

Annex XI: Accreditation assessment of Applicant 050 (APL050)

I. Introduction

1. Applicant 050 (APL050), the CDG Capital S.A. (CDG Capital), is a national entity based in Morocco, with a project portfolio that is composed of a variety of sectors and financial instruments. The applicant has provided financing through equity, loans and guarantees for both public and private sector projects in sectors such as power generation and distribution, port infrastructure, water supply infrastructure, real estate, rail, highways, telecommunications, services and industry.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 19 March 2016. The Stage I institutional assessment and completeness check was completed on 20 April 2017 and was progressed to the Stage II (Step 1) accreditation review, which has been concluded with the publication of this assessment. The applicant has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** direct access, national, private sector. The applicant received a national designated authority nomination for its accreditation application from Morocco;
- (b) **Track:** normal track;
- (c) **Maximum size of an individual project or activity within a programme:** large;¹
- (d) **Fiduciary functions:**²
 - (i) Basic fiduciary standards; and
 - (ii) Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** medium risk (Intermediation 2 (I-2)).³

II. Stage I institutional assessment and completeness check

3. The applicant applied under the normal track accreditation process, and was assessed by the Secretariat during Stage I.

2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, where relevant, as a part of the application. The Caisse de Dépôt et de Gestion was authorized to create CDG Capital S.A. as a subsidiary by decree no. 2-06-178 issued on 4 April 2006 by the Moroccan authorities.

¹ As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “large” is defined as “total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 250 million for an individual project or an activity within a programme”.

² Decision B.07/02.

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

2.2 Institutional presence and relevant networks

5. CDG Group, including the applicant, has a track record of blending its own funds with international partners such as the European Investment Bank, Kreditanstalt für Wiederaufbau and Caisse de Dépôt et de Gestion. CDG Group is also a member of the International Development Finance Club supporting climate finance initiatives. It has recently voiced its support for the “common principles for climate mitigation finance tracking” aiming at further increasing transparency and credibility of mitigation finance reporting.

6. The applicant is the fully owned asset management, financing and investment banking arm of CDG Group, serving both private and public clients. The applicant, along with the larger CDG Group, intends to continue supporting the implementation of the national climate strategy in Morocco and to develop adaptation projects to adjust to the consequences of climate change in the following sectors: energy, landfill gas management, water management, agriculture and forestry, transport, and housing and urbanization (including new cities).

7. CDG Capital seeks accreditation to the GCF in order to:

- (a) Support efforts to promote the paradigm shift towards low-emission and climate-resilient development pathways in Morocco;
- (b) Make available relevant financial instruments and resources for economic operators to achieve scalable energy efficiency and renewable energy projects;
- (c) Protect vulnerable communities by investing in water security projects; and
- (d) Share knowledge on climate change mitigation and adaptation topics with partners in Morocco and other African countries who need technical and financial assistance to fight climate change.

2.3 Track record

8. The applicant has placed socially responsible investment and climate change as one of its main objectives. The applicant indicated that it has previously partnered with government, the national utility supplier, the private sector, civil society organizations and local communities in Morocco to achieve climate change mitigation and adaptation projects.

9. The applicant’s track record in financing climate change-related projects includes the following:

- (a) USD 3.5 million of USD 21 million (Emission Reduction Purchase Agreement through the clean development mechanism) for a wind farm project in Morocco;
- (b) USD 10.2 million of USD 818 million (loans, investment credit line) for the Moroccan public utility supplier (financing the electricity distribution network) in Morocco;
- (c) USD 15.3 million of USD 90 million (equity) for the Agadir Desalination project in Morocco;
- (d) USD 4.1 million of USD 816 million (loans) for the Moroccan public utility supplier (overdraft credit line in the energy sector) in Morocco; and
- (e) USD 6.2 million of USD 81.6 million (guarantees) for the Casablanca bus transport concessionaire, financing the purchase of new equipment in Morocco.

III. Stage II accreditation review assessment

10. The applicant applied under the normal track accreditation process, and was assessed against the standards of the GCF by the Accreditation Panel (AP) during Stage II (Step 1).

11. As part of this assessment, the AP consulted the applicant's website and third-party websites to complement the information provided in the application.

