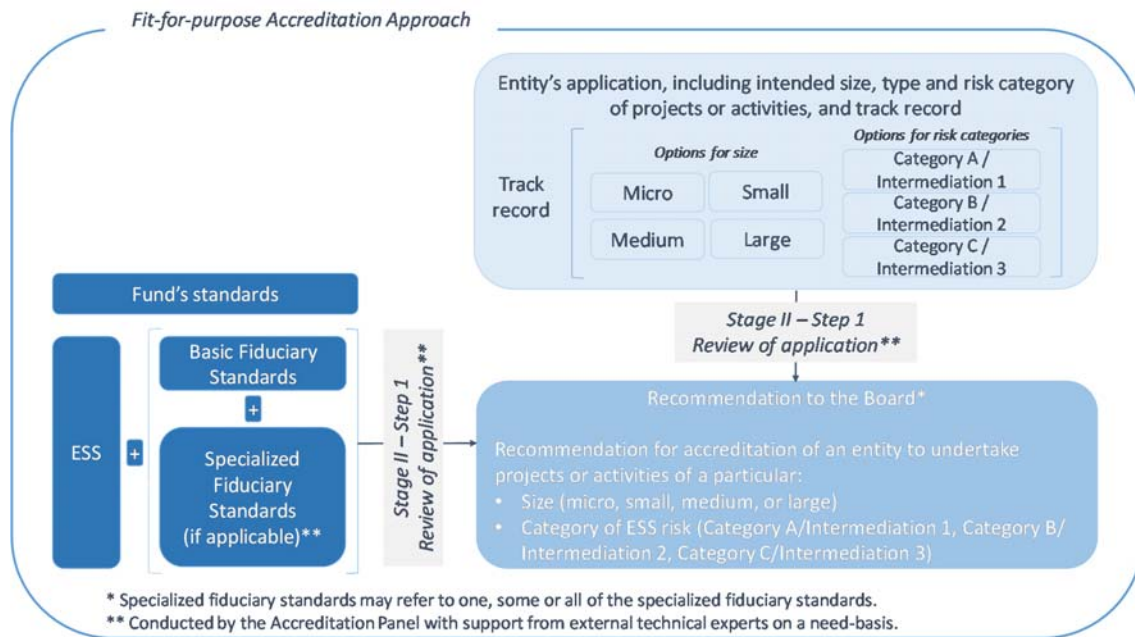


Figure 1: Fit-for-purpose Accreditation Approach

II. Assessing conformity with the Fund's fiduciary standards

8. The assessment of an applicant entity's conformity with the Fund's fiduciary standards will consider the nature of the fiduciary risk, the scale of intended activities, and type of entity.

9. **Nature of the fiduciary risk:** The Fund's fiduciary standards, which are set out in Decision B.07/02, already distinguish between the different types of fiduciary risks that are implied depending on the nature of the activities that an entity may take on, including the type of financial instruments. The basic fiduciary standards will apply to all implementing entities and intermediaries, while the specialised fiduciary standards will apply only to entities that will be undertaking relevant activities, as follows:

- (a) **Project management:** In the case of an entity that will be implementing projects, the assessment will look at the project management capacities of the applicant entity. In the case of an entity that will be intermediating funding through a grant award, on-lending or blending mechanism, the assessment will look at the capacities of the applicant entity to exercise appropriate oversight and hold to account, across the defined fiduciary requirements in this category, the entities that will access the funding that it intermediates.
- (b) **Grant award and/or funding allocation:** This set of criteria will apply to any entity that will intermediate funding in the form of grants through a grant award or funding allocation mechanism.
- (c) **On-lending and/or blending:** This set of criteria will apply to any financial or other entity that will intermediate funding in the form of loans through on-lending or blending with resources from other sources.

