

Implementing Rules of Overall Risk Management of China Clean CDM Fund

**China Clean Development Mechanism The Management
Center**

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Chapter 1 General Provisions

Article 1 To meet the requirements of overall risk management of China Clean Development Mechanism Fund (hereinafter referred to as “CDM Fund”), determine risk management responsibility system, establish a sound risk management mechanism system, improve the overall risk management of China Clean Development Mechanism Fund Management Center (hereinafter referred to as “the Management Center”), strengthen standardized construction, unify regulated operation and effectively guard against and manage all sorts of risks to ensure the sustainable, stable and sound development of all businesses and economic activities, the Management Center hereby makes this regulation based on the *Regulations on China Clean Development Mechanism Fund Management Center*, taking the actual situation of the Management Center into consideration.

Article 2 The term risk mentioned in these rules refers to the effects of uncertainties on development plans and overall goals in the future development of the Management Center.

Article 3 The term overall risk management mentioned in these rules refers to the requirements of overall risk management. Based on the development plans and overall goals, links in the operational management and basic procedures in the conduction of risk management, a risk management atmosphere should be fostered, a sound system of overall risk management should be established, including organizational system, strategies, risk prevention and control measures, risk management information system and internal control system, thus providing reasonable processes and measures for the overall targets of risk management.

Article 4 These rules are applied to routine risk management of all departments in the Management Center.

Chapter 2 Goals and Principles of Risk Management

Article 5 General goals of risk management:

1. Ensure that risk control matches the strategic goal of the Management Center and risks are controllable to optimize risk management and promote the sustainable development of the Management Center;
2. Ensure that interior information of the Management Center can be exchanged smoothly so that every department can communicate completely and timely, with full trust on each other;
3. Ensure businesses compliance, the internal rules and regulations and major measures can

be successful implemented;

4. Ensure the security and integrity of our asset, enhance management effectiveness, improve the efficiency and effectiveness of management activities, and reduce the uncertainties in achieving our management goals;

5. Ensure a crisis control plan for all sorts of major risks to ensure timely and effective overall risk prevention so that the operational management of the Management Center will not suffer heavy loss caused by any market risk or human error.

Article 6 Risk management of the Management Center should be guided by the following basic rules:

1. The principle of comprehensiveness.

Risk management covers all departments and posts of the Management Center, may involve every procedure of each business activity, so we should realize the unity of pre-control, in-process control and post-control to avoid any blankness, loopholes, and gaps in risk management;

2. The principle of effectiveness.

Under the guidance of the overall risk management, we will establish a risk control system which can fully reflect the risk profile of the Management Center to make sure that this system can effectively guide business activities, guard against and reduce risks. We should be realistic and keep the management of major risks and the internal control of major procedures in focus, and grasp key aspects, so we can carry out risk management in a targeted way and in compliance with the basic procedure.

3. The principle of prevention and control.

We should move forward the pass of risk control, do preliminary work of risk management well, strengthen risk prevention and coordinated management, and make real-time identification and handling when risk events occur.

4. The principle of independence

The department which is responsible for risk management, risk supervision, and risk inspection should be independent from the other departments of the Management Center so as to ensure the functional independence of risk identification, evaluation, monitoring, and control.

5. The principle of cost-benefit.

Risk management takes into full consideration of the cost-benefit relationship so enough risk

input should be maintained to minimize risk loss. At the same time, we should try to reduce redundant steps to improve efficiency while ensuring that the risks are under control.

