# Enhanced Direct Access

## Brief History (2009-2021)

*July 2021*

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ecbi

European Capacity Building Initiative

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For more information on IKI, see www.international-climate-initiative.com

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# FOREWORD TO THE FIRST EDITION

Over seven years ago, at the first session of the Ad-hoc Working Group on Long-term Cooperative Action (AWG-LCA) session in Bangkok, we had the opportunity to discuss our ideas on the reform of the Financial Mechanism of the UN Framework Convention on Climate Change (UNFCCC). We decided that our views were sufficiently aligned to warrant a collaborative effort, and a year later, this collaboration had resulted in three publications that launched the ecbi's work on climate finance – a mainstay of its activities ever since.

Our focus was mainly on architecture and governance (see [1] in the Literature List, appended to this document), which we felt needed to be reformed to reflect two key elements:

- **Consolidation** of international public sector funding for developing countries, and
- **Decentralised access** through devolution of funding decisions to recipient countries.

These two elements are at the heart of the idea of what has become known as 'Enhanced Direct Access' or EDA. At the time, we had no idea how these two ideas would be received, let alone that they would be operationalised under the Green Climate Fund six years later. It thus gives us particular pleasure to write the Foreword to this timely report on behalf of the ecbi Executive Committee.

The year 2015 is destined to be a historic year in the annals of the international climate change regime, with COP 21 in Paris in December expected to adopt a new multilateral climate change Agreement to replace the Kyoto Protocol in 2020. Finance will again be a key component of any successful outcome at Paris, and we feel this report, showcasing how far the Financial Mechanism has evolved, and indeed how far it has progressed (in particular since the last, somewhat ill-fated, Copenhagen climate summit), will be of great value.

This history begins where our own Brief History ended, and is a very welcome addition to the historiography of the UNFCCC Financial Mechanism.

**Benito Müller** & **Luis Gomez-Echeverri**

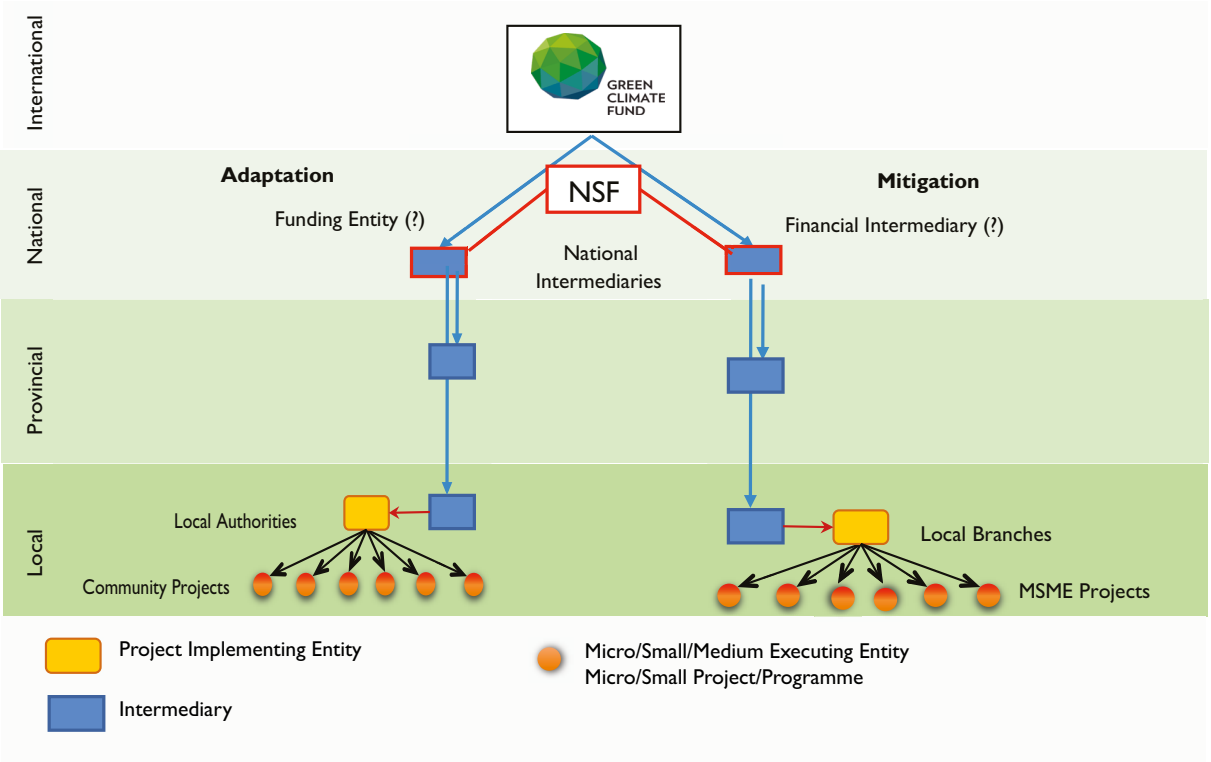
## TABLE OF CONTENTS

# INTRODUCTION

In July 2015, the Green Climate Fund (GCF) Board adopted the Terms of Reference (TORs) to launch a five-year ***Enhanced Direct Access (EDA) Pilot Phase***. The objective of the pilot phase is to operationalise EDA modalities *including devolved decision-making and stronger local multi-stakeholder engagement*. The TORs stipulate that "*decision-making on the specific projects and programmes to be funded will be made at the national or subnational level … This implies that the screening, assessment and selection of specific pilot activities would be made at the regional, national or subnational level. At the same time, mechanisms will be set up to increase national oversight and multi-stakeholder engagement at the country level*".[1]

**Figure 1** illustrates a national EDA pilot with two National Intermediaries (GCF-accredited entities), one for the provision of grants (Funding Entity), the other for the provision of loans (Financial Intermediary). The national oversight and steering function is represented by a National Steering Committee (NSC).

**Figure 1: Institutional architecture of national GCF EDA pilot programmes**



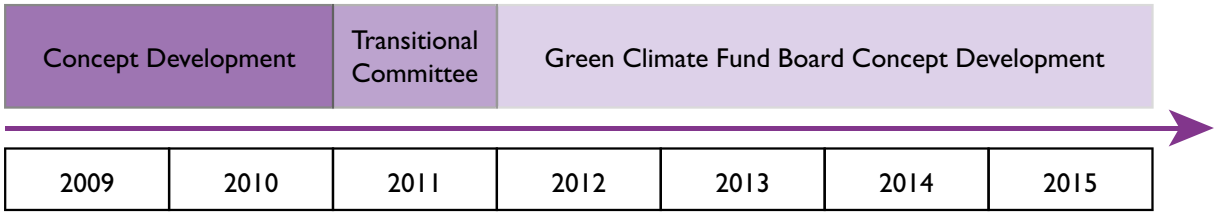

The idea behind the EDA Pilot Phase is not merely to devolve funding decisions (activity approvals) from the GCF Board to an accredited National Implementing Entity, but also to test ('pilot') in-country funding mechanisms that combine a consolidation of international support at the national level through a national oversight and steering body, and in-country devolved funding approval through local intermediaries.

This history begins with a look at some 'precursors' of EDA. The concept of using devolved national and sub-national decision-making bodies for internationally funded activities is not new – it has existed for at least half a century. The selection of examples in the first section describes four such precursors, chosen either for their prominence or for their specific characteristics: the post-war Marshall Plan for European reconstruction; the

African Autonomous Development Funds; the Indonesian Kecamatan (sub-district) Development Programme; and the Brazilian Amazon Fund.

The subsequent three sections describe three eras that can be distinguished in the evolution of the idea of EDA (see **Figure 2**) in the international climate finance regime: the development of the concept, which lasted until the Cancun Climate Change Conference at the end of 2010; the Transitional Committee drafting the GCF Governing Instrument; and the current era of the GCF Board.

**Figure 2: The three eras of EDA**

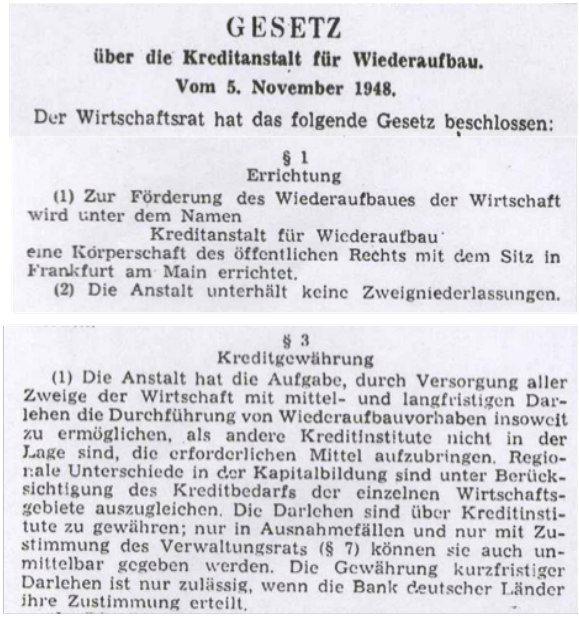



# I. PRECURSORS TO THE EDA

## Marshall Plan in Germany (1948-52)

### *Genesis*

In June 1947, the US Secretary of State George Marshall announced a European Recovery Programme (ERP). Under the ERP, which became popularly known as the Marshall Plan, the US provided one per cent of its GDP over four years to support the recovery of post-war Europe. This amounted to US $13.75 billion (roughly €122 billion in current terms[2]), which was distributed across 18 countries with Germany receiving US $1.42 billion (€14 billion).



GESETZ
über die Kreditanstalt für Wiederaufbau.
Vom 5. November 1948.

Der Wirtschaftsrat hat das folgende Gesetz beschlossen:

§ 1
Errichtung

(1) Zur Förderung des Wiederaufbaues der Wirtschaft wird unter dem Namen
Kreditanstalt für Wiederaufbau
eine Körperschaft des öffentlichen Rechts mit dem Sitz in Frankfurt am Main errichtet.

(2) Die Anstalt unterhält keine Zweigniederlassungen.

§ 3
Kreditgewährung

(1) Die Anstalt hat die Aufgabe, durch Versorgung aller Zweige der Wirtschaft mit mittel- und langfristigen Darlehen die Durchführung von Wiederaufbauvorhaben insoweit zu ermöglichen, als andere Kreditinstitute nicht in der Lage sind, die erforderlichen Mittel aufzubringen. Regionale Unterschiede in der Kapitalbildung sind unter Berücksichtigung des Kreditbedarfs der einzelnen Wirtschaftsgebiete auszugleichen. Die Darlehen sind über Kreditinstitute zu gewähren; nur in Ausnahmefällen und nur mit Zustimmung des Verwaltungsrats (§ 7) können sie auch unmittelbar gegeben werden. Die Gewährung kurzfristiger Darlehen ist nur zulässig, wenn die Bank deutscher Länder ihre Zustimmung erteilt.

