



GREEN
CLIMATE
FUND

Relevant International Private Sector Best-Practice Fiduciary Principles and Standards and Environmental and Social Safeguards

GCF/B.08/05

7 October 2014

Meeting of the Board

14-17 October 2014

Bridgetown, Barbados

Agenda item 6 (d)

Recommended action by the Board

It is recommended that the Board:

- (a) Take note of the information presented in document GCF/B.08/05 *Relevant International Private Sector Best-Practice Fiduciary Principles and Standards and Environmental and Social Safeguards*; and
- (b) Adopt the draft decision presented in Annex I to this document.

Relevant International Private Sector Best-Practice Fiduciary Principles and Standards and Environmental and Social Safeguards

I. Introduction

1. At its May 2014 meeting (decision B.07/02 (I)), the Board requested the Accreditation Panel, with the support of the Secretariat, under the guidance of the Accreditation Committee, to elaborate the following element for decision by the Board at its third meeting in 2014:
 - (a) The identification of potential relevant international private sector best-practice fiduciary principles and standards and environmental and social safeguards (ESS), and an assessment of gaps against the Fund's initial fiduciary standards and interim ESS, in collaboration with the Private Sector Advisory Group (PSAG) and in consultation with relevant stakeholders (decision B.07/02 (I)(ii)).
2. The Fund's accreditation process intends to accredit development finance institutions (DFIs), including multilateral development banks (MDBs), and financial institutions (FIs) engaged in providing financial products to private sector entities and to consumers. These institutions may request a line of credit for on-lending to sustainable activities, enter into risk-sharing or coverage agreements, or enter into other types of financial arrangements with the Fund in order to provide financial products to private sector entities and consumers. Ensuring that these FIs have the capacity to undertake these activities with minimal oversight from the Fund is an important element in safeguarding the Fund's reputation and also key to carrying out the Fund's mission.
3. This document presents the identification of relevant international private sector best-practice fiduciary principles and standards and ESS, and an assessment of gaps against the Fund's initial fiduciary standards and interim ESS for consideration by the Board.

II. Approach

4. In the process of identifying and analysing relevant principles and/or standards considered as relevant international private sector best-practice fiduciary principles and standards and ESS, the Accreditation Panel and the Secretariat held consultations with a wide range of experts, the Accreditation Committee and the PSAG.

III. Identification of relevant international private sector best-practice fiduciary principles and standards and assessment of gaps against the Fund's initial fiduciary standards

5. The consultations undertaken with experts from the industry revealed that best-practice fiduciary principles and standards are generally found in DFIs that have sufficient experience of entering into financial or risk-sharing agreements with FIs as intermediaries. Some of them have developed strong financial standards and ESS, and conduct rigorous due diligence to ensure compliance of the FIs with these standards.
6. While there was not sufficient time to draw up an exhaustive list of the DFIs with standards that could be qualified as best practice, it is widely acknowledged that MDBs can be considered as leading points of reference in terms of fiduciary standards, especially regarding

FIs that provide financial products to private sector entities or consumers. Furthermore, MDBs have accumulated significant experience through lines of credit, equity participation and risk-sharing agreements with FIs, which strengthens the credibility of their standards and processes.

7. It is also recognized that many DFIs, in particular MDBs, have standards that are comparable to one another's, and that these standards may also be considered as international private sector best practices for fiduciary principles and standards and ESS. DFIs may include, but are not limited to, entities which are members of the International Development Finance Club (IDFC), a group of development banks at the national and sub-national levels. Members of the IDFC¹ are listed in Annex III.

8. FIs must also comply with their local regulator's rules given the role they play in the economy of their country. Those are generally prudential rules requiring the respect of ratios that would ensure the resilience of the FI under certain stress scenarios. However, regulators also set standards regarding the corporate governance of these FIs and their fiduciary principles. It has been found that MDBs generally include compliance with the local regulator as a key element in their due diligence on FIs.

9. While it is recognized that many DFIs, including MDBs, have standards that can be considered as private sector international best practices, this document will review the International Finance Corporation's (IFC) fiduciary standards as an example.

