Policy Brief

July 2013

Frankfurt School
UNEP Collaborating Centre
for Climate & Sustainable Energy Finance

National Climate Finance Support Programme (NCFISP)

- The degree of direct access to climate funds is determined by national capacities.
- The direct access accreditation process is an opportunity for countries to strengthen their national institutional capacities.
- Accreditation processes should be aligned, using an internationally accepted set of principles and criteria for assessing institutional, technical and financial performance.
- Different international funds could be merged to streamline processes.
- Institutional and financial capacity building is a long-term investment and requires a flexible approach to accommodate the different types of institutions and stages of organisational development.
- Capacity-building support to countries should be mapped and coordinated to ensure efficiency and prevent duplication.

Authors:
Laura Druce, Christine Grüning, Carola Menzel with support from Virginia Sonntag-O'Brien

For further information on NCFISP Project activities please refer to our website:

http://ncfisp.fs-unep-centre.org/

Contact
Carola Menzel
Phone: 0049 69 154008-614
E-Mail: c.menzel@fs.de

Key messages on direct access to international climate funds from participants of the NCFISP

The UNEP National Climate Finance Institutions Support Programme (NCFISP) is working with government agencies and other institutions in the area of climate finance by providing training and a platform for exchange of information and experience.

In 2011 and 2012, government officials from over 20 developing countries participated in NCFISP regional workshops in Asia, Africa and Latin America. The workshops focused on developing institutional capacities related to climate finance, and particularly on addressing the modalities for direct access to international climate funds. Of the 20 participating countries, four had institutions that were already accredited as National Implementing Entities (NIE) by the Adaptation Fund, while most of the countries were either in the process of applying for accreditation or designing their national climate finance framework.

This policy brief presents the lessons learned and key messages from participants of the NCFISP project based on their experience with the accreditation processes of the Adaptation Fund, in particular with regard to the fiduciary requirements for gaining direct access. The messages serve to support the discussion and access modalities for the Green Climate Fund (GCF).

Direct access and enhanced direct access

The Green Climate Fund (GCF), which is supposed to provide USD 100 billion per year by 2020 to support climate actions in developing countries, is expected to be operational in 2014.[1] The preparations for and current discussions on the GCF's business model framework are giving increasing attention to modalities for accessing climate funds and procedures for accreditation.

Traditionally, multilateral and bilateral financing intermediaries such as the World Bank, UN agencies, and bilateral development banks have played an important role in accessing and distributing international climate finance. Increasingly, however, developing countries seek to obtain direct access to climate finance. According to the decision made at COP 17, the GCF will *"provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach..."*[2] At its 3rd meeting in March 2013, the GCF Board laid the foundation for the design of the GCF's Business Model Framework and agreed that a *"range of access modalities, including enhanced access modalities"* would be developed (GCF/B.01-13/11).

[1] COP18/CMP8 Doha Qatar, (2012), Nations take 'essential' next step in climate change fight.
[2] UNFCCC, (2011), Transitional Committee – First Technical Workshop, 2011, Work-stream I: Scope, guiding principles, and cross-cutting issues (Scoping Paper), 26 May 2011.