The Plan used two related but distinct mechanisms. First, raw materials, food, machines and other goods were purchased in the US and allocated to ERP recipient countries, where they were sold in the local currency, and second the proceeds were collected in so-called counterpart funds at the central banks for domestic investment purposes.

The Plan was administered by the Washington-based Economic Cooperation Administration (ECA), created by the Economic Cooperation Act of 1948 as an agency of the US Government, under the guidance of the Organization for European Economic Cooperation (OEEC).[3] It followed traditional centralised decision-making practices: the ECA was a huge organisation with more than 3,700 staff; a head office in Washington; and a European head office in Paris, all busy "*elaborating detailed guidelines and rules and with ensuring their scrupulous observation*," according to Heinrich Harries, author of a history of the implementation of the Marshall Plan in Germany.[4]

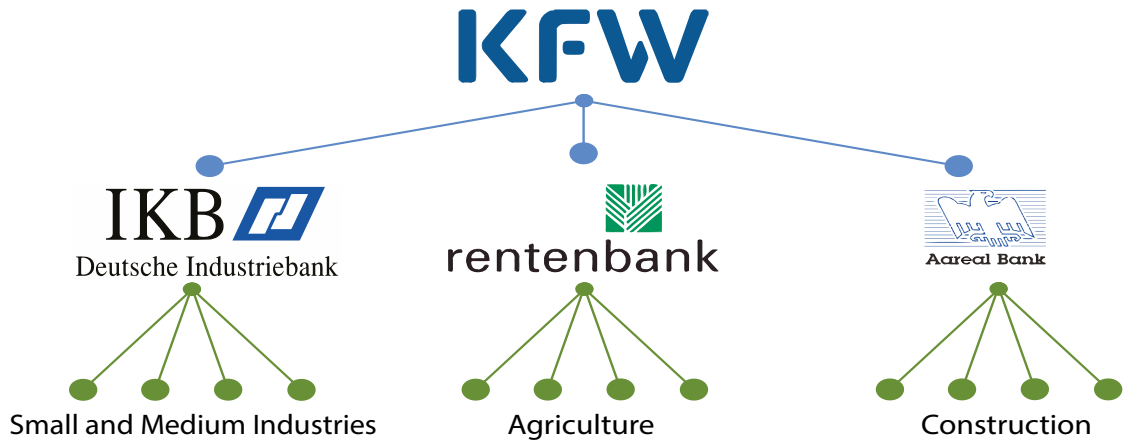
According to Harries, more than 300 ECA officials in Frankfurt and later in Bonn watched over the Germans, who had to submit medium-term overall plans, investment plans and substantiations for each individual project that was to be financed for examination and approval in Frankfurt, Paris and Washington.

At the heart of the Marshall Plan implementation in Germany was the establishment of the *Kreditanstalt für Wiederaufbau* (KfW) as a compromise between "*the British wish to establish a central reconstruction agency*" and the American push for "*the establishment of a decentralised banking system with several regional central banks*".[5] KfW was created in November 1948, when the *Wirtschaftsrat* (Economic Council) adopted the KfW Law.[6] Following the entry into force of the Constitution of the Federal Republic of Germany in 1949, KfW became a corporation under public law directly answerable to the federal government.[7]

The aim, from the beginning, was not to set up a conventional bank but rather a "capital distribution agency" that would pass on the counterpart funds to three central institutions: the Industriekreditbank (IKB) for industry; the Landwirtschaftliche Rentenbank for agriculture; and the Bau- and Bodenbank for construction of housing (see **Figure 3**).

"From the outset we wish to avoid the scenario of a large institution entrenching itself with a huge bureaucracy and encroaching on the territory of the established banks," said Alfred Hartmann, Finance Director of the *Wirtschaftsrat*, in August 1948. "The KfW is to be a small and unbureaucratic body with a small management board, a capital distribution agency that passes on capital from domestic sources, from international sources or from counterpart funds as quickly as possible."

**Figure 3: Original conception of KfW**




The principle of subsidiarity demanded by the Americans was therefore supplemented by the principle of bank transmission – routing the loans through the banking industry.

***Operationalising the Bank Transmission Principle***

The method of transmitting funds via banks was practiced in the housing, agriculture and manufacturing sectors. According to Harries, lengthy discussions were held before agreement was reached on the details of this procedure, with banks asking many critical questions:

- Why did the KfW want to examine individual loans and have the claim and collateral assigned to itself if it concurrently demanded full liability ("primary liability") from the bank?
- Surely it would make things much easier for everyone concerned if the KfW were to give a blanket credit to the transmitting bank specifying a very vague purpose and without bothering about the individual

loans.

- Conversely, if the KfW insisted on concerning itself so intensely with each individual loan, why should it not assume the liability, too?

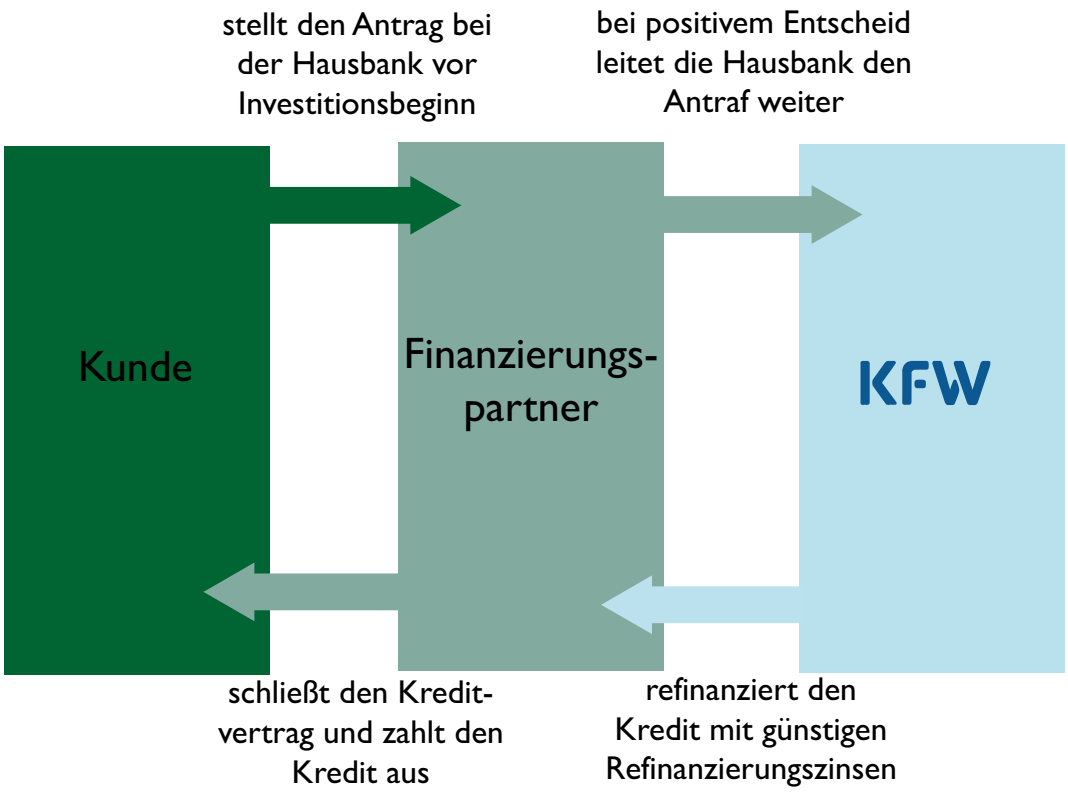
While KfW did grant blanket loans against mortgage bonds in housing and agriculture sectors, it was reluctant to do so in the manufacturing sector, however, much to the chagrin of the IKB, which was keen to secure maximum market shares in favour of its small and medium-sized clients.

### *Progressive simplification: The Status Quo*

With the growing consolidation of the German banking industry, KfW was able to progressively simplify its transmission procedure in subsequent years (see **Figure 4)**. KfW has no branch offices of its own, but partners with savings banks, cooperative banks and commercial banks. These banks conduct the appraisal of the borrower, evaluates their plans and decides whether to finance the project and to apply for a loan from KfW. Once the loan has been approved by KfW, the banks on-lend to the borrower.[8] The bank and the borrower usually know each other already, making it easier for the bank to judge plans more accurately, and a relationship of mutual trust usually exists, that facilitates the loan decision. In some promotional products, especially in the start-up-financing KfW facilitates the granting of a loan by assuming part of the liability – it assumes up to 80 per cent of the credit risk in its promotional programme ERP Gründerkredit StartGeld.

In short, in Germany, KfW uses precisely the sort of in-country devolution of funding decision that is meant to be one of the hall-marks of programmes under the EDA Pilot Phase. It should also be highlighted that it was the German authorities who were driving from the outset for this model, and that it has proven to be highly successful in engaging local stakeholders at scale.

**Figure 4: KfW in October 2015**



## Autonomous Development Funds (1995-97)

In 1995, the Swedish Dag Hammarskjöld Foundation (DHF) and the African Association for Public Administration and Management proposed the idea of African Autonomous Development Funds (ADFs). The model envisaged a public but politically independent institution, catering for both government and civil society, with the ADFs acting as funding, not implementing, entities, aggregating finance from a variety of sources.[9] According to the report of an expert consultation on the role of these autonomous funds,[10] the ADFs were proposed in response to the following concerns and conclusions:

- The delivery mode and a relationship of trust are critical variable[s] in determining the effectiveness of foreign aid.
- Donors need to give up the idea that the more control they have over the preparation of a given project the more likely it is that the project will yield positive results. What is needed is a modification of this process so that donor coordination takes place in response to the demands of recipient institutions.
- Development funding must be available not only at the central level of government but also at lower levels. The central control of decision-making, information flow and resource allocation can be broken if local institutions, including local government, are able to enhance their financial autonomy vis-à-vis central government.

The overall aim of the ADFs, according to the report, was to *encourage greater innovativeness and effectiveness in the use of development resources*, by complementing existing transfer mechanisms (such as direct resource transfer to governments or non-governmental organisations).