3.1 International Finance Corporation fiduciary standards

10. An initial review of the IFC's due diligence questionnaire for financial institutions identified the following fiduciary criteria, which are comparable to elements of the Fund's fiduciary standards:

- (a) The organization of the FI should include documents of incorporation, shareholders' agreements, an organization chart, and a clear indication of the governance structure with the main organs, committees and reporting relationships. In addition, the FI should have management methodologies like the segmentation of customers and processes in place for the communication of annually audited financial statements and quarterly unaudited accounts;
- (b) Business strategy with a mission statement, a budgetary process and financial projections with assumptions. The FI should also have a market intelligence function and be able to define a positioning;
- (c) Corporate governance with a policy and a code of ethics. The FI shall have policies and rules of procedure for the Board of Directors and Shareholder Meetings, and shall ensure compliance with regulations and listing requirements when applicable. In addition, the FI must define transparency and disclosure policies, and comply with relevant financial services regulatory authority (including Basel II or Solvency II), control framework, and internal and external audit requirements; and
- (d) Other fiduciary criteria include accounting standards and systems, key policies, procedures and controls regarding credit management, risk modelling systems, collateral monitoring, portfolio and non-performing loan management, funding and treasury, investment policies, information systems and also anti money laundering and combating the financing of terrorism.

¹ <http://www.idfc.org/Who-We-Are/members.aspx>.

IV. Identification of relevant international private sector best-practice environmental and social safeguards and assessment of gaps against the Fund's interim environmental and social safeguards

11. Two principles and/or standards are considered by the majority as international private sector best-practice ESS principles or standards:

- (a) IFC Performance Standards on Environmental and Social Sustainability (PS); and
- (b) Equator Principles (EPs)

4.1 International Finance Corporation Performance Standards

12. The IFC Performance Standards are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way². Since 2006, they have been adopted by a number of private and public sector institutions and enterprises, are the basis of the Equator Principles, and are considered the de facto global standard. They were last updated in 2012 to include lessons learned and emerging issues and can be applied to direct and indirect lending.

13. In comparison with the Fund's interim ESS, there is no gap since the Fund has adopted, on an interim basis, the IFC's PS to be used in combination with the IFC's Guidance Notes as the Fund's interim ESS (see Annex III of document GCF/B.07/11).

4.2 Equator Principles

14. The Equator Principles³ is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. The EPs apply globally, to all industry sectors and to four financial products:

- (a) Project finance advisory services where project capital costs exceed US\$ 10 million;
- (b) Project finance where project capital costs exceed US\$ 10 million;
- (c) Project-related corporate loans where Equator Principles Financial Institutions' (EPFIs) commitment is at least US\$ 50 million, and total loan aggregate is at least US\$ 100 million; and
- (d) Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance or a project-related corporate loan.

15. Currently, 80 EPFIs in 34 countries have officially adopted the EPs, covering over 70 per cent of international project finance debt in emerging markets.⁴ The EPs consist of 10 principles, including categorization in line with the Fund's definition of risk categories, which provide

² http://www.ifc.org/wps/wcm/connect/115482804a0255db96fbffd1a5d13d27/PS_English_2012_Full-Documents.pdf?MOD=AJPERES (paragraph 1)

³ <http://www.equator-principles.com/index.php/about-ep/about-ep>.

⁴ <http://www.equator-principles.com/index.php/about-ep/about-ep>.

guidance to the EPFIs on how to use and implement the 2012 IFC Performance Standards in all non-designated⁵ countries. They also include references to the IFC Guidance Notes and the World Bank Environmental, Health and Safety Guidelines as useful supporting documents for the PS.

16. While the EPs have greatly increased the attention and focus on social/community standards and responsibility within the project finance market and have also promoted convergence around common environmental and social standards, they are a voluntary standard, and the capacity of EPFIs to implement them is not independently audited or verified. This, along with the narrow scope of application to financial products, is the largest criticism, and some believe a wide divergence exists amongst the EPFIs in terms of effective implementation.

17. In comparison with the Fund's interim ESS, the EPFIs do not contain any gaps. In the area of greenhouse gas emissions reporting, the EPs require the client to publically report if greenhouse gas emissions exceed 100,000 tonnes of carbon dioxide equivalent (CO₂e) annually (tpa) which is beyond the PS requirements. IFC PS 3 requires clients to quantify GHG emissions above 25,000 tonnes of CO₂ but not to publically disclose this, as IFC makes the disclosure.

