‘ENHANCED (DIRECT) ACCESS’ THROUGH ‘(NATIONAL) FUNDING ENTITIES’ − ETYMOLOGY AND EXAMPLES

Information Note on the Green Climate Fund Business Model Framework

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Paragraph 47 of the GCF Governing Instrument (GI) stipulates: *The Board will consider additional modalities that further **enhance direct access**, including through **funding entities** with a view to enhancing country ownership of projects and programmes*.[2]

Unfortunately, the GI does not elaborate further either on the concept of ‘enhanced direct access’ nor on the notion of a ‘funding entity’. The aim of this note is to fill this semantic lacuna, and give a brief overview of a concrete example of the latter.

The Transitional Committee

While it is not always possible to ascertain who introduced a term, it stands to reason that, if possible, those who have introduced it should be given a privileged position in determining the intended meaning of the term. As concerns the GCF GI, the term ‘funding entity’ was introduced by Carol Mwape, the LDC member of the Transitional Committee,[3] and it was defined as follows:

- *‘**Funding Entities**’ means the national legal entities and multilateral organizations that have been accredited by the GCF Board as meeting its criteria for accessing funding in order to approve and fund eligible activities*.

This terminology was introduced to differentiate these funding entities from implementing entities:

- *‘**Implementing Entities**’ means the national legal entities and multilateral organizations that have been accredited by the GCF Board as meeting its criteria for accessing funding in order to implement eligible activities approved by the GCF*.[4]

− a definition which itself was borrowed from the relevant definition in the Rules of Procedure of the Adaptation Fund Board (Rule 2.j).[5]

The appearance of the term ‘funding entity’ in the draft GI language can actually be precisely dated: 17 October 2011, the penultimate day of the fourth and last TC meeting. Since then, the term and its cognate ‘enhanced direct access’ have steadily gained acceptance, not least in the literature. For example, Neil Bird, Cristina Colon, and Simon Billett − who incidentally was covering the relevant thematic area in the TC Technical Support Unit – provide the following explication:[6]

Enhanced access: here all three functions – oversight and management, implementation, and execution – are delegated by the global fund in question to the national level. The key distinction between enhanced access and direct access (above) is that funding decisions and management of funds take place at the national level. Under such a scenario a country allocation or clearing house mechanism would operate at the international level to guide the level of internationally sourced funding to different countries. Other functions would then be delegated to entities at the national level. However, even within an enhanced direct access arrangement at least some degree of oversight is maintained at the international level, as the fund manager is required to report on the fund's activities and ensure sound practice among accredited entities. [*Footnote 2: Funding entities are defined in a submission from the Least Developed Countries (LDCs) Group to the Transitional Committee as entities that are able to undertake fund management and oversight, implementation, and execution functions*.]

Ordinary Direct Access: The Adaptation Fund Model[7]

Over the past few years the term 'direct access' has become part of the core vocabulary of climate change finance. It entered the debate in the context of the ***Adaptation Fund*** (AF) negotiations, where it was used as a short form for 'access to funding without involvement of intermediary (international) implementing entities'. After the establishment of the Adaptation Fund with the option of 'direct access', the AF Board (AFB) operationalized the concept for the AF. The model chosen was to have ***National Implementing Entities*** (NIEs) – alongside the familiar ***Multilateral Implementing Entities*** (MIEs) – carrying out the ***fiduciary risk management*** on behalf of the AFB. In order to do this, NIEs have to satisfy specific fiduciary standards designed by the AFB in order to be accredited by the AF. At the moment, the AF has four accredited NIEs, all related to government agencies.

Under the AF direct access model, projects/programmes are proposed by ***executing entities*** to the designated NIE which can forward them for approval to the AFB, if they have country endorsement. The model therefore includes a ***degree of devolution of decisions to the national level***, namely the pre-selection of projects/programmes. However, the ultimate selection of what is to be funded remains outside the recipient country, at the AFB level.[8]

The Green Climate Fund Board

While neither of the two concepts has thus far been explicitly referred to in GCF board decisions, both of them have been used in communications by Board members. For one, on 28 June 2012, David Kaluba (LDC member) sent a submission to the Interim Secretariat (see Box 1) requesting *a dedicated (sub) workstream on 'enhanced direct access through national funding entities'* in the draft GCF workplan. This submission was appended to a subsequent LDC submission on Rules of Procedure, which also contained the above-mentioned definitions.

