

## Annex III: Accreditation assessment of Applicant 056 (APL056)

### I. Introduction

1. Applicant 056 (APL056), the China Clean Development Mechanism Fund Management Center (China CDM Fund Management Center), is an entity that is mandated to build capacity in coping with and combating climate change and promoting sustainable economy growth at the national level in China. The China CDM Fund Management Center has funded projects with a focus on renewable energy and clean energy, energy efficiency, green transportation, forestry, new energy-efficient materials, and energy generation and access.
2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 17 January 2015. The Stage I institutional assessment and completeness check was completed on 23 June 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. The applicant received a national designated authority nomination for its accreditation application from China;
  - (b) **Track:** normal track;
  - (c) **Maximum size of an individual project or activity within a programme:** medium;<sup>1</sup>
  - (d) **Fiduciary functions:**<sup>2</sup>
    - (i) Basic fiduciary standards; and
    - (ii) Specialized fiduciary standard for project management; and
  - (e) **Maximum environmental and social risk category:** medium risk (Category B/Intermediation 2 (I-2)).<sup>3</sup>

### 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 applicant was established as an affiliate of the Ministry of Finance of China in 2006 and registered under the National Register of Administration of

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<sup>1</sup> As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “medium” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme”.

<sup>2</sup> Decision B.07/02.

<sup>3</sup> As per annex I to decision B.07/02 (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”.

Public Institutions. The applicant commenced its business as an operating entity of the China CDM Fund from 2010.

## 2.2 Institutional presence and relevant networks

5. The applicant, as an affiliate of the Ministry of Finance, is collectively governed and regulated by seven government bodies of China. The applicant is mandated to build capacity in the country to cope with and combat climate change, and promote a sustainable economic growth model. The applicant plays a key role in promoting the integration of government and capital markets, acting as a platform for soliciting new investment, business cooperation and sharing climate change information. It also aims to leverage public funds and private sector investment to fulfil China's significant investment needs in climate relevant projects and programmes. For example, the applicant has a national network working with finance bureaux in over 25 provinces in China to promote public-private partnerships to mobilize and manage resources in climate change mitigation and adaptation projects.

6. In addition, the applicant possesses strong connections with international organizations, foreign government institutions, financial organizations, and advisory and research institutes to promote international cooperation in climate change.

7. In order to advance the objectives of the GCF, the applicant intends to:

- (a) Conduct capacity-building activities to mainstream the green and low-carbon development concept and good practices in the market;
- (b) Mobilize financial institutions and enterprises to engage in low-carbon development;
- (c) Explore market-oriented mechanisms to enhance cooperation with financial institutions and to develop comprehensive investment instruments;
- (d) Support mitigation projects with significant greenhouse (GHG) emission reductions and facilitate the development and deployment of climate-friendly technologies; and
- (e) Conduct demonstration projects on adaptation to climate change and to guide and promote scaled-up adaptation actions in regions with different economic conditions.

## 2.3 Track record

8. The applicant has supported national efforts in the field of climate change mitigation and adaptation. In addition, it actively participated in international cooperation to further improve its capacity-building and to share its successful practices with other developing countries.

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

- (a) USD 65.88 million (loans) for Jiangxi Huadian Jiujiang Distributed Energy Station Project;
- (b) USD 33.82 million (loans) for the project Renovation of Carbon Dioxide Based Degradable Plastics Production;
- (c) USD 7.83 million (equity) for Shanghai Environment and Energy Exchange Cooperation Ltd.; and
- (d) USD 135.88 million (guarantees) for China Utility and Energy Efficiency Finance Programme.

### 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 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 a suitable governance structure that enables it to effectively carry out its mandate. The applicant's governing board, which is the applicant's supreme body, comprises representatives of seven public institutions, including the Ministry of Finance of China. The applicant's board exercises its oversight role through several committees, including an audit committee. The committee has the requisite expertise and independence to carry out its designated role.