Article 7 Overall risk management covers every process of operational management and business activities, including but not limited to the following links:

1. Decision-making process: decision-making process includes any decision event made by the Executive Meeting and staff from various departments during the process of daily management and the handling of emergencies etc;
2. Project management process: project management process includes project application, project inspection and approval, due diligence, credit rating, risk evaluation, project approval, contract signing, follow-up supervision, and performance appraisal etc.;
3. Purchase and payment process: purchase and payment process includes procurement application, handling procurement orders, examination and acceptance of goods, filling inspection report, recording payable accounts, and payment authorization etc.;
4. Fixed asset management process: fixed asset management process includes the purchase, disposal, maintenance, keeping and record of fixed assets etc;
5. Finance management process: finance management process includes the entry, appropriation, record, report, and cashier of monetary capital, as well as giving authorization to finance staff, budget management, management of bills and certificates, and receivable accounts etc.
6. Personnel management process: personnel management process includes recruitment, conclusion, termination or expiration of labor contract, training, salary calculation, calculating individual income tax and other sorts of tax withheld, pay records, salary payment, and attendance and appraisal etc.;
7. Information management process: information management process includes the examination and publication of text information on the website of CDM Fund. It also shall conduct pre-guidance and post tracking and control on any media reports in any forms on the Management Center like news interview.

Chapter 3 The Basic Procedures of Risk Management

Article 8 The Basic Process of Risk Management includes the following aspects:

- 1, Risk identification: gathering initial information of risk management, and identifying the sources of risks;
2. Risk evaluation: calculating and analyzing risks by quantitative and qualitative method;

3. Risk strategy: selecting methods of risk prevention, risk avoidance, risk diversification, risk transfer, risk hedging, and risk bearing etc. , and proposing solutions;
4. Risk monitoring and control: setting up a risk prior-warning line, and conducting sustained monitoring and control on potential risks.
5. Risk governance: proposing and implementing solutions for risk management, as well as conducting continuous tracking.

Article 9 The key point of risk management of CDM Fund is the *investment*, see *Management Measures of China CDM Fund* for detailed information.

Chapter 4 Organizational System and Division of Responsibilities

Article 10 The Management Center established an overall risk management organizational system, with the Executive Meeting being the supreme decision-making institution. Risk Performance Department is the executive department, and each department will have a risk management specialist.

Article 11 Responsibilities of the above three are as follows:

(I) The Executive Meeting should:

1. Be fully responsible for risk management of the Management Center;
2. Set the general goals of risk management, risk tolerance, approval risk management strategies and solutions for major risk management;
3. Fully understand and grasp all sorts of major risks that the Management Center encounters and their current situations, and make decisions to effectively control risks;
4. Examine and approve risk assessment reports on major decisions and appraisal reports of the inspection of risk management;
5. Examine and approve the scheme of the establishment of organization mechanism and its responsibilities;
6. Supervise the cultivation of risk management culture of the Management Center;
7. Be responsible for other major events concerning overall risk management.

(II) Director of Risk Performance Department should:

1. Be responsible for the implementation of overall risk management, effectively resolve, and reduce operational risks of the Management Center according to the daily risks of administrative departments and business sectors;

2. Examine risk management strategies and solutions of major risk management;
3. Examine risk assessment reports of major decisions;
4. Examine appraisal overall reports of supervision and review on risk management, and plans of the establishment of risk management organization and its responsibilities;
5. Guide, inspect and supervise risk management of all departments;
6. Carry out validity evaluation of overall risk management of the Management Center and propose improvement scheme;
7. Propose risk management strategies and solutions for cross-functional major risk management, and be responsible for the implementation of this scheme and daily monitoring of this risk;
8. Deal with other matters concerning overall risk management.

(III) Risk management specialists should:

1. Implement the basic procedure of risk management, set up risk management mechanism, risk management information system, and internal monitoring system;.
2. Propose risk management strategies and solutions for major risk management, and be responsible for the implementation of this scheme and daily monitoring of this risk;
3. Put into practice the daily work of risk management, locate risk points carefully, and conduct self-checking work;
4. Complete the goals of annual risk management;

Chapter 5 The Implementation of Risk Management

Article 12 Collection of risk information. Each department shall, in compliance with the division of duties, collect widely and continuously the internal and external initial information relevant to its risk and risk management, including relevant macro-economic situation, policies and regulations, market condition, technological innovation, resources of the Management Center, financial status, human resources allocation, management measures, the application of tools etc. Then, they should screen, extract, compare, classify, and combine the information to make risk assessment.