More recently, National Funding Entities were proposed as the central element of the devolved, decentralized architecture envisaged in the *Delhi Vision* Statement[9] disseminated to the Board by the Indian Board member at its third meeting (Berlin, 13–15 March 2012). At the same meeting, the GCF Board '*noted* convergence that the Fund should also: … (ii) Commence as a fund that operates through national, regional and international intermediaries and implementing entities.'[10] Unfortunately, the meaning of term 'intermediary' is again not defined, but its being contrasted with 'implementing entities' and the deliberations that led to the decision language in question suggest that it fits the above-mentioned definition of a funding entity. If so, then it might avoid confusion if one simply kept the 'funding entity' concept of the GI.

Box 1. Submission by David Kaluba (Zambia, LDC Member) to the interim secretariat on Enhanced Direct Access, sent 28 June 2012

The Least Developed Countries (LDC) have considered Enhanced Direct Access (EDA) as key to the effective delivery of resources to their countries and beneficiaries at large. Enhanced Direct Access as a key element in the design instrument offers hope that the GCF will provide a mechanism to strengthen the bottom up interaction between the GCF and the respective countries.

The LDCs, through their Transitional Committee members, have been instrumental in having Enhanced Direct Access (EDA), i.e. direct access by National Funding Entities (NFEs) included in the Operational Modalities of the GCF (Art 47, GCF Instrument). The LDC Group remains convinced that, to operate at the envisaged scale, EDA must be at the core of the medium to long-term business model of the GCF.

The devolution of decision making to NFEs involved in EDA is a natural and necessary evolution from the current model of direct access as used say in the Adaptation Fund (involving National Implementing Entities). As such, the two models will be similar. Nonetheless, EDA does have a number of important *sui generis* questions that will need to be addressed. Questions such as:

- What are the required characteristics for NFEs to receive funding from the GCF? (e.g. legal status, governance arrangements, ability to bear risk, fiduciary standards, safeguards, etc.)
- How would resources be allocated to NFEs?
- What types of finance would NFEs receive from the GCF? How would this impact on risk sharing arrangements?
- Would multiple NFEs be accredited within the same country? What would be the impact on coordination and programmatic approaches?
- What are the capacity building prerequisites for EDA?

We believe the only way to do justice to the task of considering EDA as mandated in the GCF Instrument (Art. 47) is through a dedicated (sub) workstream on 'enhanced direct access through national funding entities'. We therefore request that this be included in the draft work plan of the GCF Board.

Glossary of Access Modality Terms

This Glossary, based on a number of sources (see endnotes),[*] is put forward to help avoid terminological misunderstandings in discussing the GCF Business Model Framework. Note, however, that different terminology does not necessarily mean different objects. For example, the fact there is a terminological distinction between 'implementing entity' and 'funding entity' does not necessarily imply that the two functions could not be carried out by the same entities.

1. '***Eligible Activities***' *means projects, programmes and other types of activities eligible for financial support by the GCF*.[11]
2. '***Implementing Entities***' *means the national regional and international entities that have been accredited by the GCF Board as meeting its criteria for accessing funding in order to implement eligible activities approved by the GCF*.[12]

[*] The definitions are, essentially, those put forward by the LDC Group, modified in light of some recent GCFB decisions

3. ‘***Funding Entities***’ *means the national regional and international entities that have been accredited by the GCF Board as meeting its criteria for accessing funding in order to approve and fund eligible activities*.[*, 13]
4. ‘***Executing Entities***’ *means organizations that execute eligible activities supported by the GCF under the oversight of accredited Implementing or Funding Entities*.[14]
5. ‘***Ordinary Access***’ *means access through accredited implementing entities*.
    a. ‘***Ordinary International Access***’ *means access through accredited international implementing entities.*
    b. ‘***Ordinary Direct Access***’ *means access through national or regional implementing entities accredited for direct access*.
6. ‘***Enhanced Access***’ *means access through accredited funding entities*
    a. ‘***Enhanced International Access***’ *means access through accredited international funding entities*.
    b. ‘***Enhanced Direct Access***’ *means access through national or regional funding entities accredited for direct access*.
7. ‘***Designated National Authority***’ *means an authority designated by a national government to recommend to the Board funding proposals in the context of national climate strategies and plans, including through consultation processes*.

