ENHANCED DIRECT ACCESS

Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III)

Submitted through the UNFCCC constituency of Research and Independent NGOs

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Benito Müller

This submission has two aims. In the first instance, it is to synthesise some of the reasons that have been put forward as to why, at the scale envisaged in the Cancun Agreements, the climate finance regime in general, and the Green Climate Fund, in particular, will have to involve a fundamental ***devolution of decision making to National Funding Entities*** (NFEs).[1]

The second aim is to give an idea of what such NFEs might look like by reference to an existing national trust fund −the ***Bangladeshi Climate Change Resilience Fund*** − and a recent proposal for a ***Pakistani National Green Climate Fund***

The Adaptation Fund Model

Over the past few years the term 'direct access' has become part of the core vocabulary of climate change finance. It entered the debate in the context of the ***Adaptation Fund*** (AF) negotiations, where it was used as a short-form for 'access to funding without involvement of intermediary (international) implementing entities.' After the establishment of the Adaptation Fund with the option of 'direct access,' the AF Board (AFB) operationalised the concept for the AF. The model chosen was to have ***National Implementing Entities*** (NIEs) – alongside the familiar ***Multilateral Implementing Entities*** (MIEs) – carry out the ***fiduciary risk management*** on behalf of the AFB. For that, NIEs have to satisfy specific fiduciary standards designed by the AFB in order to be accredited by the AF. At the moment, the AF has 4 accredited NIEs, all related to government agencies.

Under the AF direct access model, projects/programmes are proposed by ***executing entities*** to the designated NIE which can forward it for approval to the AFB, if it has country endorsement. The model therefore includes a ***degree of devolution of decisions to the national level***, namely the pre-selection of projects/programmes. However, the ultimate selection of what is to be funded remains outside the recipient country, at the AFB level. For more on the AF model, see Appendix 1.

[1] For a listing of literature on the topic, see http://www.oxfordclimatepolicy.org/rfm.shtml

Enhancement through National Funding Entities

There have been arguments for some time that, in due course, the AF model of direct access will have to be enhanced by moving to a ***full devolution of decision-making*** to ***National Funding Entities***. The rationale for introducing such national decision-making goes beyond 'direct access' to a multilateral fund.

For one, there are reasons of ***legitimacy*** and ***effectiveness***. It has long been argued that climate change has to be 'mainstreamed' into national policy making. But it is at least questionable whether such a process can ever be fully effective if the decisions of how to implement it are taken abroad, outside the policy process which is meant to be engaged. Where there can be no doubt is that for of much of adaptation funding, which ultimately amounts to civil protection, only the national government has the legitimacy to decide who is to be protected and how. As concerns funding for mitigation, it also stands to reason that a full devolution of funding decisions on a performance basis increases effectiveness, not least because the national level is better equipped to ensure performance.

In the context of the overall ambition for climate finance laid down in the Cancun Agreement (mobilization of up to $100 billion annually by 2020), National Funding Entities can also be argued for in terms of ***efficiency***. Managing funds – approving, monitoring, and evaluating funded activities – requires personnel. A recent report based on public sector funding agencies – donor agencies, MDBs – estimated that it takes between 240 and 400 people to manage $1 billion.[2] While it is unlikely that all of the Cancun funds would be managed in that way, or for that matter be additional to what is being managed already, expectations are such that the management is likely to require several thousand additional personnel. And it stands to reason that the most efficient scenario is not to house them in donor agencies or multilateral funds, but in the recipient countries.

These are some of the reasons that have been put forward for basing the emerging global climate finance regime on National Funding Entities. As concerns the Green Climate Fund, this has a number of important implications. For one, it means that if it is to work at scale, the GCF will have to enhance its direct access mode by adopting a ***throughput model of resource allocation to in-country NFEs***. But this will not be possible overnight. The first task for the GCF towards such enhanced direct access will have to be an extensive and focused effort of ***institutional capacity building*** in the recipient countries to create the enabling environment for this throughput model of direct access. It also means that there will have to be a pilot programme to determining which National Funding Entity model is most suited for the purposes of the GCF. For example, it stands to reason that the Adaptation Fund NIEs, being focussed on implementing adaptation projects and programmes, may not automatically be best at handling the more extensive functions expected of NFEs. We are at the moment simply not in a position to tell what would work, and what would not.

The rest of this brief is to give an idea of how NFE could be structured by looking at two examples: The existing Bangladesh Climate Change Resilience Fund and a recent proposal for a Pakistani Green Climate Fund.

