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Enhancing Direct Access and Country Ownership

STATUS QUO AND THE WAY FORWARD

Discussion Note for the Sixth Meeting of the Green Climate Fund Board

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2 The appendices are available as a separate document from the OCP website.

1 Introduction

1.1 *Milestone decisions*

The 'official' story of Enhanced Direct Access (EDA) through National Funding Entities (NFEs) began on 17 October 2011 at the fourth meeting of the Transitional Committee, when it was decided that:

> 'The [Green Climate Fund (GCF)] 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.'(Paragraph 47, GCF Governing Instrument, emphasis added).[3]

The story then became rather quiet, although Decision B.01-13/06 taken at the third meeting of the GCF Board (the Board) in March 2013 noted under agenda item 7 (BMF) in paragraph (c)(ii): convergence that the Fund should 'commence as a fund that operates through accredited national, regional and international intermediaries and implementing entities.'

It was only at the fourth Board meeting in June 2013 when the Board returned to the GI mandate and: *'Decided* to consider at its first meeting in 2014 additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.'[4]

The aim of this note is to take stock of what happened since and to make some suggestions as to a possible way forward for this first meeting, to be held in Nusa Dua, Indonesia, in February 2014.

1.2 *Enhancing what?*

The verb 'to enhance' does have many different common meanings: the *Oxford English Dictionary* lists no fewer than fourteen. However, in Paragraph 47, it is to be understood in the very precise technical sense intended by the authors of the language (as reproduced in the Glossary appended below), and as reflected in the original Access Modalities paper B.04/05 (see Appendix 2) produced by the Interim Secretariat for the fourth Board meeting (June 2013).

- '***Enhancing direct access***' refers to a devolution to the country-level of a type of decisions over and above the devolution of implementing functions[5] practiced in 'ordinary' (Adaptation Fund type) direct access. The type of decisions in question are those associated with the evaluation and approval of (eligible) activities: the 'operational fund management functions'[6] which are usually described as being part of a 'project cycle'.[7]

- '***Funding entity***' refers to an entity that is accredited with the GCF *to take on these operational management functions on behalf of the GCF* and receive funds for this purpose from it.

[3] For more on the origins of the terminology, see, for example, Benito Müller, *'Enhanced (Direct) Access' Through '(National) Funding Entities' Etymology and Examples*: OIES Information Note on the Green Climate Fund Business Model Framework, April 2013.
[4] Paragraph (g), Decision B.04/06.
[5] See §7.b in Appendix 2.
[6] See §7.b and Section 2.1.3 in Appendix 2.
[7] See, for example, §5 in GCF/B.05/05 Business Model Framework: Allocation.

1.3 *What about country ownership?*

The fact that 'country ownership' is linked to Enhanced Direct Access (EDA) was acknowledged from the very beginning in GI Paragraph 47. The fact that the two go hand in hand was (implicitly) reflected in a recent working paper by Brown *et al*.[8] according to which 'country ownership comprises three elements:

- Alignment of climate finance with national strategies and priorities;
- Decision-making responsibilities vested in national institutions; and
- The use of national systems for ensuring accountability in the use of climate finance.'[9]

Indeed, the 'full recipient country ownership and accountability model' put forward by Brown *et al*. (see Box 1) highlights the fact that, contrary to some opinion, EDA does not involve an inevitable trade-off between country ownership and fiduciary, environmental and social standards. (Nor, incidentally is there an inevitable trade-off with reputational risk with regard to the contributing tax-payers). However it is important not to misconstrue this as some farfetched utopian ideal. It can be implemented now – maybe not everywhere, but in a significant number of recipient countries. As a matter of fact, it ***has been implemented***, if only outside the climate finance box. These issues all depend on who is admitted as accredited funding entities and under what operating conditions they are meant to approve eligible activities: all questions in the hand of the GCF.