Article 13 Risk identification. We should collect all sorts of information, draw lessons from work experience, and locate risk points in a wide range according to business features and the actual situation of the Management Center. The Management Center is bearing various risks, such as market risk, credit risk, operational risks, liquidity risk, strategy risk, legal risk,

reputation risk, and policy risk etc..

1. Policy risk: The changes of political and economic environment of the country or district where the party involved locates including war, natural disasters, change of government, financial crisis, and policy changes etc., may bring about value-loss of fund assets;
2. Strategy risk: Major business decision failure or inappropriate decision implementation of the Management Center may bring about value-loss of our fund assets;
3. Market risk: The changes of market factors such as interest rate, exchange rate, share price, and commodity price etc. may bring about value-loss of our fund assets;
4. Loan recovery risk: The breach of contract or any negative changes of solvency of investees may bring about value-loss of our fund assets;
5. Project examination and approval risk: The capital flow which is against the basic principles of the Fund or insolvency projects caused by the imperfection, human error, or malpractice of the approval process.

Each department shall, in accordance with the tasks, business procedures, and actual conditions, elaborate various kinds of risks of the Management Center, make timely adjustment of these risks, and improve and supplement the whole project.

Article 14 Risk Assessment. Make risk assessment on the basis of the identified risk points and characteristics of operational management, and in accordance with the probability and influence of risks. Risk assessment results are divided into general risks and major risks.

Each department should assess initial information of risk management and business management following the three steps of risk identification, risk analysis, and risk evaluation, and carry out dynamic management of risk management information.

Each department should carry out risk evaluation, assess the probability of occurrence and influence of risks, and accurately identify internal and external risks related to controlling targets to decide risk tolerance accordingly.

Article 15 Risk management strategies. Risk management strategies will be formulated based on internal conditions and external environment, as well as the development plan and general goals. Each department should identify risk tolerance and validation standards of risk management, choose the general strategy of appropriating risk management tools such as risk bearing, risk avoidance, risk transfer, risk transformation, risk hedging, risk compensation, and risk control, and determine allocation principle of human and financial resources required by this risk management. The feasibility and effectiveness of current risk management strategies, institutions, and procedures should be revised and adjusted timely if they are being

seriously affected due to internal and external changes in the environment.

Risk management strategy should be drafted by business sector, and be determined with both the evaluation of director of Risk Performance Department and direct of the Executive Meeting. Risk management specialists of each department shall put risk management strategy into regulatory framework and process management, improve rules and regulations and procedures, and make examination and evaluation on their actual implementation and result.

Article 16 Resolution schemes of risk management.

Each department should formulate a resolution scheme in a detailed way with regard to major risks. A resolution scheme may include specific goals of risk resolution, organizational leadership that will be needed, management and business procedures involved, and specific targeted measures and risk management tools adopted before, during, and after the risk events. Each department should, according to the division of responsibilities, organize and implement resolution scheme of risk management in real earnest, ensuring that various measures put in place.

Chapter 6 Internal Control of Risk Management

Article 17 Internal control usually include the separation control of incompatible duties, the control of approval of authorization, accounting system control, property protection control, budget control, operation analysis control , and performance appraisal control etc.

(I) It is required by the separation control of incompatible duties to analyze and sort incompatible duties involved in business procedures in a comprehensive way, and implement separation control measures accordingly, forming a mechanism of independent duties and responsibilities.

(II) It is required by the control of approval of authorization to make clear limits of authority, approval procedures, and proper share of the responsibility according to principles of general authority and provisional authority prescribed in authorization management system.

(III) It is required by accounting system control to carry out the uniform national accounting standard system, reinforce the accounting basis, make clear processing procedures of accounting voucher, accounting books, and financial accounting report, ensuring the authenticity and integration of accounting materials.

It is supposed to set up accounting institutions in accordance with the law, and employ accountants. Whoever engages in accounting work must obtain a professional accountant

qualification certificate. The leading position of the accounting body shall be assumed by a person with the professional and technical title of accountant or above.