10. **Scale of intended activities:** Irrespective of the scale of activities to be funded with the Fund's resources, all entity will have to meet the Fund's basic fiduciary standards and any applicable specialised fiduciary standards in order to be accredited. An entity can only access funding at a scale that is within its capacity to manage in accordance with the Fund's fiduciary

standards. The Accreditation Panel will use its expert judgement to determine whether the capacity demonstrated by the applicant entity for each applicable fiduciary standard is adequate in light of the scale of funding it will access from the Fund. The Accreditation Panel may recommend to the Board that an entity be accredited to access funding within one of the following categories, commensurate with its track record and demonstrated capacity:

- (a) Micro (applications for a maximum contribution from the Fund of up to and including US\$ 1 million for any financial instrument for an individual project or activity);
- (b) Small (applications for a maximum contribution from the Fund of above US\$ 1 million and up to and including US\$ 10 million for any financial instrument for an individual project or activity);
- (c) Medium (applications for a maximum contribution from the Fund of above US\$ 10 million and up to and including US \$ 50 million for any financial instrument for an individual project or activity);
- (d) Large (applications for a contribution from the Fund of above US\$ 50 million for any financial instrument for an individual project or activity).

11. **Type of entity:** As set out in the Governing Instrument, implementing entities and intermediaries of the Fund may be international, regional, national or subnational; public or private. While all types of entities are required to meet the Fund's basic fiduciary standards and any applicable specialised fiduciary standards, the documentation needed to demonstrate compliance is tailored to different types of entities.

III. Assessing capacities for conformity with the Fund's ESS

12. The Fund's ESS, which are set out in Annexes I and III of decision B.07/02 describe the eight performance standards that will be applied through a modular and scaled, risk-based approach to all Green Climate Fund-funded activities. The environmental and social management system (e.g. Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts) capacity of an implementing entity or intermediary to manage the execution of the Fund's ESS at the institutional level will be assessed during the accreditation process, whereas the initial proposal review process⁵ will verify that the specific project or programme is consistent with the ESS.

13. The accreditation process will determine if the applicant entity possesses the institutional capacity and a management system for screening funding proposals in order to identify the potential environmental and social risks and/or impacts, and the capacity to implement the ESS in a manner commensurate with the scale and nature of the potential risks and impacts.

14. **Categories of environmental and social risk:** The Accreditation Panel will examine the track record and demonstrated capacity of an applicant entity to manage projects or programmes of different risk categories. The Accreditation Panel may recommend to the Board that an entity be accredited with a restriction on the risk category of activities it can carry out, using the risk categories set out in Annex I of decision B.07/02, commensurate with the track record and demonstrated capacity of the applicant entity.

15. Following the application review, the Accreditation Panel will recommend to the Board whether an entity should be accredited, and assign a risk categorization to the entity. Once an

⁵ Decision B.07/03.

entity is accredited, it can submit funding proposals for projects or programmes through the initial proposal review process up to this categorization risk level assigned when the entity was accredited.

IV. Additional considerations for the fit-for-purpose accreditation process

16. **Additional requirements for entities with a limited track record:** In the case of an entity that meets the accreditation criteria in most respects but has a limited track record of managing projects or funding:

- (i) Of the type;
- (ii) At the scale; and/or
- (iii) At the risk level that the entity intends to undertake,

the Accreditation Panel may recommend to the Board that the entity be accredited with a more frequent reporting requirement, which would be lifted after the first two years of its accreditation subject to satisfactory performance. The Accreditation Panel may also recommend a more frequent, but smaller, disbursement of funding tranches, subject to review after the first two years of the applicant's accreditation. The Accreditation Panel will determine on a case-by-case approach the appropriate recommendation or conditions that may apply to the entity in circumstances where there is a limited track record.

17. **Accreditation of additional capacities:** In the event that an entity that has been accredited with certain restrictions on its activities subsequently wishes to take on additional activities, it may re-apply for accreditation of these additional capacities. It will go directly to Stage II of the accreditation process and the assessment will focus only on those additional capacities and not on those already accredited, unless the applicant entity wishes to go through Stage I of the accreditation process for the purposes of readiness assessment and eventual support on those capacities for which it may seek further accreditation.