Göran Hydén, who at the time was Chairman of the Board of Trustees of the DHF and instrumental in developing the idea of ADFs, explains in Hydén (1999) that the prime motivation behind the ADF project was "the idea of reforming foreign aid so that it becomes more accountable to constituencies in the recipient country". The ADF model, he continues, "is meant to provide a demand-driven use of foreign aid that springs from initiatives that are genuinely conceived and owned by African organisations or communities. It caters for public, private and voluntary sector initiatives on a competitive basis, which gives equal chances of financing to government (central as well as local), voluntary organisations, and possibly – depending on the mandate of the fund – also private sector enterprises".

Both government and local-level actors were meant to be part of the ADF project. Government was meant to be involved in three different ways: approving the establishment of ADFs by signing a contract with one or more donors to that effect; as part-owner of the fund; and as applicant – specific government departments at the central or local level could compete for financing from the ADFs.

Given that the ADF was an operative instrument rather than a funding mechanisms, the extent to which grassroots communities and groups benefit would depend on how intermediary organisations – governmental or non-governmental – are capable of incorporating these groups and communities into their activities.

Unfortunately, the ADF concept ultimately failed to generate the necessary support and interest, and the last major workshop on the topic was held in Tanzania in February 1997. However, the concept of devolving decision-making to the local level which lies at the heart of EDA was independently picked up with considerable success (with respect to longevity and scale of operations) the following year in Indonesia.

## Kecamatan Development Program (1998-2007)

The Kecamatan ('sub-district') Development Programme (KDP) was launched in Indonesia in 1998 to address rural poverty and improve local governance.[11] It sought to empower village communities by making block grants directly to sub-districts and by providing intensive social and technical assistance to facilitate the building of village-level capacity and the promotion of participation, transparency, and accountability in community-driven activities.

Of particular relevance for climate finance was the third phase in 2003, in which the focus shifted from poverty reduction to governance. The aim of this third phase was to build local government capacity to support community-driven development, and to support the development of permanent inter-village bodies to implement multi-village projects, mediate disputes, and give villages a stronger voice vis-à-vis higher levels of government.[12]

The programme led to the development of project-related skills among communities through a process of 'learning by doing'. This involved training in democratic decision-making and intensive awareness-building, using a participatory approach. Moreover, the devolved model employed by the KDP had the knock-on effect of generating greater trust and fostering civic energy and ownership, allowing villages to negotiate amongst themselves and propose investments to the Kecamatan Council for approval.

KDP was initially funded through government budget allocations, donor grants, and loans from the World Bank. The funds were transferred into a special designated account in the Bank of Indonesia and were used to provide 'block grants' of Rupiah 500 million –1.5 billion (US$50,000–150,000) – directly to sub-districts (consisting of 20–50 villages) for small-scale infrastructure, social, or economic activities. This decentralised approach was well suited to leveraging private and public lines of credit, targeting local priorities, and building local capacity.

The KDP approach also demonstrated that it makes sense to use "existing national mechanisms and institutional arrangements where possible, especially where they have proven experience in reaching vulnerable sections of society that will need climate finance the most, and in fostering local decision-making".[13] Indeed, this approach may hold the key to a problem that is becoming more and more apparent in the context of climate change adaptation: that climate impacts can vary greatly even over small geographical areas, and will need locally-relevant solutions that take on board local community knowledge and experiences. Planning and decision-making must therefore be localised rather than centralised.

The KDP approach shows a way in which climate funds can be successfully channelled *at scale through local public sector intermediation to local communities* to enable them to implement locally identified solutions. In 2007, KDP evolved into a national-level 'incentivised community block grant programme' – *Program Nasional Pemberdayaan Masyarakat Mandirithe* (PNPM), or the National Program for Community Empowerment. PNPM, now in its fourth phase, is the largest Community Driven Development project in the world according to the World Bank.

## Amazon Fund (2008- )

The Amazon Fund, managed by the Brazilian Development Bank – the B*anco Nacional de Desenvolvimento Econômico e Social* (BNDES) – was established in 1998 with US$1 billion provided by Norway as part of the Norwegian International Forest Climate Initiative (NICFI), and with technical assistance from Germany to

combat deforestation and promote the sustainable use of natural resources. The Fund is most noted for its results-based finance for REDD+ and for achieving high standards of transparency and accountability.[14]

As explained in some detail in Müller, Fankhauser, and Forstater (2013),[15] the NICFI funds are disbursed ex-post, against national results, at the rate of US$5 per tonne of carbon dioxide, in respect of avoided emissions from deforestation below an agreed reference level (this takes into account historic trends, future pressures, and nationally appropriate levels of self-financing).

These NICFI payments for achieved results are then used by the Amazon Fund to finance future reductions. The funds are allocated in accordance with Brazil's Plan of Action for the Prevention and Control of Deforestation in the Amazon (PPCDAM) as well as its National Plan for Climate Change (PNMC). It provides non-reimbursable loans, which are cancelled at the end of the project period once the BNDES verifies that the funds have been spent in line with agreed terms. As explained by Forstater *et al.* (2013) the Fund's major innovation *was to establish a payment-for-performance fundraising model [in which] international donors provided financial support to deliver the objectives of the fund equivalent to the emission reductions achieved*. These are estimated on the basis of hectares of avoided deforestation below a set baseline, average carbon stocks, and a fixed carbon price.

Crucially, funding decisions are made in country, between Brazilian states and actors, with guidelines and criteria set by the Guidance Committee (COFA). Civil society is also active on the Guidance Committee, which itself is composed of federal and state agencies representing multiple sectors and stakeholder groups. Part of its success lies in its 'start-fast and evolve' model, which ensures that new institutions are able to learn and adapt. A clear lesson from the GCF from the Amazon Fund "*is that on-going learning cycles of review, reflection and design evolution should also be built into the process of institutional development of emergent national direct access institutions*".[16]

The international contributor is not involved in making any activity approvals whatsoever – they are all taken in country. NICFI is only interested in the aggregate result of these activities in terms of tonnes of carbon dioxide reduced. This is why the Amazon Fund *is often held up as an example of how a nationally owned and managed, inclusive climate change fund can be established*.[17]

# II. DEVELOPING THE EDA CONCEPT (2009-2010)

## Reformed Financial Mechanism

The previous section illustrates that the key elements of EDA – the ideas of a national consolidation of international public sector funding streams, and the devolution of funding decisions to the national and sub-national levels – have been put into practice outside the confines of climate finance, and long before there was any talk of climate change. While the "direct access" terminology clearly reflects the eponymous access modality of the Adaptation Fund,[18] the "enhancement" in terms of "National Funding Entities"[19] can be traced back to Müller and Gomez-Echeverri's *The Reformed Financial Mechanism of the UNFCCC: Architecture and Governance* of April 2009, which introduced climate change funds as *national climate change decision and funding hubs* for *in-country direct access to funding*.

Considerable work has been carried out at Oxford Climate Policy (OCP) – within and outside the ecbi – on developing these ideas (as witnessed in the appended ecbi/OCP EDA Literature List), but it would be wrong to give the impression that no one else had been working on similar ideas at the time. Indeed, three proposals

consistent with the EDA idea were presented at the 2009 ecbi Bonn Seminar: the UK Compact Model; the Swiss proposal for National Climate Change Funds; and the Tropical Rainforest Facility proposed by the Prince of Wales' Rainforest Programme.[20] There was also the "Indian Proposal" based *inter alia* on input from ecbi meetings – in particular, a meeting on 9 August 2009 on *Key Issues on Governance of Climate Change Finance*,[21] which had a direct effect on the UNFCCC negotiations, to which we shall now turn.

### Bali Action Plan

The Bali Action Plan, adopted at the thirteenth Conference of Parties (COP13) in Bali, included climate finance as one of four pillars for a new negotiating process under the UNFCCC, for completion by COP15 in Copenhagen two years later. It launched the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA), which held seven sessions between Bali and Copenhagen, developing ever-larger draft negotiation texts.

The idea of EDA was first introduced into the AWG-LCA deliberations on 19 May 2009 in a submission by the Indian Government (Paper No. 20C) which envisaged that a proposed Executive Board of the Financial Mechanism could "*authorize the **national entities** of developing country Parties as designated by such Parties **to approve activities, projects, programmes for funding***" and that there would be "*relevant assessments for disbursement to the **designated national funding entities** of the developing country Parties*" [emphases added].

On 22 June 2009, these same words were published as part of a Revised Negotiation Text under the section on Institutional Arrangements/Structure, but were ultimately left out of the Report of the AWG-LCA to the COP in Copenhagen. The section on Institutional Arrangements in the finance chapter had lost all references to institutional arrangements at the national level. Instead, it focused exclusively on the establishment of a Fund/ Executive Board, or a High-level Forum.

The Cancun Agreements, adopted at COP 16 in Cancun, in 2010, were a significant step forward for climate finance – it was agreed to create the GCF; a Standing Committee on Finance; and a Transitional Committee (TC) for the design of the GCF. However, the finance section still made no reference to national institutional arrangements, let alone anything like EDA in particular. The battle for EDA moved away from the arena of UNFCCC negotiations to the TC, and subsequently to the GCF Board.

## III. TRANSITIONAL COMMITTEE (2011)

In early 2011, the Chair of the LDC Group requested the ecbi to provide support for the Group's representatives on the TC. Benito Müller, ecbi Director, was appointed adviser to Carol Mwape *(see picture, left)*, the TC member from Zambia, also representing Least Developed Countries (LDCs). In this function, he organised three meetings between the Finance Circle and TC members, in conjunction with the first three TC meetings, for an informal exchange of views on a number of issues.

The first of these discussion meetings took place on 28 April 2011, in Mexico City. Müller gave a short introductory speech, focusing on how EDA could be used to achieve two otherwise conflicting sets of expectations – that the GCF is to start disbursing as soon as possible, and that it is to work "*at scale*".[22]

The second meeting took place on 13 July 2011 in Tokyo. Müller launched the discussions with short introductory remarks on Dissecting the Green Climate Fund,[23] introducing the idea that, apart from what became known as the 'Private Sector Facility', the GCF should also have a 'Multilateral Funding Division' and a 'Direct Funding Division' (for enhanced access).

The third ecbi discussion meeting, which took place on 10 September 2011 in Geneva, had a slightly different format, with three introductory presentations on EDA. Katja Roll from the Global Fund to Fight AIDS, Tuberculosis and Malaria gave an introduction to the Country Coordination Mechanism of the Global Fund. This was followed by an introduction to the National Climate Finance Institutions Support Programme, presented by Clifford Polycarp from the World Resources Institute, Washington D.C. Müller concluded with a proposal for definitions of direct access based on those adopted by the Adaptation Fund Board (based on a submission he made to the TC on 'Enhanced Direct Access').