Box 1. The 'full recipient country ownership and accountability model'

The full recipient country ownership and accountability model represents an 'ideal' that recipient and contributor countries should aim to graduate toward as systems for accountability in developing countries are strengthened. In this model, the recipient country has full ownership of climate finance, and the contributor fully entrusts the funding it provides to national institutions and national systems. Decisions on how funding is used are made by national actors, in line with national plans and priorities, within the boundaries of the agreement with the contributor (for example, the contributor may provide funding for a particular sector). Country systems for results management, fiduciary standards, and environmental and social safeguards are used and the recipient country is fully accountable for results. This model may be most appropriate for countries with fairly strong national systems for accountability, or with institutions that can ensure robust accountability mechanisms. Although the contributor relinquishes control of finance to the recipient country, it maintains some leverage through the ability to discontinue funding if conditions are breached.

Source: Brown *et al*. (2013), p. 3

Of course, it would be wrong to think that the country ownership and EDA are one and the same. Country ownership, for one, involves the issue of country coordination, whether or not there is EDA. This, in the context of the GCF, is related to what are known as National Designated Authorities (NDAs), with their no-objection procedures. Nonetheless, the fact remains that the linkage between country ownership and EDA was acknowledged in Paragraph 47, which is why it is curious that in the decisions of the Board (see Appendix 4.2) and in the background paper on country ownership (GCF/B.04/04), no reference at all is made to enhancing direct access or, for that matter, to funding entities. Moreover, as pointed out in a recent article[10], NDAs cannot meaningfully be discussed without more clarity and access modalities, in particular EDA.

[8] Louise Brown, Clifford Polycarp and Margaret Spearman, *Within Reach. Strengthening Country Ownership and Accountability in Accessing Climate Finance*. Working Paper. Washington, DC: World Resources Institute. November 2013.
[9] Brown *et al*. (2013), p. 2.
[10] Anju Sharma and Annelieke Douma, *Let form follow clarity on function in GCF design*.

2 Status Quo

2.1 *The Paris Access Modalities Paper*

(See Appendix 1 for relevant extracts.)

At its fourth meeting (Songdo, June 2013), the Board requested the Interim Secretariat to prepare a paper on

[1] Best-practice fiduciary principles and standards and environmental and social safeguards used by other funds;
[2] Elaboration of criteria for accreditation of intermediaries and implementing entities and assessment against these criteria.

The Interim Secretariat accordingly produced a paper entitled 'Business Model Framework: Access Modalities – Accreditation' **(**GCF/B.05/08) for the fifth meeting of the Board (Paris, October 2013).

2.1.1 Coverage

In its coverage of other funds' best practices [1], the paper had multiple references to 'funding entities', and it is clear that the term was used in the above-mentioned technical sense. For example, in the context of discussing specialized fiduciary criteria, the paper considered *funding mechanisms and systems (in the case of funding entities)* in the context of *grant award procedures* and *transparent allocation of financial resources*.[11]

The paper considered two access modalities of the European Commission Directorate General for Development and Cooperation (DEVCO) which are of importance in this context: joint management[12] and indirect centralized management.[13] The former involves a devolution of management functions to ***international funding entities***, and the latter generally to ***bilateral donor agencies***. Indeed, the DEVCO 'six pillars' assessment was singled out as providing best-practice reference and benchmarks for assessing *grant award procedures and public access to information* of funding entities.[14] In short, while the paper did discuss enhanced/devolved access, it focused overwhelmingly on international access modalities. ***EDA remained firmly on the side lines***.

The section concludes with two recommendations, namely:

[3] that the fiduciary principles and standards discussed should be 'acknowledged by the Fund as a best-practice reference and benchmarks for the development of its own fiduciary principles and standards'[15] and

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[11] GCF/B.05/08, Table 1.

[12] Joint management The European Commission may entrust implementation tasks to an international organization through 'joint management'. In this manner, the international organization becomes the delegatee of the European Commission so that it can implement EU/EDF resources through the launch of call for tenders or proposals, award grants, carry out payments, etc., according to its rules.