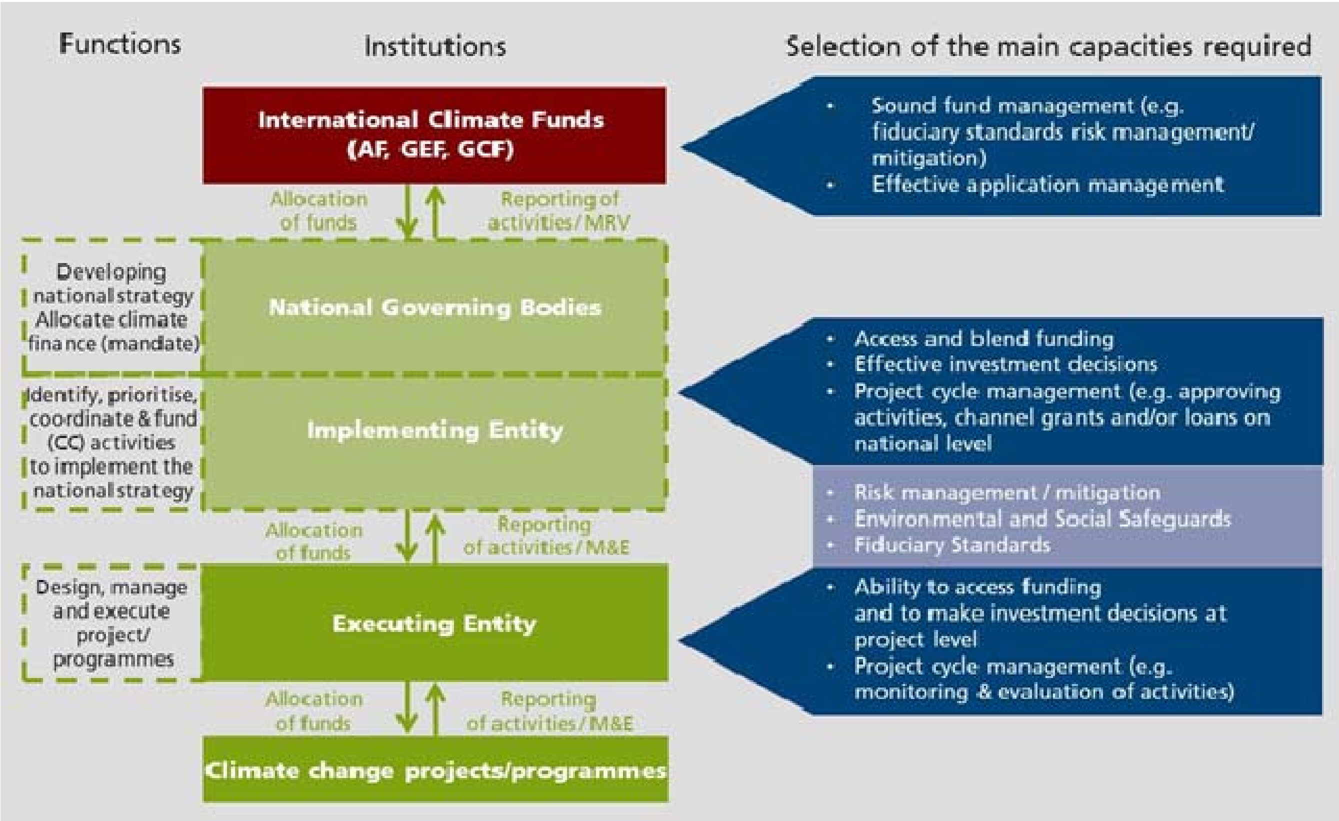
The principle of **direct access** to climate finance seeks to ensure country ownership[3] and that climate change measures are reflecting the national requirements and are country-driven. Recipient countries are also responsible for the design, management, implementation and evaluation of projects,[4] on which basis an international fund approves funding. The term direct access was introduced in the decision further operationalising the Adaptation Fund (AF) taken in Bali during the 3rd session of the meeting of the Parties to the Kyoto Protocol (CMP.3) in 2007. It defines direct access as the option for eligible Parties to directly submit project proposals to the AF; once accredited. Direct access is also piloted by the Global Environment Facility (GEF).

Even more decision-making power remains at the recipient country level when the *actual funding decisions and management of funds take place at the national level*.[5] Devolving decision-making power even beyond this, to the lowest institutional level capable of making those decisions effectively, helps in turn to further enhance local ownership and ensure that access to resources is as needs-driven as possible.[6] The climate finance community refers to this as **enhanced direct access**; a concept introduced during the GCF design process with the aim of providing countries with even more autonomy in managing of climate finance. Enhanced direct access, however, is currently not applied by international climate finance funds and modalities for it are not yet defined or agreed.

Direct access and enhanced direct access are only granted if appropriate processes and safeguards are applied at institutional level. Therefore, (national) institutional capacities and expertise determine the degree of access to climate finance a country can achieve. It is therefore important that competencies be developed in relevant institutions and decision-making powers transferred to them step by step.

There are three main levels involved in the process of accessing, blending and managing climate finance. As illustrated below, specific functions must be carried out at different levels, and each of these functions requires a particular set of institutional capacities and experience.

Figure: Institutional arrangements and capacities for direct access[7]



[3] NCFISP participants acknowledge that ownership may be difficult to attain and cannot be guaranteed by direct access. They also indicate that effective and sustainable climate finance solutions can only be achieved if local/national actors shape and drive their own agenda of development.

[4] ODI, UNDP, (2011), *Discussion Paper: Direct Access to Climate Finance: experiences and lessons learned*.

[5] Ibid.

[6] In line with the subsidiary principle, i.e. the decision-making power should remain at the lowest national level unless the next level would be more effective in performing the task.

[7] Frankfurt School - UNEP Collaborating Centre for Climate & Sustainable Energy Finance (2013), Direct access to international climate finance and associated fiduciary standards, forthcoming.