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[2] David Ciplet, Benito Müller, and J Timmons Roberts, *How many people does it take … to administer long-term climate finance?*. ecbi Policy Report, *Oct-10* http://www.oxfordclimatepolicy.org/publications/documents/StaffingIntensityOctober2010.pdf

The Bangladesh Climate Chance Resilience Fund

History

Bangladesh, a country acknowledged as being particularly vulnerable to the impacts of climate change, has had a national ten-year ***Climate Change Strategy and Action Plan*** (BCCSAP) since September 2008. In December of the same year a draft concept Note[3] on a Multi-Donor Trust Fund for Climate Change (MDTF) to support the implementation of this national strategy was circulated. *The benefits of having a MDTF*, according to the Note, *are many: high-level coordination, elimination of overlaps, donor harmonization, flexibility in fund management, transparency, and the possibility of attracting additional funds from both local and external sources.* The MDTF was meant to become *a 'one-stop' mechanism for large-scale climate change financing in Bangladesh.*

The MDTF was to be institutionally divided into a ***Policy Council***, a ***Management Committee***, a ***Secretariat***, and an ***Administrator***.[4] A ***Trustee*** was to disburse the funding under two windows: an ***on-budget window*** for funding public sector projects; and, an ***off-budget window*** for funding projects from civil society. However, the concept very soon ran into considerable opposition, particularly from Bangladeshi civil society organisations, primarily due to the envisaged involvement of the World Bank in the management of the MDTF.

In the course of the following protracted negotiations regarding an international climate change fund, the Government of Bangladesh in 2009 established the ***Bangladesh Climate Change Trust Fund***, supported exclusively through its annual budgetary allocation ($385 million since FY2008/9) for adaptation and capacity building. In 2010, the international negotiations finally resulted in the establishment of the ***Bangladesh Climate Change Resilience Fund*** ('the Fund'), currently supported by contributions from the UK ($86.7 million), Denmark ($1.6 million), EU ($10.4 million) and Sweden ($11.5 million). [5] Like the MDTF, the Fund is conceived as a 'one-stop mechanism' with two funding windows: an on-budget window for public sector projects and an off-budget window for civil society and private sector projects. The off-budget window is currently earmarked for 10% of the funding, and is managed through the Palli Karma Sahayak Foundation (PKSF)[6] as an implementing entity. In May 2011 the Fund approved its first project (the construction of 50 new cyclone shelters and reparation of about 50 others along with the construction of rural roads), and has since approved two further projects.

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

[4] Country Director of the World Bank.

[5] The creation of two separate climate change funds has given rise to further criticism: *An alliance of civil society and non government organisations has demanded an autonomous body with democratic ownership of the government and other stakeholders for management of the climate funds of the country. … They also called for a single national mechanism to manage all local and international climate funds under the guidelines of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP).*[BSS, "Democratic ownership of climate funds demanded", *Daily Sun,* 20 July 2011, http://www.daily-sun.com/?view=details&type =daily_sun_news&pub_no=281&cat_id=1&menu_id=10&news_type_id=1&news_id=58885&archiev =yes&arch_date=20-07-2011]

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

Governance

The Fund is governed a two-tier system, consisting of (i) a ***Governing Council*** − chaired by the government[7] − to provide overall strategic direction and guidelines, and to ensure alignment with the BCCSAP, and (ii) a ***Management Committee***, responsible for developing a work programme, ensuring implementation in line with the agreed implementation manual, and considering grant requests submitted by various line ministries and other eligible institutions. A ***Secretariat,*** established at the Ministry of Environment and Forests (MOEF), is to support both the committees on a day-to-day basis. Finally, the World Bank Bangladesh office serves as ***Trustee*** of the Fund, for a 1 percent compensation. All investments of the Fund are implemented and executed by the Government of Bangladesh and designated domestic agencies. The role of the World Bank, apart from trustee function, is to provide mainly technical and advisory services, knowledge dissemination, programme administration, and project preparation, appraisal and supervision.