18. **Review of accreditation:** Accreditation will be reviewed every five years, through modalities to be developed which will consider the performance and continued conformity of the implementing entity or intermediary to the Fund's fiduciary standards and ESS. The Secretariat or the Accreditation Panel may also recommend a focused review of specific elements of the fit-for-purpose accreditation approach as needed.

Annex III: Examples of illustrative types of activities that could be in each risk category

Category	Definition	Project Type or Potential Issue Example ⁶
A	Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented	<p>Large scale coastal defenses</p> <p>Large dams and other impoundments designed for the holding back or permanent storage of water</p> <p>Major irrigation projects or other projects affecting water supply in a given region</p> <p>Groundwater abstraction activities or artificial groundwater recharge schemes in cases where the annual volume of water to be abstracted or recharged amounts to 10 million cubic meters or more</p> <p>Municipal wastewater treatment plants with a capacity exceeding 150,000 population equivalent</p> <p>Municipal solid waste processing and disposal facilities</p> <p>Large infrastructure projects, including development of ports and harbors, airports, road, rail and mass transit systems</p> <p>Large-scale tourism and retail development</p> <p>Large thermal and hydropower developments</p> <p>Construction of high-voltage overhead electrical power lines</p>

⁶ This list is illustrative only and was compiled from a variety of sources. Factors such as scale, location, sensitivity and magnitude of impacts of a project need to be considered on a case by case basis to determine the actual categorization.

Category	Definition	Project Type or Potential Issue Example ⁶
		<p>Large-scale land reclamation</p> <p>Large-scale primary agriculture or forestation involving intensification or conversion of natural habitats</p> <p>Installations for the intensive rearing of poultry or pigs with more than 40,000 places for poultry; 2,000 places for production pigs (over 30 kilogrammes); or 750 places for sows</p> <p>Projects which are planned to be carried out in sensitive locations or are likely to have a perceptible impact on such locations, even if the project category does not appear in this list. Such sensitive locations include, <i>inter alia</i>, national parks and other protected areas identified by national or international law, and other sensitive locations of international, national or regional importance, such as wetlands, forests with high biodiversity value, areas of archaeological or cultural significance, and areas of importance for Indigenous Peoples or other vulnerable groups</p> <p>Projects which may result in significant adverse social impacts to local communities or other project affected parties.</p> <p>Projects which may involve significant involuntary resettlement or economic displacement</p>
B	Activities with potential limited 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	<p>Shared waterways</p> <p>Energy, energy efficiency, renewables</p> <p>Adaptation of crop farming systems</p> <p>Energy efficiency of buildings</p> <p>Energy efficiency of industrial process</p>

Category	Definition	Project Type or Potential Issue Example ⁶
		<p>Low emission transport</p> <p>Small and medium and large scale low emission power generation</p> <p>Forest management</p>
C	Activities with minimal or no adverse environmental and/or social risks and/or impacts;	<p>Policies, regulations, or rules</p> <p>Software development</p> <p>Factoring Companies</p> <p>Consulting firms</p> <p>Share registries</p> <p>Service industries</p> <p>Stockbroking</p> <p>Plans and studies including physical assessment of climatic conditions</p> <p>Capacity building including workshops, trainings & knowledge dissemination</p> <p>Monitoring programmes</p> <p>Enhancement of existing agriculture or livestock or soil that doesn't involve any new land clearing or expansion</p> <p>Small scale water storage/retention</p> <p>Small scale reforestation</p>
Intermediation	Intermediation is defined as activities involving investments through financial intermediation	<p>Typical Intermediary:</p> <p>Bank</p>