[13] Indirect Centralised Management. In general, the main reason for the European Commission choosing indirect centralised management as a method of implementation in the field of EU external cooperation would be to achieve better donor coordination and aid effectiveness by entrusting one of the co-donors with the management of a project co-financed by the EU/EDF. Hence, it should be used primarily for co-financing and large programmes.

[14] *In the case of EU DEVCO, the in-depth review of the 'six-pillars' and 'four-pillars' assessments are outsourced. EU DEVCO develops the assessment guidelines, and then the actual assessments are performed by external accounting or audit firms. The outcomes of the assessments are then presented to EU DEVCO, which decides on eligibility to participate in the respective funding modality*.(GCF/B.05/08, §60]

[15] GCF/B.05/08, §22.

[4] 'that special consideration be given to the development of specialized fiduciary criteria for institutional capacities, ***specifically relating to the role of Fund's funding entities*** and intermediaries, in accordance with the types of financial instruments to be used.'[16]

As it happens, [3] was ultimately taken up in the Paris Access Modality Decision,[17] but [4] was not.

2.1.2 Call for definitions

With regards to the elaboration of criteria for accreditation of intermediaries and implementing entities [2], the paper suggested as one of the initial set of matters to be considered:

[5] 'the definitions of implementing entities, intermediaries and funding entities.'[18]

In its final section ('Next Steps'), the paper − referring to the GI paragraph 47 mandate on enhancing direct access − concludes that:

[6] 'the development of the accreditation process of the Fund should be put in the context of a coherent guiding framework, which should define, ... the ***roles and mandates of the different actors*** participating in the process',[19] and that

[7] in order 'to fully operationalize the Fund's access modalities' it is necessary consider the 'roles and responsibilities of accredited intermediaries and entities.'[20]

None of these suggestions were taken up in the Paris Decisions. At the same time, it is clear from the context that while it would be useful to formalize the technical meaning of EDA and FEs, what the paper is asking for is more clarity on the 'big access modality picture'.

2.1.3 The need for big-picture clarity

This was precisely the gist of an argument published[21] in the wake of the Paris meeting − ending with a call for the Board 'to tackle this long-overdue foundational discussion [regarding devolved decision making] head-on at its next meeting in February 2014' − which received some interesting support from a number of members/alternates of the Board. Such a discussion will have to touch on a number of key questions.

Who?

The term 'funding entity' used in the GI was carefully chosen so as to include trust funds, but not be limited to them. In other words, funding entities in this technical sense are not defined in terms of some financial instrument − such as the provision of grants or loans − but solely by the fact that they ***approve funding*** for activities in accordance with the rules provided by the GCF.

They could, of course, have different ***geographical scope*** – both with reference to the institutional origin of the decision makers and/or the territorial location of the funded activities.[22] They could be 'national' in the sense of giving access to eligible proposals from throughout the country, and/or including national governments in their operational decision-making. Or they could be sub-national. However, as concerns modalities to enhance direct access, funding entities have to be (multi-/sub-)

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[16] GCF/B.05/08, §23, emphasis added.
[17] Decision B.05/08, paragraph (b). See Appendix 4.1.
[18] Paragraph 42 (c), see Appendix 1.
[19] Paragraph 52, see Appendix 1, emphasis added .
[20] Paragraph 55, see Appendix 1.
[21] Benito Müller *Same old, same old … Too late for a paradigm shift?*
[22] See, for example, Section 2 in Brown *et al.* (2013).

national.[23] This means, in particular, that traditional 'international financial intermediaries' can at best have a tangential role in the context of EDA.

How many?

EDA could be carried out through a single − or a (thematically differentiated) number of National Funding Entity(ies) − which could themselves devolve operational management functions to sub-national funding entities. The GCF could also decide to grant enhanced direct access to sub-national funding entities. Each of these modalities will have advantages and disadvantages. Some may have general disadvantages which could mean that the GCF might wish to refrain from using them. Others might be suited more to the circumstances of some countries rather than others.

What and how?