Functions

A ***Governing Council*** provides overall strategic direction and guidance to the Fund and ensures its alignment with the BCCSAP. The primary responsibilities of the Governing Council are to:

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

A ***Management Committee*** is responsible for developing a work programme, ensuring that the Fund is implemented in line with the agreed implementation manual, and considering grant requests submitted by various line ministries and other eligible institutions. The primary responsibilities of the Management Committee are to:

- Review and endorse the Implementation Manual
- Review and endorse the Fund's work programme and budget allocations
- Carry out a detailed review of and endorse grant requests submitted by the Secretariat
- Recommend projects for preparation (including DPP by the line agency and appraisal of the World Bank),
- Ensure that grant requests submitted are in line with the agreed implementation manual

Both the Governing Council and the Management Committee include representatives from line ministries, Development Partners and Civil Society.

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

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

[7] Council Chair: Minister of Environment and Forests (MOEF), Council Secretary: Secretary MOEF

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

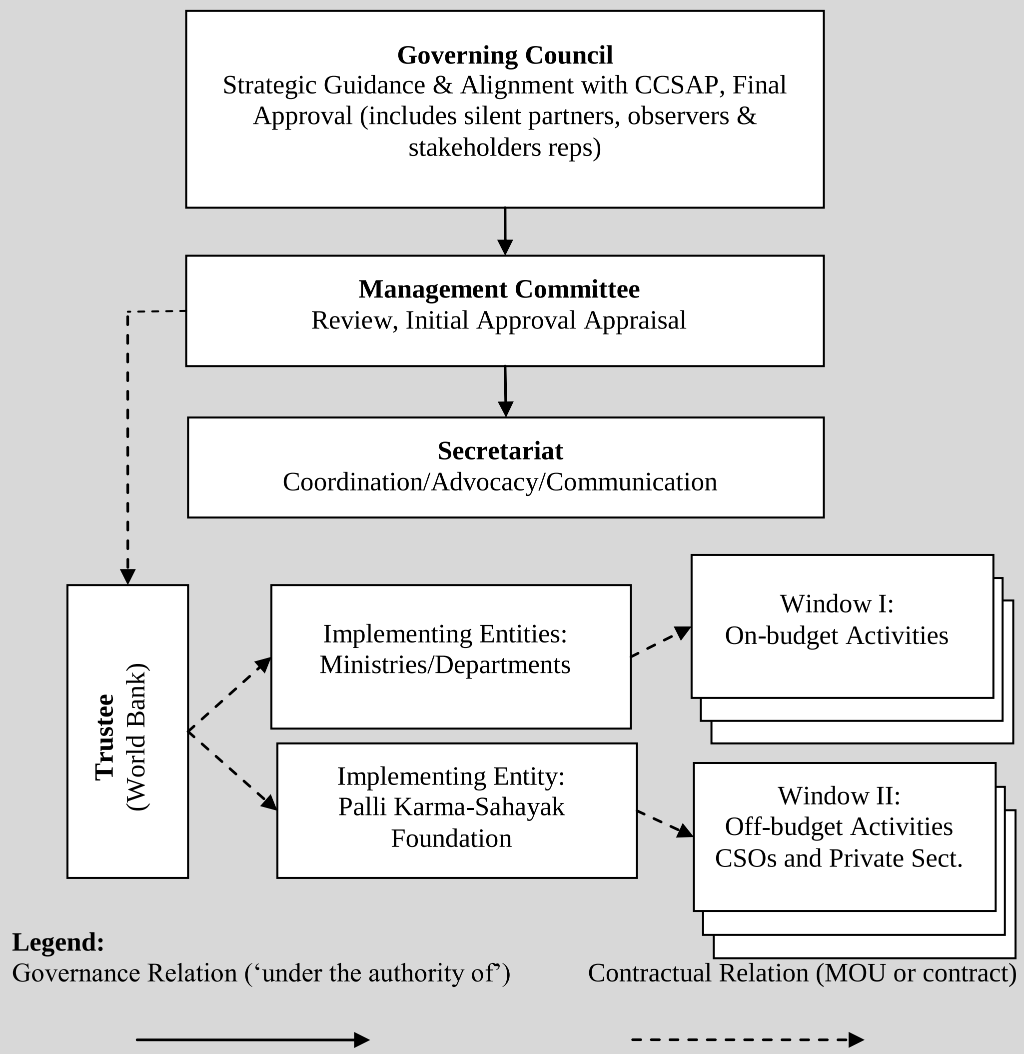

Figure 1. Institutional Architecture of the Bangladeshi Climate change Resilience Fund (CCRF)

A Pakistani National Climate Change Fund[8]

Pakistan's financing needs for mitigation and adaptation actions are estimated to range between US $ 14-31 billion a year. During the past two years, projects amounting to approx. U$ 14.5 billion were launched in the country of which U$ 1.5 billion were made available from the national budget. This was matched by foreign assistance amounting to U$ 3 billion. Notwithstanding the increased budgetary allocation and foreign assistance, the gap between the resources and needs is huge and likely to stay the same.