13. The applicant's financial statements are prepared in accordance with the China Accounting Standards and Principles for Enterprises which are consistent with International Financial Reporting Standards. The applicant has a financial information system which generates a broad range of financial reports required for effective financial management and decision-making. It also has a well-documented payment and disbursement system with appropriate policies and procedures for segregation of duties and delegation of authority.

14. The applicant has an internal audit unit with a skeleton staff of only two auditors. Almost all internal audit work is outsourced to external firms. However, the applicant has put in place an internal audit improvement plan which is scheduled to be completed by March 2018. Among other measures being taken, the plan envisages the recruitment of additional experienced auditors in order to enhance the internal audit unit's capacity to carry out the internal audit work, rather than outsourcing it to external firms. Internal audits are carried out in accordance with internationally recognized standards similar to those prescribed by the Institute of Internal Auditors.

15. The applicant's annual financial statements are audited by an independent external audit firm. However, as a public institution, the applicant is also subject to a mandatory annual audit by the National Audit Office in accordance with the Audit Law of China. The external audits are carried out in accordance with domestic audit regulations which are generally consistent with international standards.

16. The applicant has a well-documented internal control system to ensure that it operates within the confines of relevant laws and regulations, and that it achieves its operational and financial goals in an efficient and effective manner. Adequate risk-assessment processes are in place to proactively identify and address risks in each of the financial management and operational areas. The applicant has a procurement policy and guidelines that are consistent with recognized international practice. It also has an accessible and transparent procurement dispute resolution mechanism.

17. Although the applicant meets all other GCF requirements relating to administrative and financial capacities, it does not have an adequately staffed internal audit function and it has not provided evidence to show that it carries out assessments and oversight of the procurement procedures of beneficiary institutions, executing entities or project sponsors. The applicant is taking appropriate steps to address these shortfalls in meeting the GCF requirement for the basic fiduciary standards on key administrative and financial capacities.

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

18. The applicant has a code of conduct that defines ethical standards to be upheld by employees and all parties with a functional and/or contractual relationship with the organization. An ethics committee appointed by its governing board is responsible for oversight of the ethics function.

19. The applicant has a comprehensive financial management policy which is complemented by:

- (a) A financial disclosure policy that establishes the mechanisms for disclosure of conflicts of interest;
- (b) A policy on zero tolerance of fraud, financial mismanagement and other forms of misconduct;
- (c) A mechanism for protecting whistle-blowers who report violations; and
- (d) A separate function for investigating and handling allegations of fraud and other forms of misconduct.

20. The applicant has recently formulated and put into effect comprehensive anti-money laundering (AML) and countering the financing of terrorism (CFT) regulations based on the relevant national regulations and measures designed to control AML/CFT risks. The AML/CFT regulations are complemented by an equally comprehensive “know-your-customer” due diligence mechanism that includes, among other things, enquiries into the credibility of project owners/sponsors and their affiliates, verification of capital sources and scrutiny of project fund flows. The applicant also has a mechanism for monitoring electronic transfer of funds which is implemented in collaboration with commercial banks to ensure that funds are received from bona fide sources and remitted to the intended beneficiaries.

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

21. The applicant has a sound track record of capability and experience in project identification, preparation and appraisal. Project cycle management is guided by detailed project preparation, appraisal and risk assessment policies and procedures. The examples of project appraisal documents provided demonstrate the applicant’s effective use of the policies and procedures.

22. The applicant has a policy that guides its monitoring and evaluation function, the roles and responsibilities of which are clearly defined. The policy and structure relating to monitoring and evaluation provide for a segregation of the monitoring function from the project origination and supervision functions. Recent sample monitoring and evaluation reports were provided along with evidence showing that monitoring and evaluation reports are published in accordance with the applicant’s disclosure policy. The applicant also has a project-at-risk system for the early identification of project problems that may interfere with the achievement of project objectives if not addressed in a timely manner.

23. The applicant’s project closure policy and procedures include provisions for independent evaluation and reporting on results achieved, lessons learned and recommendations for improvement in the design of future projects. As required by the evaluation disclosure policy, evaluation reports and results are publicly disclosed and disseminated widely to parties directly or indirectly involved in the projects financed by the applicant.