The final meeting of the TC itself took place on 16–18 October 2011 in Cape Town. On the penultimate day, during informal consultations, Carol Mwape provided the TC Chair with text that ultimately became part of the direct access paragraph of the GCF Governing Instrument:

> *47. ... 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.*

## IV. GREEN CLIMATE FUND (2012-15)

As mentioned in the *Technical paper on the second review of the Adaptation Fund*,[24] the Adaptation Fund pioneered not only the implementation of the direct access modality, but i*t has also pioneered enhanced direct access through the approval of the proposal of the* South African National Biodiversity Institute*, a national implementing entity in South Africa which includes a small grants facility for enabling local level responses to climate change*.[25] And yet, the main locus of the debate on EDA has been and still is the GCF Board. This section traces how EDA was developed within the GCF between 2012 and 2015, including consultations in Delhi, Bali, Barbados and Oxford which proved instrumental in addressing accreditation and ultimately leading to the approval the EDA Pilot Programme.

### 2012: Taking stock

Although the deliberations on the GCF started in August 2012, the consideration of the additional modalities that further enhance direct access referred to in paragraph 47 of the GI did not feature on the agenda until June 2013. Yet the debate on the EDA idea was not limited to the GCF Board room, which is why this seems to be a good point in the narrative to take stock of some of the 'outside' discussions that had taken place up to that point in time.

Once EDA was formally included in the GCF GI, the discussion turned to how to support this access modality to safeguard the ambition and legitimacy of the GCF.[26] For instance, enhanced devolution requires a "parallel scale up in capacity transfer"[27] to build fiduciary systems, transparent multi-stakeholder allocation systems, and appropriate legal and reporting arrangements.[28] Moreover, the division of responsibility and liability between the global funding institution and national entities required clear boundaries.

EDA quickly proved to be the preferred access modality for many countries; however, concerns were immediately raised about the challenge ahead for some to meet the criteria for accreditation.[29] "While this modality has the potential to greatly increase country ownership over fund allocation and coherence in accessing both multilateral and bilateral resources [...] access through this track will likely require more substantial financial management capacities".[30] Organisations such as the UN Environment Programme, UN Development Programme and the African Development Bank (AfDB) turned their attention to offering

guidance for establishing transparent and effective NIEs. AfDB and others also proposed that entities already accredited under the Adaptation Fund could be allowed automatic accreditation under the GCF (subject to a potential maximum cap in terms of project size) in order to minimise the transaction costs associated with accreditation process.[31]

## 2013: Delhi Vision Consultation and the Launch of the Considerations

In February 2013, Dipak Dasgupta (*see picture, left*), GCF Board member for India, convened a consultation of a number of Board members and their advisers under the auspices of the Indian Finance Ministry, to discuss their Vision for the GCF. This process led to the Government of India's Delhi Vision Statement.

A number of Notes were prepared to feed into this consultation process. Two of them were of particular relevance in the present context: the draft Vision Statement prepared by Prodipto Ghosh, Chair of the Task Force on Climate Change of the Federation of Indian Chambers of Commerce and Industry (FICCI); and a background paper on access modalities presented by Müller.

In his presentation, Müller noted that countries are in the process of setting up national climate funding instruments – or National Funding Entities (NFEs) – as their preferred conduit for climate change finance, both for domestic and international support. It was therefore difficult to see how the GCF could fulfil its mandate to be country-driven if it did not adopt EDA through such NFEs as one of its access modalities. He also argued that the GCF could only be scaled up to an operational level, fit for its purpose, through the large-scale use of EDA. He concluded by proposing that the GCF should launch an **EDA pilot programme** to engage existing national instruments, build their capacities, and create the necessary in-country enabling conditions for large scale EDA programmes by the GCF.

Following the presentation of these Notes, V. Saibaba, chairman of the FICCI Task Force on Solar Energy, presented 'Industry Recommendations on Green Climate Fund' (see **Box 1**), which were fully consistent with the idea of EDA.

**BOX 1: Indian industry recommendations for GCF**

- The National Funding Entity (NFE) should be flexible and non-bureaucratic
- Transfer of resources from the GCF to the NFE, and from the NFE to the private sector, should be simple and transparent
- NFEs should decide what and how to fund
- Utilise existing best possible/proven delivery mechanisms
- Programme/project approval at the country level

***GCFB 3***. At its third meeting, in Berlin (March 2013), the Board noted that there was a convergence among the views of its members *to commence as a fund that operates through accredited national, regional and international intermediaries and implementing entities* (Decision B01-13/06).

***GCFB 4***. At the fourth GCFB meeting, in June 2013, Dasgupta was instrumental in getting paragraph 47 operationalised in the Board decision to consider additional modalities to enhance direct access at its first meeting in 2014 (Decision B.04/06).


***GCFB 5***. At the fifth GCFB meeting in Paris, the Board set up an Accreditation Team (Decision B.05/08) to oversee the development by the Secretariat of *additional modalities that further enhance direct access, including through funding entities … for consideration by the Board at its first meeting in 2014.* (The Board member from Sweden, Jan Cedergren (*see picture, far left*), was selected to serve as Chair of this team, while David Kaluba from Zambia (*see picture, above right*), representing LDCs, was selected as Vice Chair.

## 2014: The Bali Discussion and the Barbados Decision

***GCFB 6***. On 17 February 2014, the Ministry of Finance of the Republic of Indonesia, host to the sixth meeting of the GCFB, convened a Luncheon Discussion on Country Ownership and Enhancing Direct Access in Nusa Dua, Bali.

The discussion was designed to provide a space in which both the GCFB and observer organisations could examine key issues that needed to be addressed in operationalising the GCF, particularly with regard to realising country ownership by enhancing direct access in different ways, based on country circumstances. It featured presentations of ideas from Board members/alternates and experts, as well as lessons learned from national and international funding institutions.

An introductory presentation by Mwape, former LDC TC Member, was followed by presentations on the Brazilian Amazon Fund; the Indonesia Climate Change Trust Fund; the Bangladesh Climate Change Resilience Fund; and the EU Global Climate Change Alliance.

The purpose of this event was to provide some further input to discussions at the Bali meeting, where the topic of EDA was, for the first time, explicitly on the Agenda as item 15. However, due to time constraints, and also because it was felt that the relevant Background Paper on *Additional Modalities that Further Enhance Direct Access, including through Funding Entities* (Version 1, GCF/B.06/15) needed further work, giving more focus to the topic of EDA,[32] no decision was taken by the Board [GCF/B.06/18].

In March 2014, the ecbi published two items with the aim of supporting the revision of this Background Paper by the Secretariat: an ecbi Policy Brief on *Devolved Access Modalities: Lessons for the Green Climate Fund from Existing Practice; and What is EDA? A Rough Guide to Enhanced Direct Access*.

The Policy Brief on devolved access modalities explains the relationship between EDA and 'programmatic approaches', and addresses certain concerns raised about this decentralised/devolved access model, using seven case studies to illustrate current practices and provide ideas and insights on how the GCF might design its own approach.

The Rough Guide, meanwhile, provides the key conceptual tools needed to understand EDA and exemplifies the main access models graphically with a number of figures; these are intended to illustrate the key differences between these models.

***GCFB 7***. The seventh meeting of the GCFB in Songdo, South Korea, from 18-21 May 2014, was focused exclusively on creating the preconditions for the initial resource mobilisation for the Fund.

In early October, the Secretariat published a completely revised version of the Background Paper and draft Decision on Additional Modalities that Further Enhance Direct Access, including through Funding Entities

(Version 2, GCF/B.08/09). The paper contains a chapter on the general structure, together with three illustrative examples of EDA (two from an ecbi Policy Brief) followed by a proposal for the GCFB to launch a pilot phase for enhancing direct access.

***GCFB 8***. On 13 October 2014, the eve of the Barbados meeting, the ecbi organised a GCFB Caucus seminar to discuss the findings of this ecbi Policy Brief. The event was attended by 19 Board members, and was generally seen to have been very useful in helping to clarify some issues and misunderstandings, and thus contributing to the smooth passage of the EDA decision (GCF/B.08/45) by the Board later in the week. The decision:

> *(a) Requests the Secretariat, under the guidance of the Accreditation Committee and in consultation with relevant stakeholders, to prepare terms of reference for modalities for the operationalization of a pilot phase that further enhances direct access, …, for approval by the Board at its ninth meeting; these terms of reference will launch the pilot phase; and*
>
> *(b) Clarifies that the terms of reference will specify, inter alia: (i) The objective of the pilot phase; (ii) The type of entities to be involved; (iii) The specialized fiduciary standards required; (iv) The type of activities to be undertaken; (v) The timeframe of the pilot phase; and (vi) The financial volume of the pilot phase.*

The additional specification of the elements that the terms of reference should define reflects conversations with board members attending the ecbi GCFB Caucus Seminar.

The three champions of EDA, Jan Cedergren, Dipak Dasgupta, and David Kaluba were again instrumental in bringing about this land-mark decision.

## 2015: EDA Pilot Phase and Oxford Launch Celebrations

In between the eighth and the ninth GCFB meetings, the GCF Secretariat sought input from stakeholders to revise Version 2 of the Background Paper. The ecbi Director put forward that:

- There could be a call to National Designated Authorities (NDAs) for Expressions of Interest (regarding participation in the EDA Pilot Phase), involving the nomination of a gateway intermediary (which is what has been referred to as a 'National Funding Entity' or NFE) and a proposed National Pilot Programme (NPP), to be managed by the nominated NFE.
- The NPP should be governed/strategically guided by a national governing body/committee in order to create genuine country ownership and to facilitate mainstreaming at the national level.
- The NPPs should target (eligible) project activities put forward by local stakeholders (medium, small and micro-enterprises, local communities etc.).
- Following paragraph 43 of the GCF's Governing Instrument, the TORs for the EDA Pilot Programme should encourage the use of local intermediaries (local bank branches, local authorities).

***GCFB 9***. These suggestions were largely reflected in Version 3 of the Background Paper (GCF/B.09/05) and presented at the initial session on the EDA agenda item during the ninth meeting of the Board (24–26 March 2015 at the GCF headquarters). However, it was once more not taken up, due to time constraints (see **Box 2**).

***GCFB 10***. The tenth GCFB meeting in Songdo operationalised EDA on its final day (9 July 2015), approving the TORs and launching a five-year ***pilot phase on enhanced direct access***.[33] This was the crowning moment of an arduous three-year process to operationalise the paragraph on direct access in the GCF's Governing Instrument, which mandated the Board to consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes (see Section 3).

