GLOBAL ENVIRONMENT FACILITY
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GEF/C.59/Inf.13
November 24, 2020

59th GEF Council Meeting
December 7 – 11, 2020
Virtual Meeting

Monitoring GEF Agency Compliance with GEF Policies: Agency Self-Assessments and the Case of FECO

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INTRODUCTION

1. The purpose of this Note is to inform the Council of an issue related to monitoring and reporting GEF Agency compliance with the GEF policies and the GEF Agency self-assessment process associated with (i) Agency Minimum Standards on Environmental and Social Safeguards (GEF ESS), Gender Equality and Stakeholder Engagement; and (ii) Minimum Fiduciary Standards (GMFS), specifically when a GEF Agency undergoes significant institutional changes or restructuring. One of the GEF Agencies, FECO, has informed the Secretariat in November 2019 that it has undergone institutional restructuring, prompting an initial assessment of the implications of this restructuring given that the process for regular Agency self-assessments of compliance with GEF policies is not scheduled to start until the final year of the GEF-7 Replenishment cycle (i.e. 2022).

BACKGROUND

2. The GEF Partnership relies critically on its GEF Agencies to implement GEF projects and programs. Council, Replenishment Participants and recipient countries count on the integrity, competence and legal status of the Agencies to safeguard the financial resources entrusted to them and deliver the Global Environment Benefits and results through projects and programs implemented by them.

3. There have been only two occasions in the history of the GEF Partnership when the cohort of GEF Agencies has been adjusted: first, when seven executing agencies (four Multilateral Development Banks and three UN Agencies)[1] were added to the original three implementing agencies[2] between 1999 and 2006; and on a second occasion between 2011-15 when Council approved a criteria-based expansion of the partnership on a pilot basis to bring in national, regional and non-governmental entities. Through this pilot accreditation exercise, eight additional Agencies were added to the partnership.[3]

4. Through original adoption of the GEF Instrument and subsequent amendments reflecting the results of expansion and accreditation processes, the current cohort of GEF Agencies have therefore been deemed to be competent and appropriate to deliver the GEF's mandate. They have also been deemed to have the minimum fiduciary, environmental and social safeguards to do so effectively and at an acceptable level of risk. Accordingly, all GEF Agencies have signed Memorandums of Understanding (MoUs) with the GEF and Financial Procedure Agreements (FPAs) with the GEF Trustee (World Bank) that confirm their roles and

[1] Asian Development Bank (ADB), African Development Bank (AfDB), European Bank of Reconstruction and Development (EBRD), and, Inter-American Development Bank (IDB); and, Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD) and United Nations Industrial Development Organization (UNIDO).

[2] IBRD, UNEP, UNDP

[3] Conservation International (CI), Development Bank of Latin America (CAF), Development Bank of Southern Africa (DBSA), Foreign Economic Cooperation Office (FECO, China), Fundo Brasileiro para a Biodiversidade (FUNBIO), International Union for Conservation of Nature (IUCN), West African Development Bank (BOAD), and World Wildlife Fund (WWF-US).

responsibilities as GEF Agencies and set the agreed rules of engagement with the GEF. These MoUs and FPAs are subject to updates and revision, as necessary, in case of significant institutional changes with respect to the GEF or the Agencies; and can be initiated by both parties.

5. ***Process for Monitoring Agency Compliance with GEF Policies:*** Based on the *Policy on Monitoring Agency Compliance with GEF Policies*,[4] approved by the GEF Council in 2016, the GEF Partnership now relies on a process of self-assessments by the Agencies, once per replenishment, to confirm that the Agencies maintain the competence and minimum standards required by the GEF Council. These self- assessments are undertaken by the Agencies and reviewed by an independent third-party expert(s) independent of the GEF Secretariat, providing additional comfort to the Council. As a result of this process, if an Agency were to be found to be non-compliant or partially compliant with a policy standard or set of standards, it would prepare a time-bound action plan to remedy identified deficiencies and submit it to the Council for approval. Unless the Council decides otherwise, the Agency may continue to seek GEF financing while it implements the action plan, provided that its funding proposals would not require the application of policy standards with which it has yet to achieve compliance as per the Council's decision.