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

24. The applicant did not apply for accreditation against this standard at this time.

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

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

## 3.2 Environmental and social safeguards

### 3.2.1 **Section 6.1: Policy**

26. The applicant's Handbook of Environmental and Social Risk Management (ESRM Handbook), which was endorsed by the applicant's management in June 2014, constitutes its environmental and social safeguards (ESS) policy. The ESRM Handbook was developed to align with the good practices of international financial institutions such as the International Finance Corporation (IFC), the World Bank and the Asian Development Bank. The applicant's ESRM Handbook requires its executing entities in implementing projects financed by the applicant to address cumulative impacts, associated facility impacts, analysis of alternatives, baseline data standards and mitigation hierarchy.

27. The ESRM Handbook requires the ESS assessment process to follow, where applicable, the IFC Performance Standards on Environmental and Social Sustainability (the IFC Performance Standards) and the World Bank Group Environmental, Health and Safety Guidelines. In cases where domestic law and the IFC Performance Standards differ, the higher standard is chosen, otherwise, justified deviation is required. The ESRM Handbook incorporates all applicable domestic ESS laws and regulations that the applicant's institution adheres to, including those to be followed by the host country according to international law. The ESRM Handbook has been endorsed by the applicant's Executive Committee and distributed to all the parties involved (e.g. its project investment department, its risk and performance management department, and its policy research department).

28. The applicant provided evidence indicating that training specific to the requirements of the ESRM Handbook (including applicable IFC Performance Standards) and its application has been provided to key staff of the relevant departments.

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

29. The ESRM Handbook describes the applicant's institutional process to guide its staff in identifying the environmental and social (E&S) risks and impacts of projects at the project preparation and appraisal stage, as well as during the project implementation stage. The ESRM Handbook contains a list of types of projects that may be considered under each of the E&S risk category. To ensure that the E&S-related performance of a new potential activity is consistent with the applicant's standards and requirements, the applicant has adopted a scoring system to analyse the ability of the executing entity to manage E&S risks in all aspects of the IFC Performance Standards at the project appraisal stage. The level of risk of new potential projects is determined by the highest level of significance and of identified risks across all potential risk areas in performance standards 1 to 8.

30. In addition to project E&S risk categorization, the scoring system also defines the key areas for project monitoring and management during and following project implementation. The applicant provided details of a sample of projects that include analysis of E&S risk category attributed to the projects.

### 3.2.3 Section 6.3: Management programme

31. The applicant's ESRM Handbook documents its institutional process for managing mitigation measures and actions stemming from the E&S risk identification process, distinguishing between different categories of risk. If a project is classified as Category A or Category B, the applicant encourages the project owner to develop or adopt an environmental and social management system for the project and to prepare an environmental and social management plan.

32. The applicant provided a sample of environmental and social management plans for three projects as examples of its capabilities in implementing, supervising and assessing the mitigation measures for E&S risks.

### 3.2.4 Section 6.4: Organizational capacity and competency

33. The applicant provided its organizational chart, including a detailed write-up describing the organizational structure related to E&S management including the competency of the people responsible for the overall commitment and management of E&S objectives. The ESRM Handbook states that the coordinator for E&S risk management, who is in the risk and performance department, makes general arrangements of the risk identification and review, and organizes and coordinates the review panel. The applicant's Director General of the risk management department is responsible for the overall supervision of the process of risk identification and review, checking and approving the review report submitted by the review panel, and reporting to the applicant's Executive Committee. The Executive Committee makes decisions throughout the project approval cycle relating to each project and its fit with the applicant's mandate, policies and strategies, and sets conditions to its approval, as necessary.

### 3.2.5 Section 6.5: Monitoring and review

34. The applicant's monitoring and review procedures are described in the ESRM Handbook. Monitoring and review is conducted once a year during the implementation of a project. For completed projects, the monitoring and review work is completed within a year after the contract ends. The applicant's department of internal review and control reports the review results in a timely manner and uses the results as the reference for decision-making and the assessment of project implementation. The applicant provided a sample of its monitoring and review reports which also addressed the E&S aspects.