V. Conclusion

18. At a minimum, an entity must meet both the Fund's basic fiduciary standards and ESS in order to be eligible for accreditation, whether under the accreditation process or fast-track accreditation process. An entity may additionally apply for accreditation of specialized fiduciary standards.

19. The PSAG recommends that the implementation, enforcement, monitoring and reporting on conformity with these standards should be commercially reasonable and commercially constructive so that private market actors will be able to engage with the Fund. The PSAG recognizes that there are costs and additional implications in terms of delay, additional process and bias against smaller counterparties (because of cost and complexity) that can be generated by implementation requirements that are not appropriate for differentiated market actors, and that there should be a standard of flexibility and commercial reasonability in implementation.

20. The fiduciary standards and ESS of MDBs are widely regarded as benchmarks of private sector international best practices.

21. It is recommended that the Secretariat, in consultation with the Accreditation Panel, identify the DFIs, including MDBs, and FIs for which their financial and ESS standards are comparable to those of the Fund, and provide recommendations on their potential accreditation or fast-tracking. DFIs may include, but are not limited to, entities which are members of the IDFC, as set out in Annex III, and FIs such as the EPFIs set out in Annex IV.

⁵ The list of designated countries can be found at <http://www.equator-principles.com/index.php/designated-countries>.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.08/05 *Relevant International Private Sector Best-Practice Fiduciary Principles and Standards and Environmental and Social Safeguards*:

- (a) Takes note of the identification of relevant international private sector best-practice fiduciary principles and standards and environmental and social safeguards (ESS) and assessment of gaps against the Fund's initial fiduciary standards and interim ESS set out in Annex II; and
- (b) Requests the Secretariat, in consultation with the Accreditation Panel, to identify development finance institutions and financial institutions (FIs) that have fiduciary criteria and ESS that are comparable to the Fund's fiduciary standards and ESS, and provide recommendations on their potential accreditation or fast-tracking for decision by the Board at its first meeting in 2015. These may include, but are not limited to:
 - (i) Multilateral development banks (MDBs);
 - (ii) Entities which are members of the International Development Finance Club, as listed in Annex III;⁶
 - (iii) FIs that have entered into a financial agreement with MDBs; and
 - (iv) Equator Principles Financial Institutions, as listed in Annex IV.⁷

⁶ <http://www.idfc.org/Who-We-Are/members.aspx>.

⁷ <http://www.equator-principles.com/index.php/members-reporting>.

Annex II: Identification of relevant international private sector best-practice fiduciary principles and standards and environmental and social safeguards and assessment of gaps against the Fund's initial fiduciary standards and interim environmental and social safeguards

Purpose

1. The Fund's accreditation process intends to accredit development finance institutions (DFIs), including multilateral development banks (MDBs) and financial institutions (FIs) engaged in providing financial products to private sector entities and to consumers. These institutions may request a line of credit for on-lending to sustainable activities, enter into risk-sharing or coverage agreements, or enter into other types of financial arrangements with the Fund in order to provide financial products to private sector entities and consumers. Ensuring that these FIs have the capacity to undertake these activities with minimal oversight from the Fund is an important element in safeguarding the Fund's reputation and also key to carrying out the Fund's mission.
2. The purpose of this document is to present the identification of relevant international private sector best-practice fiduciary principles and standards and environmental and social safeguards (ESS), and an assessment of gaps against the Fund's initial fiduciary standards and interim ESS for consideration by the Board.

Approach

3. In the process of identifying and analysing relevant principles and/or standards considered as relevant international private sector best-practice fiduciary principles and standards and ESS, the Accreditation Panel and the Secretariat held consultations with a wide range of experts, the Accreditation Committee and the Private Sector Advisory Group (PSAG).