According to the approved Terms of Reference, the five-year EDA Pilot *will initially aim to provide up to US$200 million for at least ten pilots, including at least four pilots to be implemented in Small Island Developing States, the least developed countries, and African States*.

The EDA Pilot *will include devolved decision-making to regional, national, and subnational entities … and stronger local multi-stakeholder engagement*.

*The decision-making on the specific projects and programmes to be funded will be made at the national or subnational level, and such direct access is a means to increase the level of country ownership*[34] *over those projects and programmes. This implies that the screening, assessment and selection of specific pilot activities would be made at the regional, national or subnational level.*

**BOX 2: Excerpt from the *Earth Negotiations Bulletin* on the 9th Meeting of GCF Board**

'Board members expressed strong support for this initiative, with many calling for dedicating more than US$100 million and longer than two years to the pilot, and some advocating increasing the number of pilot countries. Others suggested it was too early to determine the correct scale of funding before seeing the country proposals. Concerns over the accreditation process for entities from the pilot countries were expressed, including its sequencing with the submission of proposals from countries and the lack of an explicit role for the Accreditation Committee.

While agreeing that EDA should be a signature modality of the Fund, Board members asked for further clarification on: the role of the NDA; precise differences between the EDA and the international access modality; the specific role of the Fund's Accreditation Committee and Panel in the EDA modality; strengthening learning, transparency, information sharing, multi-stakeholder and gender elements in EDA; and whether funds would be provided as grants or loans.

In response to questions, the Secretariat proposed, *inter alia*: that NDAs should drive the preparation of proposals; a national oversight body could help ensure increased multi-stakeholder participation under EDA; the EDA modality should rely on existing frameworks of the Fund to the extent possible, including for oversight, accountability, monitoring and assessment; and the Accreditation Committee and Panel should be involved.

***Outcome***: The matter was not taken up again due to time constraints and will be discussed at a future meeting.'

*At the same time, mechanisms will be set up to increase national oversight and multi-stakeholder engagement at the country level.*

Countries *can nominate an entity for the implementation of the country pilot* (National Implementing Entity), *such as a public-sector institution (development bank, national fund, etc.) or private-sector entity (commercial bank, investment fund, leasing company, etc.), operating at the regional, national or subnational level*.

**National Oversight and Steering Function**. Country pilots will be overseen and strategically guided at the national level. The oversight and steering function *should include the NDA or focal point, and representatives of relevant stakeholders, such as government, private sector, academia, civil society organizations, and women's organizations*.

***Engaging local stakeholders through local intermediation***. *In implementing country pilots, the designated NIEs will work:*

> *i. with various types of local actors … including public institutions, local bodies, non-governmental organizations, community-based organizations, actors from the informal sector, and private enterprises, particularly small and medium sized enterprises (SMEs). A significant share of small-scale activities should directly support communities or SMEs through, for example, small-scale grants or extended line of credit.*
>
> *ii. through various types of local actors in the development of potential projects and programmes, particularly*

*local intermediaries and those addressing the needs of vulnerable communities*.

These key requirements on country pilots match the conclusions drawn in two OCP/ecbi papers published in the first quarter of 2015, namely:

- *Consolidation and Devolution of National Climate Finance: The Case of India*
- *Engaging Micro, Small, and Medium Enterprises in developing countries*

One of the reasons why the EDA Pilot decision is (potentially) momentous is that Board members from both developed and developing countries have started to refer to EDA as the GCF 'signature access modality' (*see Box 2*). It therefore stands to reason that EDA, and more

precisely the ideas reflected in the EDA Pilot, should and will have a significant impact on the strategy debate that was also launched at the tenth meeting.

The eleventh **ecbi Oxford Seminar** was held on 10 & 11 September 2015 at Trinity College and the Examination Schools in Oxford, UK. It was attended by 16 Fellows (senior negotiators from developing countries, including the chairs of the LDC Group, the African Group and the Alliance of Small Island States), who were joined by 10 leading negotiators from Europe.

Participants celebrated the launch of the EDA pilot by the GCF at a dinner on 10 September at Blenheim Palace (*see picture, above*). A brief introduction to EDA, a new funding modality under the GCF, which focuses on promoting national and sub-national decision-making, was given by ecbi Director Benito Müller. This was followed by a statement by Ambassador Jan Cedergren, GCF Board Member from Sweden, which was read out by Ambassador Bo Kjellén, ecbi Advisory Committee co-chair.

Apologising for his absence due to an emergency, Cedergren said: 'I would like to leave with you a few words regarding a very important achievement in the GCF Board where the host of this seminar, Benito, and ecbi have played a decisive role'. He noted that successful implementation of the EDA Pilots will promote the overall ambitions of the GCF and show the way on how to provide climate finance in a sustainable and innovative way.

This was followed by an after-dinner speech by Prodipto Ghosh, former Secretary to the Government of India, Ministry of Environment, Forests and Climate Change, who has been instrumental in fostering EDA in India, not only by co-authoring the *Delhi Vision Statement* with Dipak Dasgupta, but also by co-facilitating the New Delhi Consultation on Consolidation and Devolution of Climate Finance in India.

## V. IMPLEMENTING THE CONCEPT (2015-2020)

### New Delhi Consultation

An informal roundtable consultation with senior government officials on Consolidation and Devolution of Climate Finance in India took place at the India International Centre, New Delhi, India, on 7 August 2015.[i] This consultation was organised by Oxford Climate Policy and the Indian Keystone Foundation, sponsored by BothEnds and ecbi, and co-facilitated by Rita Sharma, former Secretary to the Government of India, Ministry of Rural Development, and Prodipto Ghosh, former Secretary to the Government of India, Ministry of Environment, Forests and Climate Change.

Among the 23 participants were representatives from the Ministries of Agriculture; of Environment, Forests and Climate Change; of Finance; of Health and Family Welfare; of Rural Development; and of Water Resources. The Deputy Managing Director of the National Bank for Agriculture and Rural Development (NABARD) and the Chief General Manager of the Small Industries Development Bank (SIDBI) – two of the designated national implementing entities for the Green Climate Fund (GCF) – and the Indian member of the GCF Private Sector Advisory Group, also participated.

The purpose of the meeting was to:

- Discuss national arrangements for climate finance, both at the national and the sub-national level with a particular focus on access by local stakeholders, such as vulnerable communities and Micro, Small and Medium Enterprises (MSMEs);
- Discuss developments at the GCF, in particular with regard to Enhanced Direct Access; and
- Reach out to government actors who have not been significantly engaged in the climate finance discussions so far, but who could play an important role.

Pratim Roy, Director, Keystone Foundation, welcomed participants to the meeting and, following a tour de table, handed over to Rita Sharma, former Secretary, Ministry of Rural Development, who chaired the first session on existing arrangements for climate finance in India.

The discussion was kicked off with a presentation by Anju Sharma, Head of the ecbi Publications and Policy Analysis Unit, summarising her recent study on 'Consolidation and Devolution of National Climate Finance: The Case of India' (Sharma *et al.*, 2015).

Sharma noted that existing arrangements for climate finance in India were dispersed and fragmentary, and invited participants to consider:

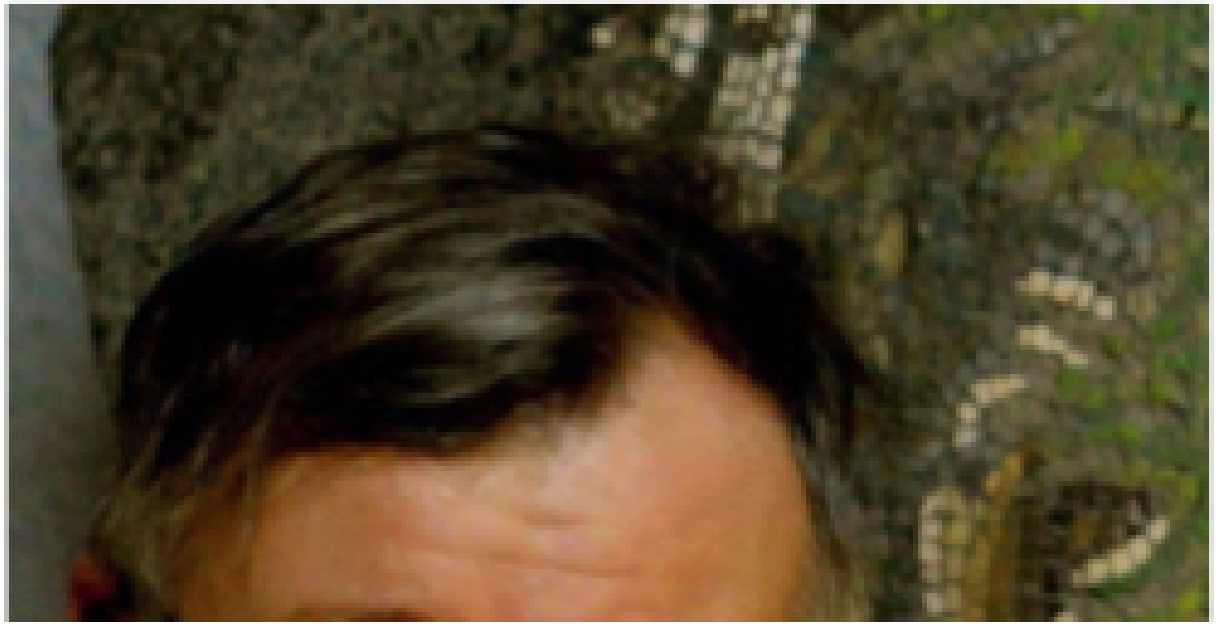
- how existing climate finance sources could work together, to achieve clear and common goals and targets; and
- how they could be made to target better the needs of the poor, and be locally owned and driven.

She pointed to the need for a level of 'consolidation without centralisation', accompanied by a strong agenda for 'devolution', while proposing that existing arrangements – for instance the National Rural Employment Guarantee Scheme that also targets the poor and vulnerable – could also be deployed for climate finance.

There was convergence on the principle that some form of consolidation and strategic guidance of climate finance flow at the national level, for instance through a national steering committee, would be helpful. Minimally, such a committee should be tasked with monitoring domestic climate finance flows, analysing their effectiveness, and providing recommendations of how shortcomings could be remedied. It was also mentioned that the effectiveness of such a committee could be increased if it had some resources, say in the form of a National Climate Fund, which would allow it to carry out some of these remedial actions itself.

At the same time, there was general agreement that in order to provide funding for local stakeholders (public or private), there is a need for in-country devolution of decision-making in general, and of project approval in particular. In other words, it was recognised that local projects need local approvals/intermediation.

