

Annex VI: Accreditation assessment of Applicant 043 (APL043)

I. Introduction

1. Applicant 043 (APL043), the Foreign Economic Cooperation Office (FECO) of the Ministry of Environmental Protection of China, is a national entity with a mandate of improving economic cooperation in the area of environmental protection through management of financial assistance from international financial organizations. The applicant mobilizes financial resources from international and bilateral sources. Since its establishment, the applicant has implemented projects that protect the environment and contribute to climate change mitigation and adaptation in the agriculture, forestry, transport, energy and water resources sectors.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 12 January 2016. The Stage I institutional assessment and completeness check was completed on 5 September 2016 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. The applicant received a national designated authority or focal point nomination for its accreditation application from China;
- (b) **Track:** fast-track under the Global Environment Facility (GEF);
- (c) **Maximum size of an individual project or activity within a programme:** small;¹
- (d) **Fiduciary functions:**²
 - (i) Basic fiduciary standards; and
 - (ii) Specialized fiduciary standard for project management; and
- (e) **Maximum environmental and social risk category:** medium risk (Category B/Intermediation 2 (I-2)).³

II. Stage I institutional assessment and completeness check

3. The applicant is eligible for, and applied under, the fast-track accreditation process as a GEF project agency. Its application has been assessed by the Secretariat during Stage I in

¹ As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “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”.

² Decision B.07/02.

³ As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category B is defined as “Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” and intermediation 2 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

accordance with the requirements and gaps identified in decisions B.08/03, B.10/06 and B.12/30.

2.1 Legal status, registration, permits and licences

4. The applicant provided documents on its establishment and licences to operate, if any and where relevant, as a part of the application. FECO was established in 1989 and has a State Administration of Business Entity registration as an institutional legal person.

2.2 Institutional presence and relevant networks

5. For more than 20 years, since its establishment, the applicant has been promoting partnerships between China and international organizations and bilateral agencies in pursuit of its mandate of ensuring protection of the national environment in China. It coordinates and manages multilateral and bilateral funds for the improvement of China's regulatory framework and management regimes of relevant industries through the implementation of multilateral environmental agreements to which its country is a signatory.

6. The applicant seeks to further the objectives of the GCF by facilitating access to climate finance for its country by supporting it in the implementation of environmentally conscious projects and programmes in the agriculture, energy efficiency, health, scientific research, and water resources management sectors. In particular, the applicant seeks to improve its policy framework in emission reductions and energy efficiency in order to facilitate the formulation and development of local-level policies and plans that are consistent with national strategies and guidelines. Furthermore, the applicant also seeks to enhance country ownership by ensuring that its projects and programmes are consistent with its national strategies and priorities.

2.3 Track record

7. The applicant mobilizes financial resources for its climate change mitigation and adaptation projects by leveraging its cooperation with international financial organizations and bilateral agencies. The applicant intends to continue cooperating with these partners in order to assist its country in achieving low-emission, climate-resilient development pathways by facilitating the development and improvement of policies, regulations, standards and technologies that improve the quality of the environment.

8. Climate resilience is incorporated in the projects that the applicant undertakes in all the sectors in which it operates, including biodiversity, manufacturing, forestry, energy, transport and water resources. To date, the applicant has a portfolio of projects amounting to about USD 1.8 billion in various sectors. The applicant's track record in financing sustainable development and climate change related projects in the energy, water, transport and health sectors is evidenced by the following projects, which fall within the GCF "small" size category:

- (a) USD 49 million (grant) for the "Nature conservation and flood control in the Yangtze River Basin" project in China;
- (b) USD 49 million (grant) for the "Promoting energy efficient room air conditioners" project in collaboration with the GEF in China; and

- (c) USD 50 million (grant) for the “HCFC phase-out management plan in extruded polystyrene foam sector in China” project in China.

III. Stage II accreditation review assessment

9. The applicant is eligible for, and applied under, the fast-track accreditation process as a GEF project agency. Its application has been assessed against the standards of the GCF by the Accreditation Panel (AP) during Stage II (Step 1) against the standards of the GCF in accordance with the requirements and gaps identified in decisions B.08/03, B.10/06, B.12/30 and B.14/09.
10. 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

11. As per paragraph 9 above, the basic fiduciary standards concerning key administrative and financial capacities are considered to have been met by way of fast-track accreditation.