Identification of relevant international private sector best-practice fiduciary principles and standards and assessment of gaps against the Fund's initial fiduciary standards

4. The consultations undertaken with experts from the industry revealed that best-practice fiduciary principles and standards are generally found in DFIs that have sufficient experience of entering into financial or risk-sharing agreements with FIs as intermediaries. Some of them have developed strong financial standards and ESS, and conduct rigorous due diligence to ensure compliance of the FIs with these standards. It is widely acknowledged that MDBs can be considered as leading points of reference in terms of fiduciary standards, especially regarding FIs that provide financial products to private sector entities or consumers.
5. It is also recognized that many DFIs, in particular MDBs, have standards that are comparable to one another's, and that these standards may also be considered as international private sector best practices for fiduciary principles and standards and ESS. DFIs may include, but are not limited to, entities which are members of the International Development Finance Club (IDFC), a group of development banks at the national and sub-national levels. Members of the IDFC⁸ are listed in Annex III.
6. FIs must also comply with their local regulator's rules given the role they play in the economy of their country. However, regulators also set standards regarding the corporate

⁸ <http://www.idfc.org/Who-We-Are/members.aspx>.

governance of these FIs and their fiduciary principles. It was found that MDBs generally include compliance with the local regulator as a key element in their due diligence on FIs.

Identification of relevant international private sector best-practice environmental and social safeguards and assessment of gaps against the Fund's interim environmental and social safeguards

7. Two principles and/or standards are considered by the majority as international private sector best-practice ESS principles or standards:

- (a) International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (PS);
- (b) Equator Principles (EPs).

8. The IFC Performance Standards are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way⁹. Since 2006, they have been adopted by a number of private and public sector institutions and enterprises, are the basis of the Equator Principles, and are considered the de facto global standard. They were last updated in 2012 to include lessons learned and emerging issues and can be applied to direct and indirect lending. In comparison with the Fund's interim ESS, there is no gap since the Fund has adopted, on an interim basis, the IFC's PS to be used in combination with the IFC's Guidance Notes as the Fund's interim ESS (Annex III of document GCF/B.07/11).

9. The Equator Principles¹⁰ is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. The EPs apply globally, to all industry sectors and to four financial products. Currently, 80 Equator Principles Financial Institutions (EPFIs) in 34 countries have officially adopted the EPs, covering over 70 per cent of international project finance debt in emerging markets.¹¹ While the EPs have greatly increased the attention and focus on social/community standards and responsibility within the project finance market and have also promoted convergence around common environmental and social standards, they are a voluntary standard and the capacity of EPFIs to implement them is not independently audited or verified. In comparison with the Fund's interim ESS, the EPFIs do not contain any gaps.

Conclusion

10. At a minimum, an entity must meet both the Fund's basic fiduciary standards and ESS in order to be eligible for accreditation, whether under the accreditation process or fast-track accreditation process. An entity may additionally apply for accreditation of specialized fiduciary standards.

11. The PSAG recommends that the implementation, enforcement, monitoring and reporting on conformity with these standards should be commercially reasonable and commercially constructive so that private market actors will be able to engage with the Fund. The PSAG recognizes that there are costs and additional implications in terms of delay, additional process and bias against smaller counterparties (because of cost and complexity) that can be generated

⁹ http://www.ifc.org/wps/wcm/connect/115482804a0255db96fbffd1a5d13d27/PS_English_2012_Full-Documents.pdf?MOD=AJPERES.

¹⁰ <http://www.equator-principles.com/index.php/about-ep/about-ep>.

¹¹ <http://www.equator-principles.com/index.php/members-reporting>.

by implementation requirements that are not appropriate for differentiated market actors and that there should be a standard of flexibility and commercial reasonability in implementation.

12. The fiduciary standards and ESS of MDBs are widely regarded as benchmarks of private sector international best practices.
13. It is recommended that the Secretariat, in consultation with the Accreditation Panel, identify the DFIs, including MDBs, and FIs for which their financial and ESS standards are comparable to those of the Fund and provide recommendations on their potential accreditation or fast-tracking. DFIs may include, but are not limited to, entities which are members of the IDFC, as set out in Annex III, and FIs such as the EPFIs set out in Annex IV.