3.1 Fiduciary standards

3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

12. The applicant has an organizational and corporate governance structure that is appropriate for the size and scope of its activities. The applicant's board of directors has two oversight committees: audit and risk management. In addition, the applicant has six internal committees: credit, conduct and ethics, steering committee of internal control, recovery and litigation, and provisions. The corresponding terms of reference, and descriptions of the roles and composition for each committee were provided by the applicant. The applicant has a process for setting long- and short-term objectives aligned with its overall mission; a process for preparing annual budgets and monitoring of these budgets; and a process for monitoring and assessing the performance of the entity against the set objectives.

13. The applicant's consolidated annual financial statements for the years 2012, 2013 and 2014 were prepared in accordance with the requirements of the International Accounting Standards Board, which include the International Financial Reporting Standards and the International Accounting Standards. The financial statements present comprehensive corporate financial information, including information on the evaluated assets and liabilities, cash flows, taxes, costs, interest expenditure and value, other business revenues, cost of risk, shareholders' equity, earnings per share, investments in associates and joint ventures, subsidiaries, and consolidation principles.

14. The applicant has a well-developed financial information system in place that reflects the cash flow reports on the entities' operations, including private equity funds. The applicant has transparent and consistent payment and disbursement systems in place with documented procedures and clear allocation of responsibilities.

15. The applicant has an established internal audit process under which activities are directly and regularly monitored by the applicant's audit and investigation department, which reports to the audit committee. The operation of the internal audit in accordance with its audit charter is evidenced by appropriate evidence such as minutes of meetings, audit plans, sample audit reports and reports on the status of actions taken with regard to the recommendation of the internal auditors, which were provided by the applicant. The applicant complies with international standards and the code of ethics of the Institute of Internal Auditors and also undertakes the periodic assessment of the overall effectiveness of the internal audit function.

16. The applicant has appointed an external auditor to independently review financial statements at an overall organizational level. The external audit controls were carried out in accordance with professional standards applicable in Morocco and in accordance with Moroccan accounting standards. In the opinion of the external auditor the consolidated financial statements, in all significant aspects are true and fair, and correctly reflect the financial performance and cash flows for the corresponding financial years. The recommendations of the external auditor were shared with the applicant's board of directors and management of the entity, and all the actions taken in response to the recommendations were further recorded.

17. The applicant has a well-developed internal control framework, which is outlined in the internal control charter document. The internal control function covers supervision of the measures for strengthening and improving the ongoing monitoring system for the applicant's performance and its subsidiaries. The details of the control records are contained in the summary of the internal monitoring and audit committee reports, and in documentation with regard to the control consolidation meetings with the business lines and the meetings of the

steering committee for internal monitoring, as well as records of audit and risk committee meetings.

18. The applicant has procurement policies and procedures that are found to be comprehensive and adequate for its procurement activities. The applicant's procurement is based on the following principles: the promotion of fairness and transparency, sustainable development and responsible purchasing; development of e-commerce; continuous improvement of service quality; the promotion of innovation; economic performance; optimization of expenditures; and asset protection. The applicant's procurement policy rules, regulations and guidelines ensure free access to the ordering and purchasing process, competitive bidding principles, equal treatment of competitors and transparency in the choice of service providers.

3.1.2 **Section 4.2: Basic fiduciary standards: transparency and accountability**

19. The applicant has in place the appropriate processes, authorities and key documents for supporting ethical behaviour of the employees and other parties associated with the applicant's operations, such as an ethics and professional conduct committee, a code of professional conduct and relevant guidelines. The code of professional conduct, as well as supporting policies, also addresses the issues related to the conflict of interest and management of confidentiality.

20. Prevention of financial mismanagement is regulated by a specific set of internal financial policies with regard to fraud prevention. The applicant's management team have committed to a zero-tolerance policy in relation to fraud, and have adopted the general principles of prohibited practices that are in compliance with the GCF interim policy on prohibited practices.