The second half of the proceedings focused on the GCF, and the idea of Enhanced Direct Access (EDA). Ousseynou Nakoulima, Director of Country Programming at the GCF, joined the discussion virtually from the GCF headquarters in Songdo, South Korea. After a brief message by Nakoulima on why EDA is of paramount



importance for the GCF, Ghosh, who was chairing the session, asked Benito Müller, Director ecbi, to give an introductory presentation.

Müller's presentation began with a brief history of the idea of EDA, in particular in the context of the GCF. He then presented the latest developments, namely the Terms of Reference (TOR) for an EDA Pilot Phase that had been approved at the most recent GCF Board meeting in Songdo (July 2015). The presentation concluded with a summary of an Indian case study of how to engage MSMEs through local intermediation.

In the course of the ensuing discussion, particularly on the EDA TOR, Nakoulima was able to answer directly a number of questions by participants, who also raised a number of issues that may need to be taken into account in the formulation of a call for proposals for the EDA Pilot Phase, such as the issue of how to handle multiple implementing entities applying for a pilot programme, in particular with respect to the national oversight and steering function required in the TOR.

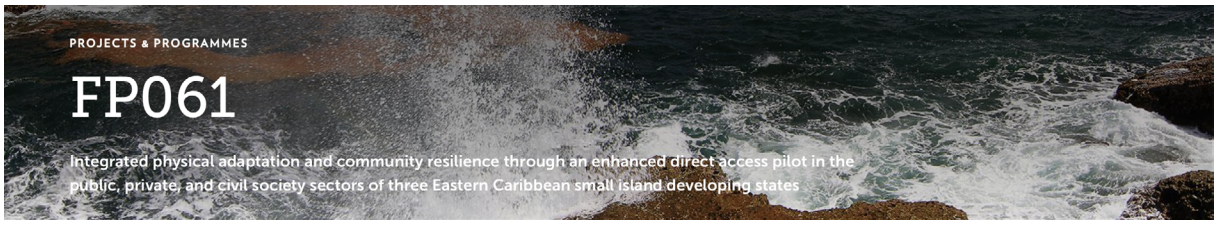
After a round of final statements, Roy closed the meeting by thanking the participants – both physical and virtual – and in particular the two co-facilitators who were key to the success of the meeting, both during and in the run up to it.

## Green Climate Fund programmes

### *Status Quo*

At the time of writing (April 2021), the GCF website lists two EDA programmes[ii] as having been approved, "*with several others in the pipeline*".[iii] They both involve small grants for adaptation (US$10 and 20 million respectively), which is 15 per cent of the US$200 million originally earmarked for the EDA pilot in 2015.


The first one, 'Empower to Adapt: Creating Climate-Change Resilient Livelihoods through Community-Based Natural Resource Management (CBNRM) in Namibia' was proposed by the Environmental Investment Fund of Namibia – accredited as a GCF Direct Access Entity (DAE) in July 2015. It was in the 'project pipeline' for 80 days until Board approval in October 2016 and took another 200 days to start implementation in May 2017. The EIF took on the fund management, implementing it through the Namibian Community-based Natural Resource Management (CBNRM) network comprised of NGOs and the University of Namibia, working in communal conservancies and community forests in the rural communal areas of Namibia. The project has two components: capacity building and a resilience grant facility that "empowers rural CBNRM communities to increase their resilience to climate change through direct access to climate finance." The project is scheduled to last five years, until May 2022.




The second one, 'Integrated physical adaptation and community resilience through an enhanced direct access pilot in the public, private, and civil society sectors of three Eastern Caribbean small island developing states' was proposed by the governments of Antigua and Barbuda, Dominica, and Grenada, with the Ministry of Health and Environment of Antigua and Barbuda as the accredited direct access entity. It was stuck in the pipeline for a staggering 581 days until it was approved by the GCF Board in March 2018; it took another 503 days for implementation to start in July 2019.

The aim of the project is to strengthen the resilience of the three participating Caribbean islands to climate change-related threats, by improving the hurricane resilience of community buildings, homes, and businesses, and through flood prevention measures. Grants for community organisations, together with revolving loans for households and businesses, are used to improve the resilience of infrastructure to withstand category 5 hurricanes. A funding mechanism for public infrastructure (including drainage and irrigation) and ecosystems also reduces disruptions in the water system and improves soil and water conservation, which are all threatened by the results of climate change. The programme is scheduled to last until July 2023.

Clearly this poor uptake was not what the GCF Board had in mind when they agreed that "EDA should be a signature modality of the Fund." [Box 2] What has been the problem, and what should be done?

The reasons for this poor uptake are no doubt manyfold, and in all likelihood led the GCF Secretariat to develop new 'Guidelines for EDA project development' which were launched on 18 January, following a web-based Open Dialogue held in two sessions in early December 2020. This Dialogue aimed to "*engage partners involved in locally led climate action, including GCF's accredited entities and NDAs/Focal Points, in an open discussion that will ensure that their views, insights and practical experience from the implementation of locally led climate projects are reflected in the development of the EDA Guidelines currently under development by the GCF Secretariat*."[iv]


In the course of these dialogues, the designated DAE contacts of the two approved GCF EDA programmes made some interesting observations.

Benedict Libanda, DAE contact for the first programme, recounted the problems they were facing in having that programme approved, such as the fact that while EDA is meant to be a form of programmatic access, they were expected to provide information on each and every activity to be funded, as if the proposal were a traditional bundle of sub-projects, to be approved at GCF Board level. Not surprisingly he therefore recommended that the EDA assessment protocol be adapted to be fit for purpose to assess EDA programme proposals.

As regards the programme itself, he highlighted that of the 33 community-based organisations that have accessed grants through the programme, only one had previously managed a donor-funded project; all the others had followed the traditional route through a 'managing implementing organisation. There has been a mid-term evaluation of the programme with some "*really impressive results. … Direct local-level participation*" he emphasised, "*has proven to strengthen climate change mainstreaming in community actions*" and he concluded that "*EDA is the best thing that ever happened to the GCF, because of the broad participation opportunities it provides to different stakeholders*."

Diann Black-Lane, DAE contact for the second programme (FP061), in turn stressed that DAEs "love the EDA concept" but find it very difficult to actually apply for an EDA programme. The hurdles, she stressed, are just too onerous, put in place to mitigate perceived risks, fiduciary and reputational, that really are not there, at least not to the degree presupposed when the EDA rules and procedures were first formulated.

She said that she and her team were anxious about "what's the next round?", after the independent evaluation. She was adamant that EDA should continue, "but it needs to be restructured away from an RFP into a more programmatic approach where the application for the EDA funding becomes a lot easier."

On 22 February 2021, the GCF Secretariat published an Update on the Enhancing Direct Access Pilot[v] for consideration by the GCF Board. According to this, there are seven active EDA submissions (four as concept notes and three as funding proposals), requesting a sum total of US$134 million of GCF funding. The Update addressed "the unexpectedly low demand for EDA pilots" for which the GCF Secretariat has identified a number of reasons, namely:

> *a) The EDA Pilot was developed and launched at an early stage in GCF operationalization when there was limited experience in GCF modalities and processes.*
>
> *b) The initial terms of reference of the EDA Pilot phase might not have provided an optimal level of guidance to potential project proponents.*
>
> *c) The accredited entities (AEs) that can present EDA funding proposals to the Board are required to be direct access with specialized accreditation functions for intermediation (grant award and/or funding allocation mechanisms and/or on-lending/blending). By the end of 2020, less than half of the GCF portfolio of AEs were*

*in a position to present an EDA funding proposal, pointing at EDA submission requirements as a possible obstacle to the uptake of EDA pilots.*

### *Conclusions*

The most important conclusion to be drawn at this point in time is that the evident shortcomings of the current GCF EDA Pilot are shortcomings in the design of that Pilot but are not shortcomings of the EDA concept itself. In other words, when looking at how to proceed, the important thing is not to throw out the EDA baby with the bathwater, but to make it fit for purpose to serve as a signature modality of the GCF.

The GCF already offers a broad range of support options for project/programme development – such as the Project Preparation Facility – that DAEs can avail themselves of in preparing EDA programmes. The newly published EDA Funding Proposal Guidelines, meant to be a living document to be improved and adapted over time, should provide clarity to the DAEs on how to present EDA programmes.

The EDA approach is now, more than ever, relevant to the GCF as it is directly aligned with the GCF's Updated Strategic Plan for 2020–2023 (promoting locally led climate action and devolved financing approaches through DAEs). Indeed, EDA could, and some say should, become ***the*** signature access modality of the GCF. Climate change funding, international and domestic, still suffers from the lack of reliable and efficient channels to genuinely reach the local level, which is where in many developing countries – particularly the smaller, poorest and most vulnerable – 'transformative action' has to take place. The GCF has the unique chance to pilot such channels through fit for purpose Enhanced Direct Access.

## Adaptation Fund programmes

The Adaptation Fund Board recently approved a pilot Enhanced Direct Access (EDA) funding window "*to further empower entities to directly identify and fund local adaptation efforts*".

EDA is a programmatic funding model in which the decisions on what particular activities are to be funded are delegated to the sub-national level, to involve the beneficiaries. ecbi played a key role in developing the modality under the Green Climate Fund, as a modality that goes one step further towards devolving decision-making than the direct access modality, pioneered by the Adaptation Fund. ecbi also played a role in the development of the direct access modality, which was launched on 17 September 2010.

On 4 November 2020, the Adaptation Fund announced:

> "*The Board's approval of the pilot Enhanced Direct Access funding window for national implementing entities (NIEs) will further empower entities to directly identify and fund local adaptation projects. EDA builds on the Fund's pioneering Direct Access modality, which fosters country ownership in adaptation. The Fund has pioneered EDA already by piloting it in several countries through locally led adaptation projects, … this will build on those by creating an explicit window for NIEs to submit proposals of up to US$5 million per country for EDA projects.*"

A background document on an EDA window under the Adaptation Fund's medium-term strategy lists the following potential benefits of EDA:

- Increased country ownership over project activities, strengthening locally-led climate action.
- Greater in-country decision-making over fund allocation.
- Raised profile of NIEs internationally and nationally.

- Strengthened institutional and individual capacities at the sub-national and local level, and of domestic channels of directing resources to those levels.
- Strengthened alignment of funded projects with domestic priorities.
- Stimulation of innovation through the establishment of national or local mechanisms.
- Increased efficiency in the management of donor funds.