(IV) It is required by the control of property protection to establish a daily property management system and regular inspection system, adopt various measures such as property record, physical objects keeping, regular counting, account checking to ensure property security. There are strict limits on anyone who moves close to or deal with our property without being authorized.

(V) It is required by budget control to implement budget management system in a comprehensive way, make clear duties and responsibilities of each department in budget management, standardize procedures of the draft, review, issue, and implementation of budget, and strengthen budget restriction.

(VI) It is required by operation analysis control to establish an operation analysis system. Each department should conduct operation analysis regularly with all-round information like major business and finance etc., applying various methods such as factor analysis, contrastive analysis, and trend analysis etc. to find out problems, identify the causes of them timely, and make improvement.

(VII) It is required by performance appraisal control to establish and implement performance appraisal system, establish assessment index system in a scientific way, make regular appraisal and evaluation on staff performance and set these results as the basis of their salary, promotion, excellence selection, demotion, position-transfer, and dismissal, establish incentive and restraint mechanism of risk control, incorporate the implementation of internal control by those in charge into performance appraisal system so as to promote the effective implementation of internal control.

(VIII) It is required by the control of assets disposition projects to establish and implement the guide for the management of assets disposition projects, make clear management procedures of project initiation, due diligence, risk evaluation, decision-making, project team and management, negotiation and contract signing management, management of contract performing, disputes handling, and post-evaluation of projects, control the risk of investment and assets disposition to avoid erroneous decision, unnecessary loss, or extra costs.

(IX) To conduct effective control over various businesses and matters based on internal

control goals and risks strategies with conduction of control measures in a comprehensive way.

Article 18 Response to risk events.

(I) Emergency management mechanism should be established to reduce risk cost losses. In regard to these newly-presented major risks which lack corresponding management mechanism, director of Risk Performance Department should coordinate with relevant department, organize related personnel to study and formulate emergency response plan. The plan should be implemented after submitted to director of the Management Center for inspection and approval.

(II) When risk events occur, related personnel should report them to the manager in higher position immediately, and inform the Risk Performance Department. Then Risk Performance Department should organize personnel to evaluate their level and report to their director. In case of a major risk event, director of Risk Performance Department should report it timely to the Executive Meeting and the latter shall organize related personnel to take corresponding measures.

(III) Related departments should submit a summary report on the risk to reflect faithfully the cause, process, treatment measures and results, liability identification, and problems reflected by the case etc. , and provide adjustment or correction suggestions or comments to avoid similar incidents.

Chapter 7 Examination and Evaluation of Risk Management

Article 19 Risk examination and evaluation mechanism should be established. Examination and evaluation of risk management means to examine and evaluate the effectiveness and efficiency of risk management, examine the completion of work related to risk management, make evaluations on the examination results, and provide improvement suggestions.

Article 20 According to the work schedule of risk management, the Risk Performance Department should employ external professionals to examine and evaluate risk management work of each department. These external professionals should be authorized to make inspection or random check on related materials, including work plan of risk management, implement schedule, and emergency response plan.

Article 21 If there is any problem in risk evaluation, director of Risk Performance Department should decide whether to examine or not, if necessary, key internal control or

special internal control should be conducted.

Article 22 As regard to the flaws in internal control, relevant departments should analyze their characteristics and causes, provide adjustment or correction schedules, and submit reports to the Risk Performance Department.

Article 23 Risk Performance Department is responsible for formulating evaluation norms and standards of risk management and the following aspects should be considered:

1. The establishment of risk management system and risk management procedure as scheduled;
2. The systematic evaluation or prevention of major risks;
3. The fulfillment and implementation of institutions and procedures of risk management, according to the risk management strategies of the management center;
4. The clear definition and implementation of responsibilities of risk management;
5. The timeliness and effectiveness of reports on risks and early-warnings;
6. Major risks which exceeds pre-warning scope and conditions that may cause huge impact on the operation objectives of the Management Center.