At the **international level,** international funds such as the AF, GEF, and the upcoming GCF allocate finance to recipient countries in line with their approval processes. (National) Implementing Entities (NIEs) select, coordinate and fund national climate projects, which reflect the national climate strategies at the **national level**. Often with a focus on the **sub-national level,** the entities that execute projects may be non-governmental organisations, international organisations, municipalities, as well as private sector or civil society organisations.

Overall, countries should determine the level of access they can reach – direct or enhanced direct – depending on their institutional capabilities to design national climate strategies and plans, develop and implement projects, and manage funds.

While (enhanced) direct access is an attractive option for many countries, it may not be suitable for all. Some NCFISP participants have expressed scepticism about the probability of success, considering how few NIEs have been accredited under the AF thus far, as well as concern that the scale of funding available may not justify the complex and resource-intensive process countries need to undergo to gain accreditation.

National experience and lessons learned with direct access (and associated fiduciary standards)

In order to gain direct access under the AF, a national institution must first be appointed by the national Designated Authority and accredited by the Adaptation Fund Board as an NIE. At present, the Adaptation Fund has accredited 15 institutions; eight applications were rejected and one was withdrawn. A similar approach is being piloted by the GEF. Under the GEF-5 Pilot on Broadening the GEF Partnership, institutions can apply for accreditation that would allow them to serve as GEF Project Agencies for the implementation of GEF projects and to access resources from GEF-managed trust funds directly. Eleven agencies have been recommended for approval to progress to Stage Two of the accreditation process, five of which are national agencies.[8]

During the application process, an applicant must prove it has the institutional capacities to meet certain fiduciary standards to manage their projects and programmes efficiently and effectively. The accreditation requirements are similar for both the AF and the GEF, and it is expected that the GCF accreditation requirements will be similar.[9]

The AF's minimum fiduciary standards include sound financial integrity and management, transparency, independence and professional standards. Applying entities are required to demonstrate adequate institutional, technical and financial performance, and prove that they are capable of effective and efficient financial resource management. The GEF has additional requirements for environmental and social safeguards as part of their access modalities, whereas the AF assesses those safeguards only at the project and not at the accreditation stage.[10]

The table below lists the minimum fiduciary standards required by the GEF. Each one of the fiduciary standards represents a number of complex processes and requires that the applying entity provide extensive supporting documentation. For example, to demonstrate that it meets procurement standards, the applicant needs to provide all the documents that outline the principles and procedures on how the national entity secures goods or services, while promoting fair and open competition, and ensuring transparent processes at the same time. These can include manuals, policies, and progress and monitoring reports. What evidence is provided will depend on the institutional design and distribution of roles and functions, administrative processes, and national legal and regulatory context.

[8] Five institutions did not reach stage two; e.g. Agencia Nacional de Investigación e Innovación (Uruguay) – see GEF – Secretariat *Recommendations of Project Agencies for Accreditation GEF/C.42/09/Rev.01*, May 8, 2012.

[9] The forthcoming Frankfurt School – UNEP Collaborating Centre for Climate & Sustainable Energy Finance (2013), *Discussion Paper*: "*Direct access to international climate finance and associated fiduciary standards*" analyses the different fiduciary standards used by the AF and GEF for the accreditation process.

[10] However, at the last meeting in July 2013 the AF Board recognised the importance of strengthening and streamlining the application of environmental and social safeguards in the policies and procedures of the AF. Furthermore, the Board requested the Secretariat to present for the next meeting a proposal on how to operationalise the environmental and social safeguards and how to modify the accreditation process. (AFB/B.21/L1 from the 4th July 2013, Decision B.21/23).

Table: Minimum fiduciary standards of the GEF[11]

Audit, Financial Management and Control Framework	Project/Activity Processes and Oversight	Investigations
▪ External Financial Audit ▪ Financial Management and Control Frameworks ▪ Financial Disclosure ▪ Code of Ethics ▪ Internal Audit	▪ Project Appraisal Standards ▪ Procurement Processes ▪ Monitoring and Project-at-Risk Systems ▪ Evaluation Function	▪ Investigation Function ▪ Hotline and Whistle-blower Protection

For the purpose of mobilising and managing climate finance, some countries have identified a single entity that coordinates climate-finance efforts and links these to national development strategies. However, given the cross-cutting nature of climate change and the complexity of climate change projects/programmes, selecting the most appropriate national institution to access international funds can be a challenge.

In practice, potential candidates are usually approached by a ministry; e.g. the Ministry of Natural Resources and Environment of Belize approached the Protected Areas Conservation Trust (PACT). Alternatively, a competitive selection process is established, where interested national institutions submit an application to the government, as is the case in Tanzania.