National Funding Entities: Examples

The idea of a decentralized, devolved climate finance architecture with enhanced direct access actually predates the design process of the GCF by some time. It is, for example, already present in a report on reforming the UNFCCC Financial Mechanism published in April 2009.[15] In October 2010, Luis Gomez-Echeverri published an ecbi Policy Brief on ***National Funding Entities: Their role in the transition to a new paradigm of global cooperation on climate change***.[16] According to this Brief:

> ‘National Funding Entities have sprung up in twelve countries, with more currently in the pipeline [see Box 2], to push forward climate change action, capture and manage funding from international and national sources, and guarantee that all actions are mainstreamed into existing development strategies. These new institutions have been built in different forms with a diverse range of objectives, funding and governance strategies; but all provide experience and lessons for countries seeking to establish their own. This Policy Report provides background information on these NFEs to inform the negotiations. It is part of a series of ecbi and OIES publications on the Reformed Finance Mechanism, most specifically on the case for devolution of funding decisions to the national level.’

[*] Note, in this context, that Decision B.01-13/06 uses ‘intermediary’ in a manner which suggests that it could be used instead of ‘funding entity.’ However, given that the latter occurs in the GI section on Access Modalities, while “financial intermediary” is used in the GI section on the Private Sector Facility, it may be better to keep the use 'intermediary" to the context of the Private Sector Facility. This is not to say that the Board could not decide the financial intermediaries of the PSF could not also be funding entities, or vice versa, but terminologically, this should not be pre-judged terminologically.

Box 2. Luis Gomez-Echeverri (2010)

Funds established to date

- Amazon Fund of Brazil
- Bangladesh Climate Change Resilience Fund (BCCRF)
- Brazil National Fund on Climate Change
- China CDM Fund (CDMF)
- China Funds for the Environment
- Ecuador Yasuni ITT Trust Fund
- Guyana REDD Investment Fund
- The Indonesia Climate Change Trust Fund (ICCTF)
- Maldives Climate Change Trust Fund
- Thailand Energy Efficiency Revolving Fund

Funds being developed or in the process of being established

- Nigeria National Strategic Climate Change Trust Fund
- Indonesian Low Emission Development Financing Facility
- India Clean Energy Fund
- Philippines National Survival Fund
- Costa Rica Green Bond
- Maldives Climate Change Trust Fund

However, the paradigm has, at least for the LDC Group, from the beginning been the Bangladesh Climate Change Resilience Fund (BCCRF).

The Bangladesh Climate Chance Resilience Fund[17,*]

History

Bangladesh, a country acknowledged as being particularly vulnerable to the impacts of climate change, has had a national ten-year ***Climate Change Strategy and Action Plan*** (CCSAP) since September 2008. In December of that year a draft concept Note[18] – on a Multi-Donor Trust Fund for Climate Change (MDTF) to support the implementation of this national strategy – was circulated. *The benefits of having a MDTF*, according to the Note, *are many: high-level coordination, elimination of overlaps, donor harmonization, flexibility in fund management, transparency, and the possibility of attracting additional funds from both local and external sources.* The MDTF was meant to become *a 'one-stop' mechanism for large-scale climate change financing in Bangladesh.*

The MDTF was to be institutionally divided into a ***Policy Council***, a ***Management Committee***, a ***Secretariat***, with an ***Administrator***.[19] A ***Trustee*** was to disburse the funding under two windows: an ***on-budget window*** for funding public sector projects; and, an ***off-budget window*** for funding projects from civil society. However, the concept very soon ran into considerable opposition, particularly from Bangladeshi civil society organizations, primarily due to the envisaged involvement of the World Bank in the management of the MDTF.

In the course of the following protracted negotiations regarding an international climate change fund, the Government of Bangladesh in 2009 established the ***Climate Change Trust Fund*** (CCTF), supported exclusively through its annual budgetary allocation ($385 million since FY2008/9) for adaptation and capacity building. In 2010, the international negotiations finally resulted in the establishment of the ***Bangladesh Climate Change Resilience Fund***

[*] Source (if not otherwise indicated): BCCRF Implementation Manual. www.eurocapacity.org/finance/documents/bccrfoperationalmanual-120622150210-phpapp02_1_pdf

Table 1: Development Partners' Contributions to the BCCRF (as of 31 December 2012)						
Development Partners	**Pledges**			**Deposits in pledged currency (million)**	**Deposits converted to US$ (million)**	**Ratio of unpaid contribution (%)**
	Currency	Amount in pledged currency (million)	Amount in US$ (million)			
AusAID	AUD	7.0	7.1	7.0	7.1	0%
Denmark	DKK	10.0	1.8	10.0	1.8	0%
DFID	GBP	60.0	96.9	18.0	28.4	70%
EU	EUR	28.5	37.6	14.25	18.5	50%
Sweden	SEK	130.0	19.3	130.0	19.3	0%
Swiss	CHF	11.4	12.5	5.4	6.0	53%
USAID	USD	13.0	13.0	9.0	9.0	31%
Total			188.2		90.0	