Chapter 8 Accountability

Article 24 With regard to any actions by the employers which against the overall risk management institutions, relevant department should report to director of Risk Performance Department, and the latter should report to the Executive Meeting after examination. Upon the approval of director of the Executive Meeting, Risk Performance Department will implement punishment or accountability measures.

Article 25 Business risks due to policy mistakes, management failures, violation of laws and regulations, the accountability scope and responsibility tracking procedures will be implemented in accordance with relevant rules.

Chapter 9 Supplementary Articles

Article 26 These measures shall go into practice on the date of the approval of the Executive Meeting of the Management Center.

Annex: Risk Information Table

Type of risks	Name of risks	Risk descriptions	Risk level	Countermeasures
	Risk of national revenue management	Not timely filling in the relevant forms, implementing review procedure or giving receipts without verification, thus resulting in uncertainty of national revenue.	Serious	<ol style="list-style-type: none"> 1. Increase publicity and enhance awareness of risk prevention; 2. Strengthen the mechanism of internal supervision and restriction, and strictly implement relevant laws and procedures; 3. Incorporate national revenue management into risk management evaluation, and pursue related responsibilities.
Risks of financial management	Risk of reimbursement management	Invoices provided by reimbursement sector (individual) which are untrue or go beyond budget; relevant managers did not review or implement examination and approval procedures as required, thus resulting in uncertainty of accounting information, budget control, and fund security management.	Serious	<ol style="list-style-type: none"> 1. Strengthen inspection on internal control to ensure the separation of incompatible duties; 2. Implement budget rigorously, special review and approval should be made on those reimbursement which go beyond budget; 3. Implement the hierarchy system of signature for approval to ensure that all business expenses are approved by director of the Management Center. 4. Incorporate reimbursement management into the examination and evaluation of risk management, and pursue corresponding responsibilities.
	Risk of financial accounting management	Untrue invoices, accounting certificates which have been made without any approval or signature on their original	Serious	<ol style="list-style-type: none"> 1. Enhance training to improve risk identification ability; 2. Improve internal control, strengthen

	ent	copies, making any entry not abiding by relevant financial regulations, thus resulting in uncertainty of actual financial situations.		institution restrictions to standardize operational processes; 3. Enhance supervision and inspection, set up a risk-warning mechanism.
	Risk of cash management	Choosing any commercial banks or financial institutions to conduct capital businesses while having a stake in them, implementing cash management but not in strict accordance with standards or against regulations, thus resulting in uncertainty of fund security and interest yielding.	Serious	1.Improve rules and regulations of cash management and fulfill job responsibilities; 2.Strengthen incorrupt management, establish a mechanism of mutual restriction and monitoring; 3. Conduct job review at regular intervals to spot loopholes and reveal drawbacks.
	Risk of asset management	Not strictly implementing procurement procedures and leading to private procurement or rebates-collecting, not making registration or any entry as required, thus resulting in uncertainty of the value and safety of assets.	Serious	1.Improve asset management procedure, fortify the mechanism of mutual restriction; 2. Strengthen inspection and conduct overall check of assets. 3. Establish an acceptance system, make sure assets are accepted with signature, and preserved safely.
Risks of financial management	Risk of management of grants	Untrue application materials from project undertakers and unauthorized use of grants, relevant managers didn't make examination and approval of	Serious	1. Strengthen internal restriction and monitoring, strictly implement examination and approval procedure, establish a double-check mechanism of asset management;