The document also refers to a 2011 submission by ecbi Director Benito Müller to the Transitional Committee for the design of the Green Climate Fund, which first introduced the concept of EDA. For more information, see the ecbi Policy Brief on Enhanced Direct Access: A Brief History (2009–15). The first thematic EDA window was created in 2015 in the Green Climate Fund, but the first multilateral EDA climate programme were adopted the year before by the Adaptation Fund Board.

One of these programmes, initiated in 2015, established a Community Adaptation Small Grants Facility (SGF) in two pilot district municipalities in South Africa, to incorporate climate adaptation response strategies into local practices so that assets, livelihoods, and ecosystem services are protected from the climate-induced risks associated with expected droughts, seasonal shifts, and storm-related disaster events. The four-year project included three main components:

- Providing small grants to vulnerable communities, to deliver tangible and sustainable benefits.
- Empowering local institutions to identify and implement adaptation response measures.
- Compiling and sharing lessons learned to facilitate future scaling up and replication of small grant-financing approaches.

Under the first component, the programme sought to provide at least 12 small grants, of the order of US$100,000 each, to community-based organisations (CBOs) and non-government organisations (NGOs) to strengthen livelihood strategies, adaptive capacity, infrastructure and assets in vulnerable communities in the Mopani and Namakwa District Municipalities. The NIE for South Africa, the South African National Biodiversity Institute (SANBI), decides whether specific small grants should go forward.

Under the second component, local institutions were supported to identify, develop, and implement small grant projects. These 'Facilitating Agencies' facilitated project identification, development, and implementation (including local-level project administration, reporting, and financial management), guided by a set of principles to ensure that projects clearly respond to experienced or anticipated climate-induced stresses, and meet the criteria of the SGF.

The third component focused on innovative participatory approaches, including a practitioner's forum, to discuss effective approaches of community empowerment and challenges; and a community forum, to discuss climate change adaptation challenges and possible integrated adaptation strategies. Local knowledge sharing mechanisms were envisaged to create opportunities for reflection and learning within and between districts, and were linked to national adaptation processes to develop relevant insights. It was envisaged that policy recommendations will be developed to inform South Africa's processes of climate finance establishment, with a view to creating a long-term small grant facility for supporting climate change adaptation in vulnerable communities.

A June 2020 review of the programme found that the project:

- Made significant learning contributions to bringing climate intervention decision-making nearer to beneficiaries.
- Brought about tangible benefits that reduce vulnerability and increase resilience to climate change.

- Intangible benefits include the sense of ownership and potential sustainability of the interventions.
- Arguably resulted in more transformational outcomes.

## AFD SUNREF

SUNREF (Sustainable Use of Natural Resources and Energy Finance) is an initiative launched in 2005 by the Agence Française de Développement (AFD) to support local banks in developing countries and their clients in financing projects for sustainable natural resources management, with a focus on clean energy. It provides them with long-term concessional loans (green credit lines) and technical support to enhance their capacity to finance green projects.

SUNREF recognises the potential of local bank branches to be powerful drivers in implementing local public policies with the MSMEs in developing countries (which often account for the bulk of the national private sector).

Since 2007, AFD has committed €1.5 billion for the SUNREF programme in partnership with over 35 local banks. Over €800 million had been disbursed by 2020 to finance green projects, some of which are presented on the SUNREF website.

SUNREF also recognises that, despite its clear potential, the financing of green projects by local banks still continues to be limited, due to a number of technical barriers (national regulatory frameworks, lack of local expertise) and financial barriers (small businesses perceived as being more risky, limited capital, skills remaining weak in banks).

The capacity building programmes specifically involve helping banks to identify innovative green projects and appraise the corresponding loan applications. These programmes also attach particular importance to raising companies' awareness and supporting them in the design of their green investments.

SUNREF technical assistance for local banks, mostly provided for free, generally involves:

- The development of communication and information tools: promotion of the credit line, contribution to raising awareness of energy management issues and the project's visibility.
- The creation of a portfolio of energy efficiency and renewable energy subprojects eligible for the credit line: identification of projects, assistance to companies in setting up and monitoring projects by conducting feasibility studies, energy audits and assessments as needed.
- Training to better understand the sector and analyse the risks associated with the corresponding investments.
- Providing assistance in structuring a permanent range of self-supporting green finance when the programme has reached completion.
- Organising training workshops to disseminate technical knowledge to clients (contracting authorities, private companies) as well as local technical service providers and professional organisations.

There are many actors involved in the programme and it is this which creates the wealth of banking intermediation projects.

| | |
|---|---|
| **AFD** | Donor for credit lines and investment premiums. |

| | |
|---|---|
| **Technical assistance team** | Provides support to partner banks, project initiators and national partners for the operational implementation of the programme. |
| **National partners** | Local intermediaries for the programme. |
| **Consultant Auditor** | Verifies the eligibility of projects and their implementation. |
| **Partner bank** | Appraises and finances eligible projects. |
| **Project initiator** | Submits a project to be assessed and financed. |

# VI. A WAY FORWARD: PERFORMANCE-BASED EDA

In 2013, Benito Müller, Samuel Fankhauser, and Maya Forstater published a paper (Müller *et al.*, 2013) on how to operationalise EDA by applying Quantity Performance (QP) methods using ex post rewards for (mitigation) performance measured in terms of some physical quantity.

The hallmark of EDA is a devolution of funding decisions to the lowest possible level. Given that performance-based payments are made ex post, the funding decision is, by definition, at the lowest possible level – namely with whoever executes the (mitigation) activity. Performance-based EDA, in this sense, is the 'purest form' of EDA.

The paper includes an overview of concepts and classifications regarding QP instruments and a detailed description of the main design options and issues regarding QP payments, in particular with regard to the four core elements of such transactions: counter-party selection, definition of results, price setting, and the setting of transaction quantities. After an evaluation of QP instruments, the paper "*puts forward two enhanced models as illustrations of how enhanced QPPs could be structured in the context of macro- or micro-level results, and with competitive or standardized transactions*".

Two years later, an informal consultation (see section V) was held in New Delhi to discuss the findings of an ecbi Report on 'Consolidation and devolution of national climate finance: The Case of India' (Sharma *et al.*, 2015). Following the example of the Indian National Employment Guarantee Fund (NEGF), created for the National Rural Employment Guarantee Scheme (NREGS) – the governance of which "combines national and State level 'consolidation' with 'devolution' of decision-making to the local level; reaches out to the most vulnerable; involves and draws on the expertise of a broad section of society; includes monitoring and accountability systems; and is responsive to learning and change" – the report proposes the creation of an Indian National Climate Fund (INCF) to pool climate finance from different national and international sources, and then channel it to the State and local levels. This channelling, according to the Report, would "take place through existing national mechanisms and institutional arrangements where possible, especially where they have proven experience in reaching vulnerable sections of society that will need climate finance the most, and in fostering local decision-making. We consider existing channels to reach the poor and vulnerable in rural areas in this paper – mainly the infrastructure created to implement the National Rural Employment Guarantee Scheme, which is already focused on the rural poor and devolved decision-making."

## LoCAL performance-based climate resilience grants

Quantity Performance Payments are not restricted to mitigation outcomes. Indeed, one of the success stories of using QPPs in the context of climate change activities – the performance-based climate resilience grants of the Local Climate Adaptive Living Facility (LoCAL) – is rewarding adaptation performance.

LoCAL was conceived by the UN Capital Development Fund (UNCDF) following an extensive analysis that started at a conference on Local Government's role in Environment, Natural Resource Management and Climate Change in October 2009. In May 2010 UNCDF participated in Resilient Cities 2010, the First World Congress on Cities and Adaptation to Climate Change. The Congress highlighted the problems that local governments in both developing and developed countries face in accessing finance for adaptation from the existing multilateral funds. The analysis was completed with a detailed review of the NAPA portfolios and of the processes required to compile and finance them. Following this lengthy analysis, the LoCAL facility has been designed to overcome some of the bottlenecks in financing climate change adaptation in LDCs by providing local governments with access to climate finance in an appropriate and relevant form. In 2010, UNCDF published a report on Performance-Based Grant Systems: Concept and International Experience, sharing knowledge and experience accumulated by UNCDF in designing, piloting, scaling up and implementing Local Government Performance-Based Grant Systems (PBGSs) that are being adopted in a variety of countries. The Report also provides insights into the rationale and principles of PBGSs, including a discussion of the challenges that PBGSs seek to address, a comparative assessment of their impact and an analysis of the technical and policy challenges faced in designing and implementing such fiscal instruments. LoCAL's performance-based climate resilience grants, building on that experience, provide a new instrument for climate change which guarantees programming and verification of climate change expenditures, ensuring the needed additionality.

From 2011, the Facility was tested in Bhutan and Cambodia with US$1 million investment from UNCDF's own resources. The mechanism is now US$107 million and is expected to double over the next few years, in particular through Enhanced Direct Access.

### *Objectives and Approach*

The objective of LoCAL is to promote climate-resilient communities and local economies by establishing a standardised and internationally recognised country-based mechanism.[vi] In doing so it supports the integration of climate change adaptation into regular local government development planning, and increases the amount of climate change funding available to local governments, in particular through top-up performance-based climate resilience grants

It works directly with in-country partners, who are responsible for the operation and management of the LoCAL mechanism through its four phases, namely:

- **Design Phase:** A formal expression of interest from a prospective LoCAL country launches a preliminary analysis of the necessary conditions for deployment, definition of the PBCRG system to the country context, and engagement of key stakeholders for Phase I.
- **Phase I:** Piloting. The first phase involves initiation in 2–4 local governments over 1–2 cycles of investments, collecting lessons, and fine-tuning the mechanism.
- **Phase II:** Consolidating. The second phase takes place in at least 5–10 local governments in a country. It involves demonstrating the effectiveness of the mechanism at a larger scale.
- **Phase III:** Scaling-up. The third phase is a full national roll-out of LoCAL, based on the results and lessons of the previous phases. LoCAL is gradually extended to all local governments in the country, with domestic or international climate finance, and becomes the national system for channelling adaptation finance to the local level.

Annual performance assessments support the process by identifying capacity needs and promoting incentives for performance improvements. In the event that a local government does not meet the minimum conditions for the following year, it will not receive the grants, but it will receive support in identifying and implementing corrective actions and targeted capacity building. More broadly, local governments are encouraged to review

their performance assessment and identify areas with potential for improvement, creating a virtuous cycle of reflection, review and improvement. To measure and strengthen the impact of the LoCAL mechanism, UNCDF engaged the World Resources Institute (WRI) to create the Assessing Climate Change Adaptation Framework (ACCAF).