### 3.2.6 Section 6.6: External communications

35. The applicant's procedures for external communication is described in the ESRM Handbook. The applicant's E&S coordinator is responsible for its external communication. The applicant's website has an email address for the project-related communities and the public at large to express their concerns and provide comments and advice via email. The applicant checks the public email box periodically and, in a timely manner, transfers messages collected to the risk and performance department for review. The designated E&S coordinator in the risk and performance department is required to respond within a week. Significant messages will be reported to the applicant's Executive Committee.

36. The applicant provided its register which shows that it received no external enquiries or complaints during the three years prior to submitting its application.

37. The applicant's public consultation and disclosure policy and practice is not fully in line with the requirements of the GCF Information Disclosure policy, particularly in terms of the duration of the disclosure required for E&S information for Category B/1-2 projects. The applicant has therefore committed to apply the GCF Information Disclosure policy for projects financed using GCF resources.



38. The applicant provided a sample project which includes a grievance mechanism at the level of the applicant's own institution, as well as at the level of its executing entities.

### 3.3 Gender

39. The applicant provided its gender policy, which is in line with the GCF Gender policy. The applicant's commitment towards gender mainstreaming is also articulated in the applicant's ESRM Handbook, as one of its four overall core objectives, namely, to create opportunities for women and the disadvantaged to display their economic potential and to play key roles in stabilizing economic development and eradicating poverty.

40. The applicant provided a sample of three projects which demonstrate its capabilities in implementing, supervising and assessing the mitigation measures for E&S risks as well as gender aspects in projects. The applicant provided a selection of project documents as examples of its experience with gender and climate change. The project documents also show that the applicant's executing entities have non-discriminatory practices in terms of benefits and remuneration for both male and female employees.

## IV. Conclusions and recommendation

### 4.1 Conclusions

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

- (a) The applicant meets the specialized fiduciary standard for project management, but only partially meets the requirements of the GCF basic fiduciary standard because it does not have an adequately staffed internal audit function and has not provided evidence to show that it carries out assessments and oversight of the procurement procedures for the projects it finances;
- (b) The applicant partially meets the requirements of the interim ESS policy of the GCF in relation to the medium E&S risk (Category B/I-2). The applicant's policy and practice of disclosing E&S information for Category B/I-2 projects/programmes is not in line with that required by the GCF Information Disclosure policy; 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 GCF Gender policy, and has demonstrated that it has experience with gender considerations in the context of climate change.

### 4.2 Recommendation on accreditation

42. The AP recommends, for consideration by the Board, applicant APL056 for accreditation as follows:

- (a) **Accreditation type:**

- (i) **Maximum size of an individual project or activity within a programme:** medium (including micro<sup>4</sup> and small<sup>5</sup>);
  - (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/Intermediation 3 (I-3)<sup>6</sup>); and
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the conditions. The AP will thereafter assess whether the conditions have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes;
- (i) Conditions to be met prior to the first disbursement by the GCF for the first approved project/programme to be undertaken by the applicant:
    - 1. Provide documentary evidence of the establishment of an adequately staffed and fully functional internal audit unit; and
    - 2. Adopt a policy on the disclosure of E&S information consistent with the GCF Information Disclosure policy; and
  - (ii) Condition to be met on an annual basis for the three consecutive years starting from the date of the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
    - 1. Provide documentary evidence of oversight and assessment of the procurement procedures of executing entities in GCF-funded projects/programmes funded by the GCF.
43. The applicant has been informed of the recommendation for accreditation, including the accreditation type and conditions, as identified in paragraph 42 above, and agrees to the recommendation.

### 4.3 Remarks

44. The AP reviewed the applicant's internal audit improvement plan and concluded that if the plan is fully implemented, the applicant will meet the condition identified in paragraph 42 (b) (i) 1 above.

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<sup>4</sup> 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".

<sup>5</sup> 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".

<sup>6</sup> 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".