Prior to applications, the selected entity should study the requirements of the fund under which it is seeking accreditation and then examine where it may have institutional capacity gaps that could jeopardise the application and begin to address them. Different kinds of expertise may be necessary and more than one agency may need to be involved in progressing with national climate finance. Some participants in the NCFISP project consider the accreditation process itself a valuable opportunity to enhance their institutional systems and fiduciary management frameworks. This can help countries position themselves better to access climate funds from other sources.

Taking a strategic and holistic approach to building institutional capacities for accessing climate funds appears to be an important indicator for a successful application. For instance, when applying for AF accreditation, Belize's PACT first underwent an institutional review process by its senior and middle management; including a detailed assessment of organisational processes, to identify and resolve capacity gaps. The internal review enabled PACT to improve internally and respond to the requirements of the accreditation process. The team working on the accreditation received support and input from the entire organisation; in particular at the board level, whose approval of the necessary adjustments was crucial. PACT received notification of accreditation by the AF Board only three months after it submitted its application.[12]

Challenges in meeting direct access requirements

Though there is a common understanding across countries that fiduciary standards for obtaining direct access to different (climate) funds are needed, many developing countries feel that they go through complex and resource-intensive steps when applying for different international (climate) funds. Therefore, it would be helpful if **lessons learned from successful applications were published** on the funds' homepages, e.g. in the form of a fact sheet that summarises non-confidential information about the application process for accreditation, submission date, approval date, and supporting documentation provided.

In addition, communication barriers pose challenges and cause information gaps. In many countries English is not an official language. Therefore, accreditation for direct access should be processed in several languages.

Some entities also find it difficult to align the fiduciary standards and access requirements of different donors. NCFISP participants agree with ODI[13] that it is worth considering the benefits of **standardising minimum fiduciary standards across all international climate funds**. An aligned approach to assess institutional, technical and financial performance would reduce barriers for institutions applying for accreditation. Participants of NCFISP

[11] The GEF, (2007), *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies*. The content of the minimum fiduciary standards GEF and AF fiduciary standards are similar, only named differently. See Frankfurt School - UNEP Collaborating Centre for Climate & Sustainable Energy Finance (2013), Direct access to international climate finance and associated fiduciary standards, http://www.fs-unep-centre.org/, forthcoming.

[12] Pact received a formal information request by the AFB on 11 July 2011. Adaptation Fund, (2011), *Report of the Fifteenth Meeting of the Adaptation Board, Adaptation Fund Board Meeting*, http://www.adaptation-fund.org/sites/default/files/AFB%2015%20report.pdf.

[13] ODI, 2011, *Direct access to climate finance: experiences and lessons learned*.

question why there are many climate funds with very similar objectives and suggest that **different funds could be merged to streamline processes**.

Increasing national capacities and skills

Different types of institutions with varying capabilities are selected to serve as NIE. Some are new and created specifically to serve as a National Climate Finance Institution (NCFI). Others have existed for some time and are broadening their mandate (South African Development Bank) or transforming into an NCFI (National Environment Fund of Benin). Access modalities need to take these differences into account. Applying entities do not always have all the necessary capacities in place to meet the accreditation requirements. The AF may grant accreditation conditionally if it still has some concerns about the ability of the entity to comply with the requirements. The AF Board notes that most of the NIEs that successfully achieved accreditation also went through a process of institutional capacity development, as in the case of Belize's PACT.

Moreover, **a flexible approach to capacity building is required to accommodate the different capacity needs and different stages of institutional development**. Some countries need to develop an institutional framework that ensures inter-ministerial coordination to build or to establish a new NCFI, in other countries existing processes just need to be further developed or improved, for example, through technical assistance and training to help organisations strengthen their institutional processes and procedures.

In general, capacity building and institutional development takes substantial time and resources. However, capacity building is important to enable interested countries in the long-term to access funds directly and therefore; **capacity building of institutional, organisational and financial management must be seen as a long-term investment in sustainable change** that has benefits for government systems broadly. It should not only be applied for helping countries access climate funds.

The past few years have seen a surge in the number of agencies and development partners working on climate finance capacity development that involves the sharing of experiences and institutional development. There is limited understanding and coordination of activities, and NCFISP participants have expressed confusion over the different support programmes being provided. In some cases, efforts are duplicated. Therefore, coordination is needed during the design and implementation of capacity-building programmes to ensure effective and efficient use of available aid money.

Supported by:

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

based on a decision of the Parliament of the Federal Republic of Germany

Prepared by:

UNEP Frankfurt School UNEP Collaborating Centre for Climate & Sustainable Energy Finance