Category	Definition	Project Type or Potential Issue Example ⁶
	functions or through delivery mechanisms involving financial intermediation	<p>Microfinance institution</p> <p>Private equity fund</p> <p>Leasing company</p> <p>Insurance company</p>
I-1 High	When an intermediary's proposed programme includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented	The intermediary's planned financing activities include a significant number of higher risk transactions (namely project finance and large long-term corporate loans) with exposure to high risk sectors
I-2 Medium	When an intermediary's proposed programme 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	The intermediary's planned financing activities are comprised primarily of lower risk transactions (all transactions other than project finance or large long-term corporate loans) to borrowers exposed to low- or medium-risk sectors and/or a limited number of higher risk type of transactions (project finance and long-term corporate loans) in high- and medium-risk sectors (e.g., infrastructure, extractive industries, large agribusiness, and energy)
I-3 Low	When an intermediary's proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts	The intermediaries planned financing activity supports investments that typically carry limited or no E&S risks

Annex IV: Key institutional capacity elements to be assessed during the accreditation process

Accreditation Review Focus (Institutional Capacity)	Scaled, Risk-based Category A/I-1	Scaled, Risk-based Category B/I-2	Scaled, Risk-based Category C/I-3
Environmental and Social Management System (ESMS)	<p>The accreditation review will focus on the applicant’s institutional environmental and social management system (ESMS). Institutions that desire to undertake Category A/I-1, B/I-2 and C/I-3 type projects/programmes will have an ESMS which is mature, documented, and has a demonstrated track record of managing these types of projects/programmes and the full support of Sr. Management.</p> <p>Required elements of the institutional ESMS are shown below.</p>	<p>The accreditation review will focus on the applicant’s institutional environmental and social management system (ESMS). Entities that desire to undertake Category B/I-2 and C/I-3 type projects/programmes will have an ESMS and a demonstrated track record of managing these types of projects/programmes and the support of Management. This ESMS likely will have emerging elements and will not be as mature in scope or documentation or as well integrated into business processes as the ESMS required for Category A type projects/programmes yet will still have all of the ESMS elements.</p> <p>Required elements of the institutional ESMS are shown below.</p>	<p>The accreditation review will focus on the applicant’s institutional environmental and social management system (ESMS). Entities that desire to undertake Category C/I-3 type projects/programmes will have an ESMS. Given that by definition Category C/I-3 projects represent little to no environmental or social risks or impacts, the ESMS required will be a light touch and very simple and will not need all of the ESMS elements that higher risk categories require.</p> <p>Required elements of the institutional ESMS are shown below.</p>
Policy ⁷	<ul style="list-style-type: none"> An E&S policy that includes an overarching statement of the E&S objectives and principles which guide the entity and which states the 	<ul style="list-style-type: none"> An E&S policy that includes an overarching statement of the E&S objectives and principles which guide the entity and which states 	Not required.

⁷ Performance Standard 1, Footnote 9, “This requirement is a stand-alone, project-specific policy and is not intended to affect (or require alteration of) existing policies the client may have defined for non-related projects, business activities, or higher level corporate activities.”

Accreditation Review Focus (Institutional Capacity)	Scaled, Risk-based Category A/I-1	Scaled, Risk-based Category B/I-2	Scaled, Risk-based Category C/I-3
	<p>E&S standards the entity adheres to including those laws implementing host country obligations under international law. The policy should indicate who within the entity will ensure conformance with the policy and be responsible for its execution. The Policy should be consistent with the Performance Standards and endorsed by Sr. Management and communicated to all levels of its organization.</p>	<p>the E&S standards the entity adheres to including those laws implementing host country obligations under international law. The policy should indicate who within the entity will ensure conformance with the policy and be responsible for its execution. The Policy should be consistent with the Performance Standards and endorsed by Management and communicated to all levels of its organization.</p>	
<p>Identification of Risks and Impacts</p>	<ul style="list-style-type: none"> • A fully developed and documented institutional process and track record for identifying the E&S risks and impacts of projects/programmes which is consistent with good international industry practice⁸ and Performance Standard 1-8 and which is integrated into operations. 	<ul style="list-style-type: none"> • An institutional process and track record for identifying the E&S risks and impacts of projects/programmes, which is consistent with good international industry practice⁹ and Performance Standard 1-8. 	<ul style="list-style-type: none"> • A process, which screens projects/programmes against Performance Standard 1-8 and is able to consistently confirm the risk category.
<p>Management Programme</p>	<ul style="list-style-type: none"> • A fully developed and documented institutional process and track record for managing mitigation measures and actions stemming 	<ul style="list-style-type: none"> • A documented institutional process and track record for managing mitigation measures and actions stemming from the E&S risk identification process. 	<p>Usually not required.</p>