21. The applicant has provided the evidence that the investigative function is carried out by its audit and investigation department. The investigation process, as well as the process of handling complaints, is described in the new internal investigation procedure. The procedure covers occurrence of fraud, incident, actual or potential significant loss and other serious issues. In response to the occurrence of serious issues, which can considerably affect the interests of the bank, its customers, shareholders and partners, the audit and investigation department undertakes special missions of investigation and reports on the outcomes to the board of directors. The web link to receive complaints on suspected fraud cases from the general public is posted on the applicants' website. However, the link does not provide the information on the process of handling complaints received from the general public.

22. The applicant has provided a statement that there have been no cases of violation of the code of ethics in the past three years.

23. The applicant provided its policy on anti-money laundering and countering the financing of terrorism, which has been approved by its board of directors. The policy establishes the rules for the examination of the customer and its risk profile, and the methods for the identification of suspicious activities. The policy also contains the general principles and types of prohibited practices to be developed by the applicant, which are found to be in a full compliance with the list of the prohibited practices contained in the GCF interim policy on prohibited practices.

24. The applicant's due diligence process of its customers and counterparts with regard to combating money laundering and the prevention of financing terrorism is established and operating in accordance with the corresponding policies and manuals, and is found to be transparent, efficient and mature. The applicant requires all the customers, including independent persons and legal entities to provide the complete information on their business following the 'know-your-customer' (KYC) due diligence manual. The system is supported by the well-established procedure and in-house electronic control system for undertaking KYC due diligence, as well as for close monitoring of the electronic fund transfers. The corresponding

sample KYC due diligence reports, as well as sample reports on the electronic transfers were provided.

3.1.3 **Section 5.1: Specialized fiduciary standard for project management**

25. The applicant did not apply for assessment against this standard at this time.

3.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

26. The applicant did not apply for assessment against this standard at this time.

3.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

27. The applicant is the fully owned asset management, financing and investment banking arm of the larger financial group and, as such, has profound experience in undertaking strategic investments and financing sustainable development projects, while also providing various financial services for both private and public group clients, such as asset management services, providing financial guarantees, debt and equity financial structuring and bonds issuance, and the management of private equity funds and of one-off infrastructure funds. The financial group to which the applicant belongs is the 100 per cent government-owned manager of public pension funds and regulated deposits of Morocco, with over USD 20 billion assets under management.

28. The applicant has a mature set of procedures on the determination of the equity and debt investments in the projects, as well guidelines on providing financial guarantees. The funding mix of the project is determined considering the project's risk allocation principles, risk diversification strategy and market standards for the relevant type of project.

29. The applicant has also demonstrated sound investment policies for asset management, private equity and infrastructure funds investment policies, investment financial risk and management policies, supported by the regular corporate risk diversification reports. The applicant also has in place procedures and organizational structures that ensure appropriate segregation of the duties of the treasury function and operations.

30. The applicant has a documented framework for undertaking due diligence of the financial opportunities, with clearly defined roles and responsibilities and applicable guidelines and procedures for assessing the capabilities of the organizations seeking financing or a guarantee from the applicant. Sample due diligence reports in respect of its equity financing and on-lending and blending operations, as well as samples of the guarantee agreements, show effective use of and compliance with the existing policies and procedures.

31. Until recently, the applicant did not have in place a policy on the disclosure of information to the public on its on-lending and blending operations, project beneficiaries, project results achieved and lessons learned, which is required by the GCF fiduciary standards. In order to address these gaps, the applicant has developed the required procedures, which were recently approved by the applicant's board. However, in order to fully meet the requirements of the GCF, the applicant would need to provide evidence of the effective implementation of its new information disclosure policy.

32. The applicant stated that currently it does not lend to financial institutions, therefore it does not have any assessment reports on the lending portfolio of such intermediaries. However, it also stated that it might use the services of a financial institution in the future, for example as a managing company to run an equity fund where the applicant has an equity stake. In this case it would need to provide the corresponding assessment report of the intermediary contracted for the management of the project(s) approved by the Board.