Annex III: List of members of the International Development Finance Club

**Table 1: Members of the International Development Finance Club (IDFC)
(as of 30 September 2014)¹**

Members of the IDFC	Acronym	Country
Agence Française de Développement	AFD	France
Banco Estado	BE	Chile
Banco Nacional de Desenvolvimento Econômico e Social	BNDES	Brazil
Bancoldex S.A.		Colombia
Banque Ouest Africaine de Développement	BOAD	Togo
Black Sea Trade and Development Bank	BSTDB	Greece
Caisse de Dépôt et de Gestion	CDG	Morocco
Central American Bank for Economic Integration	BCIE/CABEI	Honduras
China Development Bank	CDB	China
Croatian Bank for Reconstruction and Development	HBOR	Croatia
Development Bank of Latin America	CAF	Venezuela (Bolivarian Republic of)
Development Bank of Southern Africa	DBSA	South Africa
Indonesia Exim Bank		Indonesia
Industrial Development Bank of Turkey	TSKB	Turkey
Japan International Cooperation Agency	JICA	Japan
KfW Bankengruppe		Germany
Korea Finance Corporation	KoFC	Republic of Korea
Nacional Financiera	NAFIN	Mexico
Small Industries Development Bank of India	SIDBI	India
Vnesheconombank	VEB	Russian Federation

¹ <http://www.idfc.org/Who-We-Are/members.aspx>.

Annex IV: List of Equator Principles Financial Institutions

**Table 1: List of Equator Principles Financial Institutions (EPFIs)
(as of 30 September 2014)¹**

EPFIs	Country
ABN Amro	Netherlands
Access Bank Plc	Nigeria
Ahli United Bank	Bahrain
ANZ	Australia
Arab African International Bank	Egypt
ASN Bank NV	Netherlands
Banco Bilbao Vizcaya Argentaria	Spain
Banco Bradesco	Brazil
Banco de Crédito	Peru
Banco de Galicia y Buenos Aires	Argentina
Banco de la República Oriental del Uruguay	Uruguay
Banco do Brasil	Brazil
Banco Espírito Santo	Portugal
Banco Mercantil del Norte	Mexico
Banco PINE	Brazil
Banco Popular Español	Spain
Banco Sabadell	Spain
Banco Santander	Spain
Bancolombia	Colombia
Bank Muscat	Oman
Bank of America Corporation	United States of America
Bank of Montreal	Canada
Bank of Nova Scotia	Canada
Bank of Tokyo-Mitsubishi UFJ	Japan
Barclays	United Kingdom of Great Britain and Northern Ireland
BMCE Bank	Morocco
BNP Paribas	France
CAIXA Economica Federal	Brazil
CaixaBank	Spain
Canadian Imperial Bank of Commerce	Canada
CIBanco	Mexico
CIFI	Costa Rica
Citigroup	United States of America

¹ <http://www.equator-principles.com/index.php/members-reporting>.

EPFIs	Country
Commonwealth Bank of Australia	Australia
CORPBANCA	Chile
Credit Suisse Group	Switzerland
Crédit Agricole Corporate and Investment Bank	France
DekaBank	Germany
DNB	Norway
DZ Bank	Germany
Ecobank Transnational Incorporated	Togo
EFIC	Australia
Eksport Kredit Fonden	Denmark
Eksportkreditt Norway	Norway
Ex-Im Bank	United States of America
Export Development Canada	Canada
Fidelity Bank	Nigeria
FirstRand	South Africa
FMO	Netherlands
HSBC	United Kingdom of Great Britain and Northern Ireland
IDFC	India
Industrial Bank	China
ING Bank	Netherlands
Intesa Sanpaolo	Italy
Itaú Unibanco	Brazil
JPMorgan	United States of America
KBC Group	Belgium
KfW IPEX-Bank	Germany
Lloyds Banking Group	United Kingdom of Great Britain and Northern Ireland
Manulife Financial	Canada
Mauritius Commercial Bank	Mauritius
Mizuho Bank	Japan
National Australia Bank	Australia
Natixis	France
Nedbank	South Africa
NIBC Bank	Netherlands
Nordea Bank	Sweden
Rabobank Group	Netherlands
Royal Bank of Canada	Canada
Royal Bank of Scotland	Scotland
Skandinaviska Enskilda Banken	Sweden



EPFIs	Country
Société Générale	France
Standard Bank	South Africa
Standard Chartered	United Kingdom of Great Britain and Northern Ireland
Sumitomo Mitsui Banking Corporation	Japan
TD Bank Financial Group	Canada
United Kingdom Green Investment Bank	United Kingdom of Great Britain and Northern Ireland
UniCredit Bank	Germany
Wells Fargo Bank	United States of America
Westpac Banking Corporation	Australia