Notes:

1. Numbers may not add up due to rounding off.
2. Funds are converted from pledged currencies to US dollars when deposited, and fully paid contributions in Table 1 above are shown converted at the exchange rate actually used. Pledges not fully paid are shown in US dollars as an indicative estimate, using the exchange rate on 31 December 2012.
3. In addition to the resources shown in Table 1 above, by 31 December 2012 BCCRF had earned an investment income of US$554,326 since its inception. The entire investment income is correctly credited to BCCRF, and forms part of its current fund balance.

Source: BCCRF Annual Report 2012

(BCCRF), currently supported by contributions from Australia, Denmark, the EU, Sweden, Switzerland, the UK, and the USA. Like the MDTF, the Fund is conceived as being a 'one-stop mechanism' with two funding windows: an on-budget window for public sector projects and an off-budget window for civil society and private sector projects. The off-budget window is currently earmarked for 10 per cent of the funding, and is managed through the Palli Karma Sahayak Foundation (PKSF)[20] as an implementing entity. In May 2011 the Fund approved its first project (the construction of 50 new cyclone shelters and the repair of about 50 others, along with the construction of rural roads), and has since approved two further projects.

Governance

The Fund is governed by a two-tier system consisting of (i) a high-level ***Governing Council*** – chaired by the government[21] – to provide overall strategic direction and guidelines, and to ensure alignment with the CCSAP, and (ii) a ***Management Committee***, responsible for developing a work programme, ensuring implementation in line with the agreed implementation manual, and considering grant requests submitted by various line ministries and other eligible institutions. A ***Secretariat***, established at the Ministry of Environment and Forests (MOEF), is to support both bodies on a day-to-day basis. Finally, the World Bank Bangladesh office serves as ***Trustee*** of the Fund, for a 1 per cent compensation. All investments of the Fund are implemented and executed by the Government of Bangladesh and designated domestic agencies. The role of the World Bank, apart from a trustee function, is to provide mainly technical and advisory services, knowledge dissemination, programme administration, and project preparation, appraisal, and supervision.

Functions

The primary responsibilities of the Governing Council are to:

- Provide advisory guidance on programme strategic goals and alignment with CCSAP, grant criteria, and high-level issues such as transfer of fiduciary management responsibility to GOB,
- Oversee overall management and utilization of BCCRF,
- Approve DPPs prepared for projects to be funded by BCCRF,
- Review the achievement of results envisaged by the BCCRF,
- Provide advocacy support,
- Issue resolutions at close of Governing Council meetings endorsed by the majority (defined as 80 per cent of members).

The primary responsibilities of the Management Committee are to:

- Review and endorse the Implementation Manual,
- Review and endorse the BCCRF's work program and budget allocations,
- Carry out a detailed review of, and endorse, grant requests submitted by the secretariat – recommend projects for preparation