3.2 Environmental and social safeguards

3.2.1 Section 6.1: Policy

33. The applicant provided its environmental and social safeguard (ESS) policy, which came into effect in July 2016. The applicant's ESS policy is endorsed by its management, as indicated in the introductory letter signed by the general management in the original version in French. The ESS policy was communicated by the applicant's management to all of its staff by email on 21 September 2016. The policy covers the scope, purpose, objectives and principles which guide the applicant in its decision-making processes and includes the roles and responsibilities of various units. Furthermore, the policy refers to the performance standards 1 to 8 of the GCF interim ESS, including adherence to the country's obligations under international law. The applicant has expressed its commitment to comply with the GCF interim ESS for both Intermediation 2 and 3. The ESS policy includes the requirement that its executing entities, when they execute projects financed by the applicant, address cumulative impacts, analysis of alternatives, baseline data standards and mitigation hierarchy.

34. As evidence of the applicant's implementation of the performance standards, the applicant provided guidelines and checklists that will be used in screening projects against performance standards 1 to 8 of the GCF interim ESS.

3.2.2 Section 6.2: Identification of risks and impacts

35. The applicant has provided its procedure for environmental and social (E&S) risk and impacts identification in line with performance standards 1 to 8 of the GCF interim ESS. The procedure also provides an E&S risks and impacts identification form, which systematically addresses performance standards 1 to 8 of the GCF interim ESS. The applicant has provided the terms of reference and job description of the person in charge of implementing the E&S risks and impacts identification procedure, who is the environmental and social specialist. The applicant's ESS team is in charge of performing E&S risk identification and categorization. The applicant has also provided sample projects showing an identification of E&S risk and impacts analysis carried out per the International Finance Corporation's performance standards, indicating the applicant's capability of undertaking this task in line with the GCF interim ESS.

3.2.3 Section 6.3: Management programme

36. The applicant has committed to develop and provide the GCF full E&S risk mitigation and management reports for projects that it will finance using GCF resources. Similarly, the applicant has committed to develop and provide the GCF with an audit report to improve the effectiveness of its institutional management related to programmes financed using GCF resources.

37. The applicant provided a sample of a monitoring plan for a wind farm project, and the sample is quite extensive in terms of key technical indicators. However, the key indicators did not cover social issues such as grievances received/resolved. In addition, the full monitoring report was not provided.

3.2.4 Section 6.4: Organizational capacity and competency

38. The applicant has provided its overall organization chart, which includes identification of all departments that would be involved with the applicant's ESS team and a detailed chart of the ESS team, which reports to its chief executive officer. The ESS project cycle chart describes the tasks and interactions of the ESS team with other teams in the design and implementation of projects. The ESS team is made up of a manager and two environmental specialists. External consultants are used to support the team in its tasks, as necessary. Job descriptions of the duties of the environmental and social specialist and of the ESS and gender manager, are also provided in line with the GCF interim ESS. This set up of the applicant's organization capacity and competencies is sufficient to undertake I-2 and I-3 projects and programmes.

3.2.5 Section 6.5: Monitoring and review

39. The applicant's ESS monitoring procedures provide a detailed description of actions and guidelines to ensure the consistent application of the monitoring programme. It addresses how the projects will be monitored periodically and systematically with a clear monitoring methodology (planning, data collection, analysis, corrective action tracking, issue resolution and reporting); tools/reporting templates; and description of responsibilities. The procedures on internal monitoring describe the annual reporting to the chief executive officer by the ESS team and the annual meeting of the ESS committee to review the effectiveness of the applicant's environmental and social management system. In addition, an external audit will ensure E&S compliance of the financing channelled by the applicant.

40. The applicant has not provided adequate sample monitoring reports except for the monitoring planning phase, because its procedures are new (July 2016). The applicant has made a commitment to develop a track record for further and more robust E&S-related monitoring of its projects, particularly for projects it will finance using the GCF resources, and to share reports of periodic performance reviews with its senior management on the effectiveness of the environmental and social management system.

3.2.6 Section 6.6: External communications

41. The applicant's updated external communications procedure provide a detailed description of the ESS-related disclosure and a consultation policy for Intermediation 2 and Intermediation 3, which also addresses the grievance mechanism. The procedure includes the location of the procedure on its website, as well as the description of the assigned responsibilities for those who would manage the communication and disclosure process.

42. The applicant has indicated that it has no register of enquiries or complaints available because its policies are new, and that it has not received any complaints on its past programmes. The applicant is willing to develop and maintain a register for the applicant's projects financed using GCF resources.