ISSUES RAISED BY THE FECO RESTRUCTURING

6. Recently FECO, one of the GEF Agencies accredited during the pilot expansion of the GEF Partnership , informed the Secretariat that it had undergone restructuring after merging with several other national institutions and changing its name from "Foreign Economic Cooperation Office" to "Foreign Environmental Cooperation Center" but maintaining the same acronym "FECO". These changes raised the question of whether the nature of the restructuring had impacted its ability to continue to deliver on the GEF mandate as a GEF Agency and adhere to GEF minimum standards.

7. ***Institutional Background:*** The Foreign Economic Cooperation Office (FECO) is an institution affiliated with the Ministry of Environmental Protection of the People's Republic of China (China). It was founded in 1989 and was mandated to coordinate and manage the funds of projects in cooperation with international financial organizations and for implementation of multilateral environmental agreements (MEAs) and bilateral assistances, as well as other foreign cooperation activities in the field of environmental protection.

8. FECO was accredited as a GEF partner agency on April 29, 2015. It signed a Memorandum of Understanding (MOU) with the GEF Secretariat on July 23, 2015 and a Financial Procedures Agreement (FPA) with the GEF Trustee on August 26, 2015, as a GEF partner agency, committing FECO to all GEF policies and procedures. Since the signing of the MOU and FPA, FECO has submitted two project proposals to the GEF Secretariat.

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[4] ME/PL/02. October 27, 2016. It also features in the updated Minimum Fiduciary Standards for GEF Partner Agencies approved by Council in December 2019. (GA/PL/02. December 19, 2019)

9. ***Implied due diligence role for the Secretariat***: When FECO notified the GEF Secretariat in late 2019 that it had undergone a restructuring, it also confirmed in writing that it continued to adhere to all GEF minimum standards and policies. Consistent with the process described in the *Policy on Monitoring Agency Compliance with GEF Policies*[5], the Secretariat initiated an assessment in January 2020 to understand the details surrounding FECO's restructuring and engaged independent experts familiar with the GEF accreditation process and FECO, to review the implications of the restructuring and provide an independent opinion on FECO's status as a GEF Agency. FECO collaborated effectively with the Secretariat during this assessment process, providing all the information and documentation requested by the experts promptly and comprehensively. Upon extensive review of FECO's responses to their questions and requests for information, the experts finalized their assessment in October 2020. Their conclusion was that the restructuring did not impact the ability of the restructured FECO to continue to adhere to GEF policies and minimum standards. The review did, however, identify a number of implementation level improvements that FECO would need to make in accordance with certain minimum standards and with the MoU signed between the GEF Secretariat and FECO. It also highlighted one particular issue unrelated to the restructuring; i.e. the ability of FECO to implement GEF Environmental and Social Safeguards (ESS) policies and guidelines related to labour and working conditions, in light of the domestic Chinese legal and regulatory environment in this particular area. The review indicated that while there is policy alignment in this area, as recognized by the December 2019 Council Paper GEF/C.57/05 "*Report of the Assessment of Agencies' Compliance with Minimum Standards in the GEF Policies on: Environmental and Social Safeguards, Gender Equality and Stakeholder Engagement*[6]", there could be challenges in implementation, and it therefore, recommended further assessment on this issue.

WAY FORWARD

10. The Secretariat has shared with FECO the Experts' conclusions and confirmation that FECO will be able to continue to function as a GEF Agency, while a Specialized Analysis of FECO's capability to implement the GEF ESS policy with respect to labor and working conditions is undertaken as part of the upcoming third-party review of Agency self- assessments of compliance with GEF policies, in line with the *Policy on Monitoring Agency Compliance with Policies*[7]. FECO was also informed of the Experts' recommendations for implementation level improvements that it needs to make with regards to certain standards as well as its MoU with the GEF.

11. In addition, as with all GEF Agencies, the MoU Between FECO and the GEF Secretariat and the FPA between FECO and the World Bank as Trustee will need to be amended to reflect any changes in FECO's legal name, contacts or other details. The Trustee will need to be satisfied that FECO remains substantially unchanged as a GEF Agency under the GEF's

[5] https://www.thegef.org/sites/default/files/documents/Monitoring_Agency_Compliance_Policy_0.pdf
[6] https://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF_C.57_05_Report%20on%20Assessment%20of%20Agencies%20Compliance.pdf
[7] https://www.thegef.org/sites/default/files/documents/Monitoring_Agency_Compliance_Policy_0.pdf

accreditation and self-assessment framework. The Secretariat will facilitate any such updates to the MoU and the FPA in due course and inform the Council accordingly.