3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

12. As per paragraph 9 above, the basic fiduciary standards concerning transparency and accountability, with the exception of item 4.2.5, anti-money laundering (AML) and countering the financing of terrorism (CFT) policies, have been met by way of fast-track accreditation.

13. Regarding item 4.2.5, the applicant has a comprehensive AML/CFT policy. In order to comply with the policy, the applicant cooperates with financial institutions and government supervision departments which are in charge of AML/CFT to prevent money-laundering and terrorist financing. The applicant also conducts appropriate ‘know-your-customer’ due diligence on all clients with whom it has business relationships to ensure that all of the disbursements are in line with the business contracts or project agreements, or to ensure that the transactions being conducted are consistent with the applicant’s knowledge of the customers, their business and risk profile. Furthermore, the applicant contacts and cooperates with its deposit banks to analyse the associated risks and assure transaction security when there is a suspicion of money-laundering or terrorist financing, or doubt about the veracity or adequacy of previously obtained customer identification data. Additionally, the applicant provides AML/CFT training to its employees as necessary.

14. The applicant has well-established mechanisms to trace and monitor electronic transfers of funds. The applicant traces and monitors electronic transfers of funds with the support of its deposit banks which are authorized to undertake the electronic funds transfer. In practice, the applicant requests the banks to provide a bank statement of account at the end of every month, in which all the inflows and outflows of the relative month (including the electronic transfer of funds) are recorded. With the bank statement, the applicant traces and checks electronic transfers of funds, and prepares a bank reconciliation statement to ensure that funds are transferred to the bona fide recipients.

15. In relation to the GCF General Principles on Prohibited Practices to be observed by accredited entities, the applicant provided adequate information on how it would meet the

principles once accredited. The applicant provided its code of ethics, which contains information on many of the prohibited practices defined in the GCF General Principles on Prohibited Practices, including conflict of interest, AML/CFT and anti-fraud/corruption policies.

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

16. As per paragraph 9 above, the specialized fiduciary standard for project management is considered to have been met by way of fast-track accreditation.

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

17. 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**

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

3.2 Environmental and social safeguards

3.2.1 **Section 6.1: Policy**

19. The applicant has provided its environmental and social safeguard framework (ESSF) which constitutes its environmental and social (E&S) policy. The ESSF includes a comprehensive statement of the E&S objectives and principles guiding the applicant's institution. The applicant's ESSF states the E&S standards which the institution adheres to, including laws related to national obligations under international law.

20. In April 2015, the applicant adopted a set of environmental and social safeguards (ESS) standards and related policies, which are aligned with the GEF policy on agency minimum standards on environmental and social safeguards.⁴ The applicant confirmed that these policies and standards were reviewed by the GEF before the applicant was accredited as a GEF project agency in June 2015.

21. In December 2015, the applicant further developed, adopted and published its updated ESSF on its website, which reflects several additional ESS (resource efficiency and pollution prevention, community health, safety and security, involuntary resettlement, indigenous peoples, labour and working conditions), including related implementation procedures. The applicant indicated that it would apply its ESSF to all GCF projects that it will be implementing. The ESSF identifies the units within the applicant's institution responsible for ensuring conformance with the policy. The ESSF is communicated to all the applicant's staff as well as to the general public. The ESSF substantively incorporates the GCF interim ESS.

3.2.2 **Section 6.2: Identification of risks and impacts**

22. The applicant's ESSF describes the E&S risks and impacts identification and assessment procedure which includes the E&S risk categorization framework and the related responsibilities for implementing the procedure. The ESS focal point in the applicant's institution systematically identifies and documents potential E&S risks and impacts of proposed projects in the E&S impact screening form. The applicant provided several examples of projects

⁴ The policy is available at <<http://www.thegef.org/council-meeting-documents/gef-policy-agency-minimum-standards-environmental-and-social-safeguards>>.

illustrating how the E&S risks and impacts are identified and assessed. The applicant indicated that this process would be applied to all GCF-financed activities.

3.2.3 **Section 6.3: Management programme**

23. The applicant's ESSF describes the institutional process for managing mitigation measures and actions stemming from E&S risk identification. The applicant has provided several examples of projects illustrating the implementation of its E&S management system. According to the ESSF, the executing agency is responsible for the preparation of appropriate E&S impact assessment (ESIA) documents to assess and manage E&S risks and impacts identified in the screening process. An E&S management plan (ESMP) is an essential element of the ESIA report, which includes the proposed mitigation measures, E&S monitoring and reporting requirements, related institutional or organizational arrangements, capacity development and training measures, implementation schedule, cost estimates, and performance indicators. Specific guidelines on ESMP preparation are included in the applicant's ESSF standard on ESIA. The applicant's ESS focal point, with the assistance of external experts if needed, evaluates the quality of the ESIA documents and its recommendations are submitted to its director general or the steering committee for approval.