Accreditation Review Focus (Institutional Capacity)	Scaled, Risk-based Category A/I-1	Scaled, Risk-based Category B/I-2	Scaled, Risk-based Category C/I-3
	<p>from the E&S risk identification process.</p> <ul style="list-style-type: none"> Depending upon the nature and scale of the project/programme, the management programme may consist of some documented combination of operational procedures, practices, plans and related supporting documents that are managed in a systematic way. 	<ul style="list-style-type: none"> Depending upon the nature and scale of the project/programme, the management programme may consist of some documented combination of operational procedures, practices, plans and related supporting documents that are managed in a systematic way. 	
Organizational Capacity and Competency	<ul style="list-style-type: none"> An organizational structure that defines roles, responsibilities and authority to implement the ESMS, which includes Senior Management. Key E&S responsibilities should be defined and communicated and supported with human and financial resources. Technical staff with direct responsibility for the project/programme performance have the knowledge, skills and experience necessary to understand and ensure implementation of PS1-8. Technical staff with knowledge of Performance Standards 1-8 are able to properly categorize potential funding proposals. 	<ul style="list-style-type: none"> An organizational structure that defines roles, responsibilities and authority to implement the ESMS, which includes Senior Management. Key E&S responsibilities should be defined and supported with human and financial resources. Technical staff with direct responsibility for the project/programme performance have the knowledge, skills and experience necessary to understand and ensure implementation of PS1-8. Technical staff with knowledge of Performance Standards 1-8, are able to properly categorize potential funding proposals. 	<ul style="list-style-type: none"> A designated staff or staff members that have knowledge of Performance Standards 1-8 and are able to properly categorize potential funding proposals through a screening process.

Accreditation Review Focus (Institutional Capacity)	Scaled, Risk-based Category A/I-1	Scaled, Risk-based Category B/I-2	Scaled, Risk-based Category C/I-3
Monitoring and Review	<ul style="list-style-type: none"> Track record and internal processes to support a monitoring/supervision programme that tracks and ensures completion of mitigation and performance improvement measures. Periodic performance reviews that are reported to Senior Management, on the effectiveness of the ESMS. Senior Management has a track record of taking the necessary steps to ensure the intent of the entity’s policy is met and that procedures, practices and plans are implemented 	<ul style="list-style-type: none"> Track record and internal processes to support a monitoring/supervision programme that tracks and ensures completion of mitigation and performance improvement measures. Periodic performance reviews that are reported to Senior Management, on the effectiveness of the ESMS. Senior Management takes the necessary steps to ensure the intent of the entity’s policy is met and that procedures, practices and plans are implemented. 	<ul style="list-style-type: none"> Light monitoring of projects/programmes to ensure that there have been no scope changes or unanticipated impacts or risks, which need to be mitigated and managed.
External Communications	<ul style="list-style-type: none"> External communication channels that allow the entity to: receive and register external communications from the public; screen and assess issues raised and determine how to address them; and provide, track, and document responses. 	<ul style="list-style-type: none"> External communication channels that allow the entity to: receive and register external communications from the public; screen and assess issues raised and determine how to address them; and provide, track, and document responses. 	<ul style="list-style-type: none"> External communication channels that allow the entity to: receive and register external communications from the public; screen and assess issues raised and determine how to address them; and provide, track, and document responses.