The international community has thus far agreed to mobilize US $ 100 billion annually with effect from 2020, in addition to promising US$10 billion annually for three years (2010-12) for quick start financing. Simply put, the need for financing by the developing countries will exceed the supply. This situation is unlikely to change in the near or long term future. Also if countries like Pakistan want to mitigate the adverse impacts of climate change, they will have to rely on domestic resources to a considerable extent.

Many developing countries have already recognized this and have developed national funding mechanisms devoted to climate change. Some countries are either establishing or putting into operation, dedicated national funding entities. The common features amongst these national funding entities are:

a. Desire to upgrade national action on climate change;
b. Secure and manage funding to support this action both from international and national sources;
c. Ensure that these activities are fully mainstreamed into their development strategies and plans;
d. Accord certainty to local and foreign investors in the carbon market; provide incentives to the local and international financial entities for their operations in the country;
e. Guarantee insurance to foreign investors as well as donors that climate change actions will be cohesive and in line with both national and international priorities; and
f. Ramp up and mobilize local financial resources through levies, regulatory incentives as well as by promoting climate risk management tools such as crop/flood insurance etc.

Even though some of these emerging local funding entities differ on their specific objectives, their sources, and their governance, all of them address their climate change-related priorities. Some have focused on objectives, such as Bangladesh on climate resilience, Amazon Fund of Brazil on sustainable forest management, and China on clean energy investments. In addition, most are also mobilizing funding of their own from other national sources such as in the case of Brazil which benefits from oil revenues, India from coal, China from CDM proceeds, and Ecuador from pledges against its decision to forego oil exploration in a vast area of Ecuador.

Pakistan's situation clearly indicates the need for creating a National Green Climate Change Fund, which would operate as a national body responsible for overseeing, coordinating and directing all governmental and non-governmental financial resources for climate change-related projects in the country. It will function as the country's representative body in the international financial regime for climate change.

The Climate Change Fund will be directly responsible to the Prime Minister's Committee on Climate Change and will work closely with the National Authority on Climate Change Cell and the CDM and NAMA Council. It will operate solely as a financial arm of the Climate Change Institutional Mechanism, directing and allocating funds for projects undertaken by the Climate Change Cells and CDM cell whilst not undertaking projects on its own.

Proposed Composition

The National Green Climate Change Fund (NGCCF) should have representation from both the private and public sectors. It will ensure donors' participation in its decision-making process. The

[8] Reproduced with kind permission by the publisher from Farrukh Iqbal Khan, with Sadia Munawar, *Institutional Arrangements for Climate Change in Pakistan*, Sustainable Development Policy Institute (SDPI), Project Report Series # 19, July 2011

NGCCF will be governed by a Board, serviced by a Secretariat and will have a Trustee to ensure fiduciary management of its funds. The members of the Board will include representatives from the following:

a. Ministry of Finance;
b. Ministry of Industries;
c. Ministry of Environment;
d. Ministry of Agriculture;
e. Ministry for Science and Technology;
f. Ministry of Commerce;
g. Three representatives from the civil society, academia and think tanks;
h. Three representatives from the private sector;
i. Chairperson of the CDM and NAMA Council;
j. Executive Director of the National Authority on Climate Change.

Terms of reference of the National Climate Change Fund (NCCF)

Oversight

- Ensure that financing is delivered to projects in line with climate change–related national strategies.
- Ensure that climate change activities to be financed are duly mainstreamed into these national development strategies.
- Establish, and to manage, performance criteria for financing and delivery of results if and when needed.
- Coordinate financial resources and approve funding requests.
- Establish systems for review, monitor, and where applicable, accredit and verify performance.

Financial Support

- Receive and manage funds from global funding mechanisms (including additional ones that may be established). Mobilise and leverage additional resources.
- Ensure responsible and sound fiduciary management of funds. Manage the programme cycle of funds disbursed.

Standard Setting

- Develop relevant national eligibility and performance criteria.
- Develop economic, social, and environmental safeguards to ensure that activities funded are in line with national priorities.
- Establish methods for performance assessment and evaluation in general, and more specifically for funding, where the measure of performance does not have obvious ready-made standards and metrics (policies and measures).