		grants, appropriation of funds, financial review, and project acceptance in accordance with rules and regulations, thus resulting in uncertainty of fund security.		2. Incorporate the management of grants into the examination and evaluation of risk management; take strict measures against violations.
	Risk of the management of investments	Deficiency of or untrue application materials provided by project undertakers, relevant managers didn't make examination and approval of projects in strict accordance with regulations, didn't conduct effective following and monitoring on their implementation, thus resulting in uncertainty of project operation and capital security of the Fund.	Serious	<p>1. Strengthen internal monitoring and restriction, implement rigorously the system of "Two Duties for One Post" ;</p> <p>2. Make strict inspection on the appropriation and utilization of our capital, establish a mechanism of project operation monitoring, a regular report mechanism, and a casual inspection mechanism;</p> <p>3. Enhance professional training, improve the ability to prevent and guard against risks.</p>
	Risk of international funds projects	Not providing materials as prescribed procedure, research reports submitted by experts hasn't been reviewed as required and in a timely manner due to lack of professional competence of relevant reviewers, thus resulting in uncertainty of the quality of research reports and project payment schedule.	Serious	<p>1. Conduct audit, guidance, and monitoring on the whole process of procurement;</p> <p>2. Strengthen quality control, give payment only after being approved at different levels;</p> <p>3. Conduct regular review on the implementation of the examination and approval procedures of special payment, ensure the completeness of payment materials submitted, and pay for the relevant expense in a timely manner.</p>
Risk manage	Risk of procurem	Procurement requirements did not go in line with the needs of	Serious	1. Strictly perform institutions of procurement management, compile

<p>ment of procure ment</p>	<p>ent applicatio n managem ent</p>	<p>operation and development, procurement schemes were not made in accordance with examination and approval procedure, inappropriate procurement method, malpractices in the process of procurement, and supplier who can't meet procurement requirements, all above may result in uncertainties of the proper operation of procurement projects.</p>		<p>procurement application accurately and as required by relevant regulations;</p> <p>2. Strictly perform examination and approval procedure of procurement schemes, ensure the accuracy, rationality, and feasibility of these procurement schemes.</p>
	<p>Risk of bidding procurem ent managem ent</p>	<p>Untrue application materials provided by suppliers, bidding documents which did not go through examination and approval procedures, malpractices in the process of procurement, conducting the process of public bidding, bid opening, evaluation of tender, determination of qualified candidate without strictly following procurement management institutions, and is not open to others, which all will result in uncertainty of the normal operation, regulatory compliance, and fairness of bidding procurement.</p>	<p>Serious</p>	<p>1. Strictly implement the procedure of examination and approval of bid documents, selecting and investigation IFB teams;</p> <p>2. Incorporate bidding procurement management into the examination and evaluation of risk management, take strict measures against violations.</p>

Management of purchasing risk	Risk of non-bidding procurement management	Untrue information provided by suppliers, unqualified competence, an association relationship with any members of scoring team, scoring results were not used as the basis for the determination of qualified candidate, determining qualified candidate not in strict accordance with examination and approval procedures, which all will result in uncertainty of the operation and fairness of non-bidding procurement projects.	Serious	<ol style="list-style-type: none"> 1. Strictly perform institutions of non-bidding procurement management , ensure the openness and transparency of its process; 2. Rigorously select and investigate members of the scoring team, ensure they are equipped with relevant qualifications and without an association relationship with supplier; 3. Strictly perform the examination and approval procedure determined by suppliers, make sure that the candidate supplier is consistent with scoring results; 4. Incorporate non-bidding procurement management into the examination and evaluation of risk management, take strict measures against violations.
	Risk of the management of procurement acceptance check	Goods, materials or services provided by suppliers which did not meet requirements, not conducting acceptance check and procurement settlement in strict accordance with relevant regulations, and malpractices in the process of settling accounts, which all will result in uncertainty of the normal operation of acceptance check.	Serious	<ol style="list-style-type: none"> 1. Strictly accept goods and materials and services, and make sure their qualities can meet requirements; 2. Settle procurement accounts rigorously in accordance with institutions of financial management; 3. Make strict investigation on invoices of procurement process, and ensure the accuracy of settlement both in amount and time range.
	Risk of procurement	Untrue information provided by suppliers, not reviewing	Serious	1. Strictly perform procurement monitoring institutions, carefully inspect suppliers and

	ent monitorin g managem ent	procurement process or making examination and approval of checkup results as required by relevant institutions, malpractices in the review process, untrue results provided, which all will result in uncertainty of the implementation of procurement inspection.		procurement process, ensure the openness and transparency of procurement process; 2. Examine and approve inspection results strictly in accordance with rules and regulations, make sure the authenticity and effectiveness of these results.
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