This engagement, aimed at increasing climate finance, involves supporting national partners in identifying potential sources of climate finance, as well as working within participating countries regarding the distribution of their own fiscal resources for climate change. It also entails working with development partners and international funds for climate finance to increase allocations of climate funds that are available and accessible to local governments, and to make LoCAL a standard and recognised country-based mechanism for channelling adaptation finance to the local level.

LoCAL supports implementing countries in accessing international finance, including from the GCF, which sub-national bodies in LDCs and developing countries typically struggle to access. With LoCAL support, Cambodia achieved GCF accreditation in November 2019 for The National Committee for Sub-National Democratic Development Secretariat (NCDDS) which, as part of its mandate, engages local government bodies in adaptation activities in areas such as livelihood enhancement, infrastructure and water security. LoCAL has supported NCDDS in preparing and submitting a concept note for further scaling-up of the mechanism, which is under review by GCF.

In West Africa, Burkina Faso, Côte d'Ivoire, Mali and Niger have been working with LoCAL and the west African development Bank to develop a regional GCF funding proposal to mobilise climate finance for the deployment and consolidation of the LoCAL PBCRG system in these countries. Their proposal has already gone through several rounds of GCF reviews and is expected to be submitted to the GCF Board for approval in 2021. It focuses on building more resilient local economies and communities by providing access to climate finance for a wide range of local actors, especially local governments, SMEs and cooperatives. Securing GCF funding would allow deployment of the LoCAL mechanism, in the form of PBCRGs and SME finance, in up to 100 communes in the four countries, with the potential to reach approximately 7.49 million people.

Another four NIEs are supported in their accreditation efforts by LoCAL (in Bhutan, Mali, Niger and Tanzania), while seven additional countries are assisted in a similar way to prepare and submit concept notes, either with NIEs (Benin, Bhutan and Uganda), or RAEs (Fiji, Solomon Islands, Tuvalu and Vanuatu, with the Secretariat of the Pacific Community) when the country either does not have such direct access, or fails to meet grant award fiduciary standards.

### *Performance-Based Climate Resilience Grants*

LoCAL applies principles of fiscal decentralisation and effective local planning and public financial management to climate change – as discussed in Sharma *et al.* (2015). It combines performance-based climate resilience grants (PBCRGs), which ensure programming and verification of climate change expenditures at the local level, with technical and capacity-building support.[vii]

Performance-based climate resilience grants provide a financial top-up to cover the additional costs of making investments climate resilient and/or to finance climate specific investments; they are channelled through existing government fiscal transfer systems (rather than parallel or ad hoc structures). International climate finance is channelled through national treasuries – right down to the local level. National ministries are involved in regulating the system.

Delivering performance-based climate resilience grants typically involves the following key steps:

- Climate information (including vulnerability and adaptation assessments) as well as needs and capacity assessments are reviewed or undertaken to inform the process.
- In a participatory manner, local governments develop local adaptation plans or programmes, integrate adaptation in their own local development planning and budgeting processes, and cost and select adaptation measures to be financed through the grant.
- Grants are disbursed to support implementation of LoCAL investments in the context of local authorities' annual planning and budgeting cycles, and selected measures are implemented.
- Performance is appraised in terms of the degree to which additional resources have been used to build resilience and promote adaptation to climate change.
- Audits are undertaken as part of the regular national process. The assessment results inform subsequent allocations, and the process provides an opportunity for capacity building.

Capacity is built at various stages according to identified needs, targeting the policy, institutional and individual levels. Often, local governments work with partners that support the capacity building and planning necessary to mainstream adaptation into the decision-making process. These local partners vary case by case, but can include other projects and programmes that address adaptation, resilience and environmental issues more broadly.

## EESL Indian Carbon Fund and Auction Facility

### *Background*

In August 2012 a report (Ghosh *et al.*, 2012) was published which looked at how Quantity–Performance (QP) instruments – in other words, performance assessments by quantitative measurements – "*could be used by governments or multilateral funds, such as the Green Climate Fund, to mobilize the private sector and private sector finance for mitigation activities in developing countries. QP instruments could provide a valuable complement to other well-known funding instruments for private sector mitigation activities in developing countries, such as ex ante public sector funding of projects and programmes, as well as ex post policy-driven market mechanisms, such as the Clean Development Mechanism (CDM). QP instruments are, as it were, a mixture of these two alternatives, combining the use of public funding with ex post payments for emissions reductions*." [p.2]

The report proposed the use of contracted ex post payments for verified emission reductions, thus rewarding the greater reductions in conjunction with a competitive allocation through reverse auctioning, to increase cost-effectiveness for the purchasing climate fund. "*This type of competition encourages vendors to reveal the emissions reductions they are willing to supply at different prices. Funders then sort vendors to maximize tonnes of emissions reduced, given a limited budget*."

In March 2014, Müller and Pizer published an ecbi paper entitled 'Devolved Access Modalities: Lessons for the Green Climate Fund from existing practice' which looks at the relation between 'enhanced direct access' and 'programmatic approaches', and addresses certain concerns raised about this decentralised/devolved access model, using seven case studies to illustrate current practices that could provide ideas and insights about how the GCF might design its own approach. The case studies are focused around four questions:

- How does the funding model generally work, in terms of disbursing funds?
- Who decides what? What decisions are taken by the governing funding body and what decisions are devolved and to whom?
- How does this funding model ensure the governing body's objectives are met, and how does it ensure that the various fiduciary standards and safeguards are satisfied?
- How is the funding level for a particular programme determined?

Finally, in February 2015, Müller published an OCP/ecbi working paper entitled 'Engaging Micro, Small, and Medium Enterprises in developing countries: Enhanced Direct Access and the GCF Private Sector Facility' which contains an annex, written by Sameer Pandita, economist at the Indian Bureau of Energy Efficiency (BEE), about the BEE Financing for Energy Efficiency Project (FEEP) for Indian MSMEs, which involved the provision of ex post Performance-Linked Grants (PLGs) to incentivise the participation of MSMEs. To receive a PLG, the MSMEs had to undergo Detailed Energy Audits through BEE-certified energy auditors. The level of the PLG was linked to the cost of the energy efficiency measures.

The EDA proposal for a Carbon Fund and Auction Facility (see below) recently submitted to the GCF by Energy Efficiency Services Limited (EESL), an Energy Service Company founded by the Indian Ministry of Power in 2009, is based directly on the FEEP.

### *Carbon Fund & Auction Facility for MSMEs*

The proposed Carbon Fund & Auction Facility aims to amplify the financial support for MSMEs, to enable EESL to multiply the scope for EE transition in the segment. Processes for measuring and verifying emission reductions for MSMEs, as well as supporting mechanisms for adoption and implementation of EE solutions, will be developed and rolled out. The project is planned to be completed in four years.

This will be a pioneering programme for the Indian MSME segment, focused on developing and piloting processes which are tailored for MSMEs and on building their 'readiness' to participate in future carbon markets. The pilot for this Carbon Fund & Auction Facility is envisaged to roll out in two broad phases – development phase (lasting for two years) and deployment phase (starting from the third year).

**Development Phase:** The objectives in this phase are to develop and roll-out processes and lay the groundwork for supporting and encouraging MSMEs to transition to EE, and also to establish viable methodologies and MRV processes for estimating and verifying emission reductions. There are three main work streams under this phase:

- **Awareness, Training and Capacity Building of Key Stakeholders: Creating an enabling environment:** This will involve conducting awareness building and training workshops for MSMEs for the chosen clusters for a pilot. It will also target the associated stakeholders – such as industry associations, local bank officers, energy auditors and technology providers – to help them understand the potential of EE in MSMEs, so as to create an enabling environment for EE transition.
- **Operationalisation 1:** Developing processes for implementation, certification and MRV. In this work stream, EESL will work with experts to develop robust measurement, reporting and verification (MRV) methodologies, tailored for the operating conditions of the Indian MSMEs, and set up a network of certification agents to generate the Certified Emission Reduction Units (CERUs) needed for performance-based payments. EESL will also use its experience and expertise, along with stakeholder inputs, to identify the most appropriate technologies and to help MSMEs, with guidance from energy auditors and consultants, to procure and install these. MSME units will also be offered technical assistance on preparation of DPRs and energy audits.
  Through its mass procurement system, EESL will place bulk orders for technologies, to leverage economies of scale. It will bear a large component of the cost, to be recovered under the contract period from energy savings, and it will get performance guarantees for the technologies from the vendors.
- **Operationalisation 2:** Developing the Carbon Fund & Auction Facility. EESL, with its knowledge partners, will design a Carbon Fund and a web-based platform ('Auction Facility') to carry out reverse auctioning of CERUs.

**Deployment Phase:** The focus under this phase is on piloting the Carbon Fund & Auction Facility, with the MSME units engaged in the development phase.

At the end of the first verification cycle, the first round of CERUs achieved, based on the energy savings, will be issued to the MSME units by the certifying energy auditors. These will be purchased through the Carbon Fund & Auction Facility. After the pilot phase, it would be possible to integrate the Carbon Fund & Auction Facility in the Art. 6.4 market mechanism of the Paris Agreement.

To kick-start the process and establish the fund, a GCF grant will be used for buying the CERUs at a price that is within a pre-determined range. This is essential to reward the first mover MSME units and also to demonstrate the benefits of the system, thus building the confidence of MSMEs in a voluntary market-based mechanism.

Once the processes and supporting environment for the market-based mechanism are in place (through the steps detailed above), the price of the CERUs can be determined through a reverse auction facility. This will be the price at which carbon assets within the Carbon Fund will be sold, either domestically or globally. At this stage, the MSME units will have the option of selling their units at the price determined or retaining them to sell to other facilities or markets which may exist at that time.

The approach and processes to be developed under this programme are replicable across MSME clusters and regions and have the potential to start a cycle of transformation. The market-based mechanism proposed for financing the transition is replicable not only across clusters but also across other programmes in different countries. Once the MSME segment starts transitioning to EE measures, the transition cost of the technologies and the processes will fall, and overall cost savings from EE will increase. This will increase the demand for EE, which will also encourage R&D for EE technologies for those clusters, and thus further drive the segment.

An EE transition induced in this manner will play a vital role in forming forward linkages; positively impacting operative and maintenance service providers and also spare parts manufacturers, leading to employment generation in allied segments.

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## ENDNOTES

i. The report of the consultation 'Consolidation and Devolution of Climate Finance in India' can be found here.

ii. Strictly speaking, the programmes are listed as 'projects', but since EDA is a form of programmatic access, 'programme' is used in this context.

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