Accountability

- Develop the ability to report on performance, either for internal performance assessment purposes or for performance reporting if and when needed.
- Ability to maintain registers if and when needed.
- Monitor and evaluate.
- Reach out to civil society and stakeholders in general.

Appendix 1. Decision-making in Direct Access through NIEs

'Direct access' – as implemented by the Adaptation Fund Board (AFB) – is schematically represented in Figure 1.1. Its defining characteristic is the involvement of National Implementing Entities, as national-level bodies involved in the AF project cycle.

As regards decision-making, the fact that certain decisions are taken in country is the only difference between direct and multilateral access in the AF model. The nature of these decisions and functions are laid out in the AF Operational Guidelines.[9]

Decision-making in the Adaptation Fund Project Cycle

According to the Operational Guidelines (Para. 39), *the project cycle of the Adaptation Fund for any project or programme size begins with a proposal submission to the Secretariat by the NIE/MIE chosen by the government of the recipient country/ies. The submission is followed by an initial screening, project review and approval.* However, there are a number of decisions that are taken prior to the submission to the Secretariat.

- For one, to enter the project cycle as conceived above, proposals have to be ***endorsed by the relevant national governments***.[10]
- Secondly, there will at some point inevitably be a project ***appraisal*** ('proposal elaboration' in Fig. 1.1) at the level of the ***Implementing Entities*** which project proponents will have to pass for the proposal to be forwarded for country endorsement.

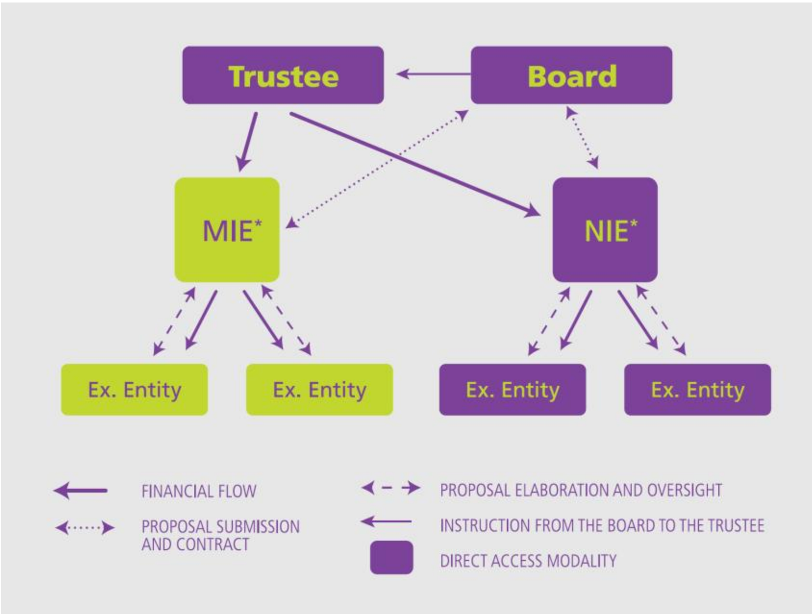

Figure 1.1. Modalities for Accessing Resources of the Adaptation Fund
Source: Adaptation Fund Brochure: p.5;
http://www.adaptation-fund.org/sites/default/files/AF_broch_CRAblue_lores1.pdf

[9] http://www.adaptation-fund.org/policies_guidelines

[10] *20. Every proposal for funding must be endorsed by the requesting government.*
21. Each Party shall designate and communicate to the Secretariat the authority that will endorse on behalf of the national government the projects and programmes proposed by the implementing entities.