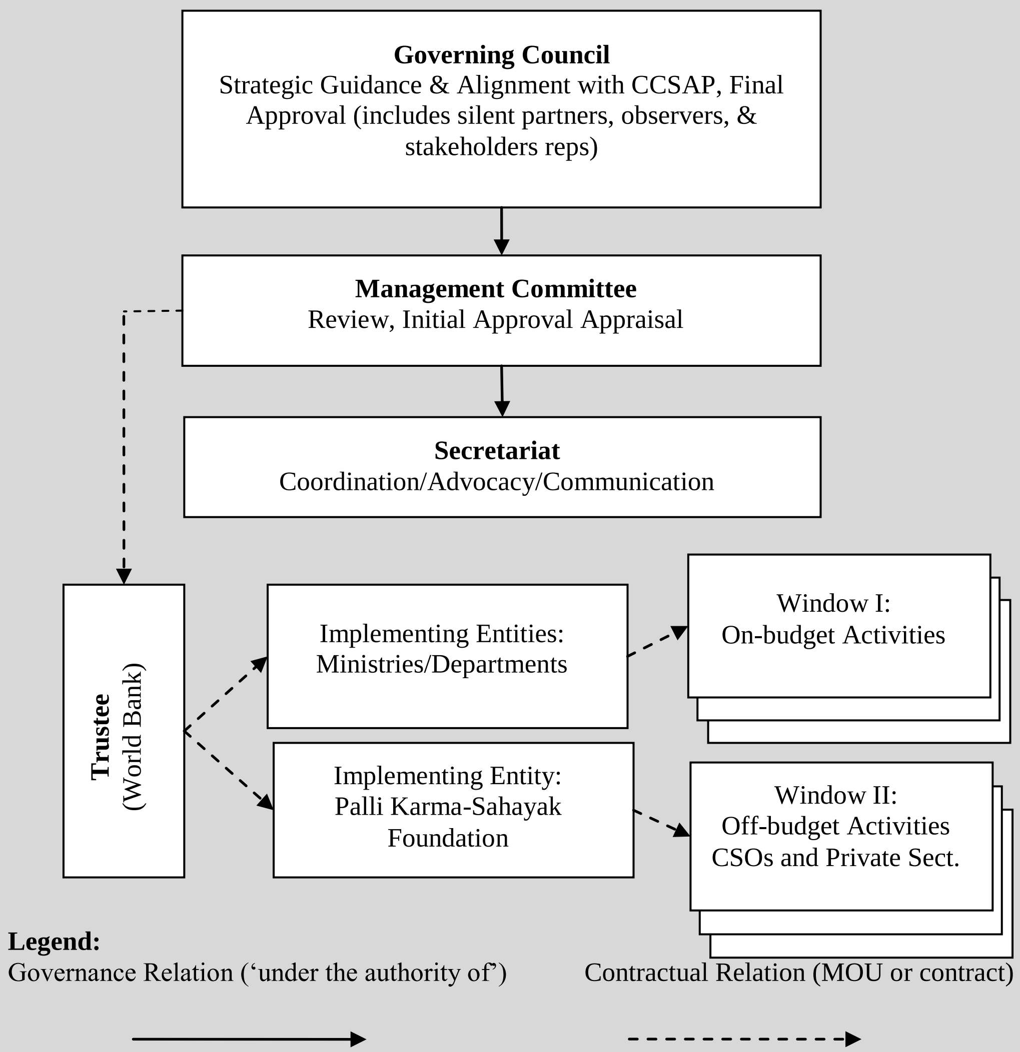

Figure 1. Institutional Architecture of the Bangladeshi Climate Change Resilience Fund (CCRF)

- Ensure that grant requests submitted are in line with the agreed implementation manual,
- If a TPP is necessary for funding project preparation, approve it with intimation to the Governing Council,
- Review and endorse the reports prepared by the BCCRF Secretariat for submission to the Governing Council as well as for public dissemination.

Both the Governing Council and the Management Committee include representatives from line Ministries, Development Partners, and Civil Society.[22]

A ***Secretariat***, established at the Climate Change Department of the Ministry of Environment and Forests, supports the Management Committee and Governing Council and manages the day-to-day operations of the BCCRF.

The ***World Bank*** Bangladesh Office provides a number of functions to the Fund:

- *Resource Management Staff:* establish Activities Codes, allocate BB, establish TF accounts structure, process contracts, other.
- *Legal Department:* drafts Agreement with Donors and Grant Agreements with Recipients.
- *Procurement Specialist:* provides technical support and clearance for procurement methods, for contracting all services, goods, or works financed by the TF.
- *Financial Management Specialist:* responsible for defining eligible disbursements for recipient-executed grants, carrying out accounts audits, reviewing independent audit reports, and performing due-diligence on recipients and NGO executing activities.
- *Loan Department:* disbursing recipient grants.
- *Client Connection:* interface with clients.

The MOEF has launched a project to establish an independent BCCRF Secretariat, taking over the responsibility from the World Bank. It has been decided by the Governing Council that the World Bank will hand over all responsibilities of fund management to the independent BCCRF Secretariat by 2017.

Endnotes

[1] Director, Energy and Climate Change, Oxford Institute for Energy Studies; e-mail: benito.mueller@philosophy.ox.ac.uk.

[2] Emphasis added.

[3] The first appearance in a draft text of the TC can be dated to 18 October 2011, the last day of the fourth and final meeting of the TC.