National and sub-national funding entities might have a specific focus with respect to thematic and instrumental scope. They might be specialized in, say, giving grants for adaptation, or they might provide concessional loans. The GCF will have to decide which of these activities could be funded under enhanced access, and under what conditions and when. Note, incidentally, that there is no need to have all these entities accredited directly with the GCF: a single accredited NFE could itself work on a devolved 'through-put' basis as a umbrella for sub-national entities. Another key issue to be discussed is how funds would be allocated to such accredited funding entities.

First steps?

While all these questions will need to be discussed, they need not all be answered before the GCF can grant EDA. A 'running-start EDA', as it were, can be achieved by focusing on some initial 'ready-made' options, such as grant financing through existing national climate funds.[24]

2.2 *The Paris Access Modality Decision*

(See Appendix 4 for relevant extracts.)

The Access Modality Decision taken at the fifth Board meeting in Paris acknowledges the paper discussed in preceding section as its basis. Yet, as mentioned, the decision did not follow some of the key recommendations of that paper, particularly with regard to EDA and FEs (in particular [4], [5], [6], and [7] above).

However, the Decision did established an Accreditation Team (AT) of four Board members/alternate members 'to oversee the development of the guiding framework for the Fund's accreditation process by the Secretariat, ... for consideration by the Board no later than at its second meeting in 2014.' In light of this, the AT was charged, with 'overseeing the development by the Secretariat of' a number of things, two of which are particularly relevant in the present context. First there was

> [8] 'An assessment of the list of the institutions accredited by other funds, as contained in Annex VIII to this document, in light of the development of the guiding framework for the accreditation process of the Fund.'

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[23] There is a case to be made for certain multinational entities to be considered in this context – serving, say, a number of countries which are too small to have their own (sub-) national funding entities.

[24] As concerns the question of who should be admitted as accredited funding entities under EDA, the immediate focus should be on existing entities that could commence as accredited funding entities without delay. As mentioned in GCF/B.04/05, there are 'to date, more than 30 countries are establishing national FEs dedicated to climate finance – or national climate funds.' These include Indonesia, Philippines, Bangladesh (2), China, Brazil (2).

The Annex referred to was the one discussed in section 2.2.1, which, in light of that discussion, implies that such an assessment will not be able to do justice to what is required for an informed debate on EDA. As it happens, these requirements were better captured in the original Access Modalities paper (see Appendix 2) which, under the heading of 'Key areas for further work':

> [9] 'Considering the importance of capacity building identified from the analysis of existing funds and ***regarding, in particular, direct access options, an analysis of how the different (national) entities are best supported in accreditation as well as in implementation and financial management***, could be carried out as part of the readiness and support document to be prepared for the September 2013 Board meeting.'[25]

'For subsequent Board meetings, the (Interim) Secretariat could ... :

> [10] Analyse ***experience with national FEs or national funds, in line with the Governing Instrument's guidance regarding enhanced direct access***.'[26]

The former of these recommendations was taken up in the relevant Paris Decision (see Box 3), but not in a manner compatible with the idea, expressed in Decision B.01-13/06 (see Section 1.1), that the GCF should, among other things, commence with EDA. And the latter is, as discussed in section 2.2.1, not covered by [8].

A second task to be overseen by the AT was the development by the Secretariat of:

> [11] 'Additional modalities that further enhance direct access, including through funding entities, with a view to enhancing country ownership of projects and programmes, for consideration by the Board at its first meeting in 2014 …'

This is rather curious. While the remit of the AT − to 'oversee the development of the guiding framework for the Fund's accreditation process by the Secretariat' – does overlap with developing [11], it should be clear after the preceding discussion that developing the Paragraph 47 modalities goes significantly beyond the remit of the AT. This needs to be rectified.