3.2.4 **Section 6.4: Organizational capacity and competency**

24. The applicant has provided its organizational chart which indicates the reporting lines and authority to implement its ESS. The applicant has also provided a list of key in-house persons and their responsibility, as well as information on the area of competency of each person, including brief biographical data and similar data for the external consultants used by the applicant. The applicant has provided ESS-related sample work performed by its in-house and outsourced personnel. The applicant maintains a pool of external specialists at universities and research institutions in China to be called upon to perform specialized functions in the implementation of its ESS. In order to improve its own staff's capacities, the applicant has conducted a series of trainings on ESS for its staff.

3.2.5 **Section 6.5: Monitoring and review**

25. The applicant has provided a description of its monitoring and review programme as well as the metrics/indicators generated through monitoring and review during the past year. Both the applicant and its executing entities are responsible for ensuring that the actions specified in the ESMP are carried out and for reporting regularly on the project's compliance with those actions. The mid-term evaluation of a project assesses whether the E&S impacts are being vigilantly managed and monitored, and whether the various requirements of the ESMP are being complied with. Corrective measures are proposed as relevant. At the end of the project, the final evaluation includes a similar exercise. It will also assess long-term E&S impacts, including lessons learned, which are shared with the applicant's senior management as the basis for the continuous improvement of its ESS. The applicant has provided several sample monitoring and evaluation reports of its projects in line with its monitoring and review programme. The E&S monitoring and evaluation functions of the applicant are consistent with the GCF interim ESS.

3.2.6 **Section 6.6: External communications**

26. The applicant has provided its policy on external communications which describes the requirements for public consultation and information disclosure. The policy indicates that for all projects implemented by the applicant, the ESIA and ESMP documents are to be submitted by the applicant's executing entities for public consultation and disclosure prior to project appraisal. However, the policy states that the duration of disclosure and consultations should be at least 10 days, and that both the applicant and the executing agency shall ensure that the disclosed information is in open status during the entire period of soliciting public opinions. Owing to its mandates and responsibilities, the applicant has not had any projects directly financed by itself until now. The applicant has indicated that it would be willing to apply the GCF information disclosure policy, which requires that the ESS documents for Category B/I-2 projects have to be publicly disclosed for a minimum of 30 days prior to their consideration for approval. The applicant has also provided information on the grievance mechanism to be put in place by its executing entities. However, the applicant has indicated that it has not received any E&S-related questions or complaints thus far from the public.

3.3 Gender

27. The applicant has provided its gender mainstreaming standards as well as information on its gender competency (e.g. demonstrated by the curriculum vitae and experience of the applicant's staff to address gender mainstreaming), which are in line with the requirements of the GCF gender policy. The applicant has provided sample projects which provide details on climate change projects with specific reference to women and men who have benefited. The applicant has also provided evidence to show that it has non-discriminatory practices in terms of men and women beneficiaries in its projects.

IV. Conclusions and recommendation

4.1 Conclusions

28. Following its assessment and noting that the applicant has applied under the fast-track accreditation process, the AP concludes the following in relation to the application:

- (a) The applicant meets the requirements of the GCF basic fiduciary standards and specialized fiduciary standard for project management;
- (b) The applicant meets the requirements of the interim ESS of the GCF in relation to the medium E&S risk (Category B/I-2); and
- (c) The applicant has demonstrated that it has competencies, policies and procedures in order to implement its gender policy, which is found to be consistent with the gender policy of the GCF, and has demonstrated that it has experience with gender considerations in the context of climate change.

4.2 Recommendation on accreditation

29. The AP recommends, for consideration by the Board, applicant APL043 for accreditation as follows:

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- (a) **Accreditation type:**
- (i) **Maximum size of an individual project or activity within a programme:** small (including micro⁵);
 - (ii) **Fiduciary functions:**
 - 1. Basic fiduciary standards; and
 - 2. Specialized fiduciary standard for project management; and
 - (iii) **Maximum environmental and social risk category:** medium risk (Category B/I-2) (including lower risk (Category C/I-3⁶); and

(b) **Conditions:** none.

30. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 29 above, and agrees to the recommendation.

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.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”.