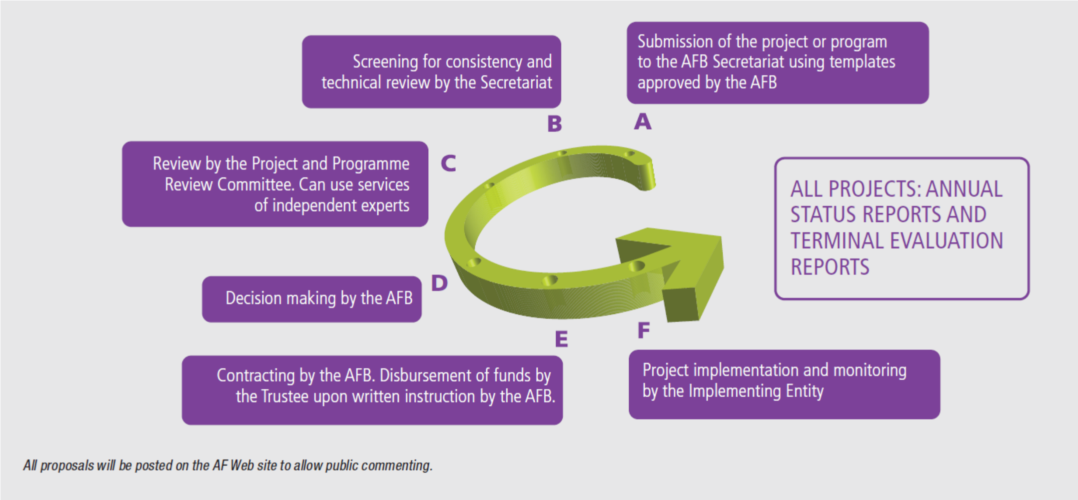

Figure 1.2. The Adaptation Fund (one-step) Project Cycle

Source: Adaptation Fund Brochure: p.7; http://www.adaptation-fund.org/sites/default/files/AF_broch_CRAblue_lores1.pdf

In short, there is a ***pre-selection process*** for project proposals to be forwarded to the Adaptation Fund, and the key to the direct access route is that the decisions involved are all ***devolved to the recipient country level***, indeed – given the nature of the existing NIEs – ***to the recipient governments*** (see Box 1.1.). The decision whether a (pre-selected) proposal gets funded, however, remains 'abroad', ultimately at the level of the Adaptation Fund Board (based on recommendations by the AFB Secretariat, and the AFB Programme and Review Committee (see Figure 1.2.).[11]

Adaptation Fund Monitoring, Evaluation and Review

While the *Board is responsible for strategic oversight of projects and programmes implemented with resources from the Fund, the Ethics and Finance Committee, with support of the Secretariat, will monitor the Adaptation Fund portfolio of projects and programmes*.[Para. 47] *Implementing entities shall ensure that capacity exists to measure and monitor results of the executing entities at the country-level*.[Para. 48]

[11] *40. In order to expedite the process of approving projects and reduce unnecessary bureaucracy, it is proposed that small-size projects undergo a one-step approval process by the Board. The proposed project cycle steps are as follows:*

(a) The project proponent submits a fully developed project document based on a template approved by the Board (Annex 3, Appendix A). Proposals can be submitted to the Board through the Secretariat three times per year or as may be decided at any time by the Board depending on the flow of requests and the available resources. The timetable for the submission and review of proposals will be synchronized with the meetings of the Board to the extent possible.

(b) The Secretariat will screen all proposals for consistency and provide a technical review. It will then forward the proposals with the technical reviews to the Projects and Programmes Review Committee for review, based on the criteria approved by the Board (Annex 3). Screening by the Secretariat will be conducted as soon as possible, and within fifteen (15) working days.

(c) The Secretariat will send all project proposals received with technical reviews to the Project and Programmes Review Committee four weeks prior to the Adaptation Fund Board meeting. The Project and Programmes Review Committee will review the proposals and give its recommendation to the Board for a decision at the Meeting. The Committee may use services of independent adaptation experts to provide input into the review process if needed. The Board can approve or reject a proposal with a clear explanation to the implementing entities. Rejected proposals can be resubmitted after consideration of the reasons for rejection.

(d) The proposals approved by the Board will be posted on the Adaptation Fund website. Upon the decision, the Secretariat in writing will notify the proponent of the Board decision.

Box 1.1. Accredited Implementing Entities of the Adaptation Fund (as of August 2011).

NATIONAL IMPLEMENTING ENTITIES

- ***Planning Institute of Jamaica*** (planning agency of the government) http://www.pioj.gov.jm
- ***Centre de Suivi Ecologique***, Senegal, http://www.cse.sn (Ministry of environment)
- ***Agencia Nacional de Investigacion e Innovacion***, Uruguay, www.anii.org.uy
- ***Fonds national pour l'environnement National Environment Fund***, Benin, http://fnebenin.net

MULTILATERAL IMPLEMENTING ENTITIES

- ***The United Nations International Fund for Agriculture Development***
- ***The World Bank***
- ***The World Meteorological Organization***
- ***The United Nations Development Programme***
- ***The United Nations Environment Programme***
- ***The United Nations World Food Programme***
- ***The African Development Bank***
- ***The Asian Development Bank***

Source: http://www.adaptation-fund.org/page/implementing-entities (accessed 10 Aug. 2011)