Box 3. Paris Modalities for Readiness and Preparatory Support Decision GCF/B.05/14

13. The scope of readiness and preparatory support provided by the Fund will need to evolve over time. In the near term, it is useful to focus on readiness and preparatory support to NDAs or country focal points with a view to enhancing country ownership. Support towards other areas of readiness is contingent on key decisions on the business model framework. Upon the adoption of the Fund's result areas, performance indicators and allocation framework; the Fund could also provide support towards the development of country strategies and programmes, including national portfolios of projects and programmes for Fund support. Following the adoption of the Fund's accreditation procedures, including the associated fiduciary standards and environmental and social safeguards, readiness and preparatory support could be provided to enable countries to directly access the Fund.

[25] GCF/B.04/05, §65, emphasis added.
[26] GCF/B.04/05, §66.

3 The Way Forward: Five Recommendations

There are thus a number of gaps that need to be filled as a matter of urgency in order for the GCF to provide Enhanced Direct Access as soon as possible which, I have argued elsewhere,[27] is essential for its long-term success.

[A] It has been shown that there is still not enough clarity in the decisions by the Board as to the strategic vision for the architecture of the GCF, in particular with respect to the noted access modality convergence of views represented on the Board that the Fund should 'commence as a fund that operates through accredited national, regional and international intermediaries and implementing entities.'[Section 1.1] This needs to be urgently rectified.

[B] It was also shown that there is still a need – indeed it is a prerequisite for [A] − to ***clarify the roles and mandates of the different actors*** that would be involved in EDA.

[C] Another gap that needs to be addressed urgently if a prototype of EDA is to be part of the initial access modalities is the lack of an in-depth ***assessment/review of existing 'EDA-type' modalities, of existing national climate funds***, ***and of existing preparatory and readiness needs***.

[D] Unlike 'activity-based allocations systems',[28] EDA requires not only ***country-based resource allocations*** − which at present are still insufficiently addressed in the body of Board decisions – but also ***dedicated EDA funding envelopes in each of the GCF funding windows as well as the private sector facility*** (PSF). The latter may seem curious, but it has been cogently argued[29] that the best way to mobilize the domestic private sector is through EDA modalities (and there is no reason why the PSF could not also be involved in EDA[30]).

[E] Last, but by no means least, it was concluded that the EDA agenda item really goes beyond the remit of the Board's transitional Accreditation Team, both in substantive and temporal scope. A ***Country Ownership and Direct Access Committee*** (CODAC) should be established as a standing committee of the Board in accordance with paragraphs 2(g) and 30 of the Rules of Procedure of the Board to oversee this and other related agenda items.

Why? For many countries, particularly from the developing world, country ownership and (enhanced) direct access are at least as important as ethics & audits, investment strategies, and risk management, which were themselves judged to be sufficiently important to warrant the establishment of a GCF standing committee.[31] EDA, in particular, has thus far been relegated to the sidelines of the debate on the GCF Board and it needs to take centre stage. This can only really happen if it is dealt with continually at Board level; that is to say, if it is entrusted to a small dedicated group of Board members/alternates who will champion it in the larger debate.

When should this happen? The GCF Board workplan for 2014, apart from ***enhancing direct access*** also include an item on ***establishment of committees and panels of the Board*** which would also lend itself for discussing this issue. However, both items only occur on the agenda of next meeting in Bali which, I hope, will concentrate minds.

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[27] See, in particular, Section 2 in Benito Müller, *A Delhi Vision: for the Green Climate Fund Business Model Framework – Some Thoughts on Access and Disbursement*, Oxford Energy and Environment Brief, 2013.

[28] See, for example, Section VI ('Resource allocation system model options') in *Business Model Framework: Allocation* (GCF/B.05/05)

[29] Dipak Dasgupta, Dr. Prodipto Ghosh, Rajasree Ray, Abhishek Acharya, Jyotsna Mehta, Kanika Grover, *Delhi Vision Statement: The Green Climate Fund*, April 2013.

[30] The GCF PSF could be used as a throughput facility to support in-country private sector facilities.

[31] The establishment of these three standing committees may have given raise in some to a weariness about establishing any further such bodies, it should be pointed out that, in the interest of fairness, this should not be used as an argument against establishing at least one such body representing primarily recipient concerns.