3.3 Gender

43. The applicant has provided its gender policy which has been endorsed by its management. The applicant has also provided its gender procedures, which describe the action plan to ensure gender mainstreaming in the applicant's operations (both in projects and in-house). The procedure also includes tools for:

- (a) The identification of gender risks;
- (b) The management of gender risks;
- (c) Monitoring; and
- (d) External communications.

44. As the applicant's gender policy and procedures are relatively new, it has no track record with regards to gender and related competencies. However, the applicant has provided a detailed action plan to develop internal capacity and competency in line with the GCF Gender policy.

IV. Conclusions and recommendation

4.1 Conclusions

45. Following its assessment, the AP concludes the following in relation to the application:

- (a) The applicant partially meets the requirements of the GCF basic fiduciary standards and specialized fiduciary standard for on-lending and/or blending for loans, equities and guarantees. In some respects the applicant's policy is new (e.g. information disclosure), and there is no evidence yet of implementation. In the case of complaints in general, information is not disclosed to the public. There is also no track record of working through a financial intermediary and corresponding policy;
- (b) The applicant has applied for GCF large size category. However, the applicant did not demonstrate any track record on providing project financing of an amount higher than USD 55 million. Therefore, the AP can only recommend the accreditation of the applicant for the medium size category;
- (c) The applicant partially meets the requirements of the interim ESS of the GCF in relation to medium E&S risk (I-2). As the applicant's ESS policy and procedures are relatively new, it has not been able to demonstrate its track record in terms of E&S mitigation and management, and E&S monitoring and external audit. The applicant has also committed to enhance its external communications procedure regarding ESS public consultation and disclosure, and for receiving and responding to E&S-related complaints; and
- (d) As the applicant's gender policy and related procedures are relatively new, it has not demonstrated its competencies to implement its gender policy consistent with the GCF Gender policy. The applicant has also not demonstrated that it has experience with gender considerations in the context of climate change. However, the applicant has submitted a work programme to address these shortcomings.

4.2 Recommendation on accreditation

46. The AP recommends, for consideration by the Board, applicant APL050 for accreditation as follows:

- (a) **Accreditation type:**
 - (i) **Maximum size of an individual project or activity within a programme:** medium⁴ (including micro⁵ and small⁶);
 - (ii) **Fiduciary functions:**
 1. Basic fiduciary standards;
 2. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
 - (iii) **Maximum environmental and social risk category:** medium risk (I-2) (including lower risk (I-3⁷)); and
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess

⁴ As per annex I to decision B.08/02, "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".

⁵ As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including USD 10 million for an individual project or an activity within a programme".

⁶ As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

⁷ As per annex I to decision B.07/02, Category C is defined as "Activities with minimal or no adverse environmental and/or social risks and/or impacts" and Intermediation 3 is defined as "When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts".

whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes;

- (i) Condition to be met by the applicant prior to submitting the first funding proposal to the GCF wherein the applicant would be providing GCF resources through a financial intermediary:
 - 1. Submit a description of the approach the applicant will undertake to assess the financial intermediary as the executing entity;
- (ii) Conditions to be met for each funding proposal:
 - 1. Provide in its funding proposal an E&S management framework that describes the applicant's project-specific approach to E&S risk and impact categorization, mitigation and management, E&S monitoring and reporting; and
 - 2. Provide in its funding proposal a gender action plan that reflects the applicant's adequate competency in terms of human and financial resources and a system for maintaining data that addresses gender aspects in line with the GCF Gender policy;
- (iii) Condition to be met prior to the first disbursement by the GCF for the first approved GCF project/programme to be undertaken by the applicant:
 - 1. Provide, on the applicant's website, a description of the arrangements and procedure for managing complaints before, during and after the investigation process; and
- (iv) Condition to be met on an annual basis for three consecutive years starting with the end of the first year of the implementation of the first GCF-funded project/programme:
 - 1. Provide the evidence that the reports on beneficiaries and results during implementation of all GCF-funded activities were prepared and published in accordance with the applicant's procedures for public access to information.

47. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 46 above, and agrees to the recommendation.