[4] As a matter of fact, these two definitions were meant to appear in a definitions section in the GI. When it became clear that there would be no such section, they were subsumed in a draft proposal for a paragraph of the GI, namely:

'53. Funding entities, which may be sub-national, national or regional legal entities or international organizations, will be entitled to approve programmes or projects in accordance with the relevant guidelines developed by the Board, and shall receive resources from the Fund for that purpose. Implementing entities, which may be sub-national, national or regional legal entities or international organizations, will implement eligible activities approved and funded by the Board'[Submission to the Transitional Committee by Ms Carol Mwape (TC member Zambia), 13 October 2011, http://unfccc.int/files/adaptation/application/pdf/tcinterrefdoc12.pdf]

[5] '(j) "Implementing entities" means the national legal entities and multilateral organizations that have been identified *ex ante* by the Board as meeting the criteria adopted by the Board, in accordance with decision 1/CMP.3, paragraph 5 (c), to access funding to implement concrete adaptation projects and programmes supported by the Fund;

(k) "Executing entities" are organizations that execute adaptation projects and programmes supported by the Fund under the oversight of implementing entities;'

[6] Neil Bird, Simon Billett, and Cristina Colon, 'Direct Access to Climate Finance: Experiences and Lessons Learned', UNDP and the Overseas Development Institute (ODI), November 2011: www.odi.org.uk/resources/docs/7479.pdf.

[7] Based on Benito Müller (2011) *Enhanced Direct Access: Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III)*, OIES, August 2011, www.oxfordclimatepolicy.org/publications/documents/OIESsubmissiononEnhanced.pdf

[8] For more on the AF model, see Appendix 1 of Müller (2011).

[9] See Box on 'Building a Flexible and Scalable Devolved Model That works: With Partners', p.5 of the *Delhi Vision Statement*. http://www.eurocapacity.org/finance/documents/Final_delhi_vision_statement_7_March_pdf

[10] Decision B.01-13/06, www.gcfund.net/fileadmin/00_customer/documents/pdf/ Decisions_of_the_Board_V1_15March2013.pdf

[11] Source: LDC submissions to TC and GCF.

[12] New version, based on Decision B.01-13/06 and

[1] Governing Instrument
'48. Recipient countries will also be able to access the Fund through accredited international entities, including United Nations agencies, multilateral development banks,international financial institutions and regional institutions.'

[2] LDC TC and GCF submissions, themselves based on:

[3] Adaptation fund Rules of Procedure:
'(j) "Implementing entities" means the national legal entities and multilateral organizations that have been identified ex ante by the Board as meeting the criteria adopted by the Board, in accordance with decision 1/CMP.3, paragraph 5 (c), to access funding to implement concrete adaptation projects and programmes supported by the Fund;'

[13] New version, based on definition of ***Implementing Entity***, and LDC TC and GCF submissions.

[14] Source: [1] LDC TC and GCF submissions, themselves based on:
[2] Adaptation fund Rules of Procedure:
(k) "Executing entities" are organizations that execute adaptation projects and programmes supported by the Fund under the oversight of implementing entities;

[15] Benito Muller and Luis Gomez-Echeverri 'The Reformed Financial Mechanism of the UNFCCC Part I: Architecture and Governance', Oxford Institute for Energy Studies, Background Paper, EV45, April 2009. www.oxfordclimatepolicy.org/publications/documents/EV45.pdf.

[16] 'Luis Gomez-Echeverri, National Funding Entities: Their role in the transition to a new paradigm of global cooperation on climate change', ecbi Policy Brief, October 2010. http://www.oxfordclimatepolicy.org/publications/documents/NFEsPolicyReport.pdf

[17] Based on Müller (2011).

[18] Government of the People's Republic of Bangladesh, Multi-Donor Trust Fund For Climate Change (MDTF), Draft Concept Note, 22 December 2008.

[19] Country Director of the World Bank.

[20] http://www.pksf-bd.org/.

[21] Minister of Environment and Forests.

[22] ***Composition Governing Council*** − same as for CCTF Trustee Board (except those marked '*'):

- Ministers of Finance, of Food and Disaster Management, of MOEF (Chair), of Foreign Affairs, and of Water Resources.
- The Secretaries of the Ministry of Finance, of the Finance Division, of MOEF (Council Secretary), and of the Ministry of Planning.
- Two representatives from civil society (government nominated).
- Two representatives from contributing development partners.*
- World Bank Country Director* (observer).

Composition Management Committee:

- Secretary, MOEF (Chair).
- Additional Secretary (World Bank), ERD.
- Member, Planning Commission.
- Two representatives from contributing development partners – with one vote (and the other as observer).
- One representative from the WB.
- One representative from civil society.
- Deputy Secretary (Environment-1), MOEF
- Joint Secretary (Development), MOEF − as the designated contact point of BCCRF.