

## **Annex I: Terms of reference for a pilot phase enhancing direct access to the Green Climate Fund**

### **I. Objective of the pilot phase**

1. The objective of the pilot phase for enhancing direct access is to allow for an effective operationalization of modalities with the potential to enhance access by sub-national, national and regional, public and private entities to the Green Climate Fund (the Fund). This will include devolved decision-making to such entities, once accredited, and stronger local multi-stakeholder engagement. The pilot phase will offer the Fund an opportunity to gain experience and additional insights through such an approach.

1. In addition, the pilot phase can also be used to draw lessons learned with regard to:
- (a) Promoting the paradigm shift towards low-emission and climate-resilient development pathways;
  - (b) Country coordination and multi-stakeholder engagement, replication and sustainability;
  - (c) Governance standards; and
  - (d) Targeted readiness support.

2. Learning processes will be supported by a specific monitoring and evaluation plan for each pilot at the country level, where key performance indicators will be specifically designed for this purpose. A final evaluation at the country level and over all pilots will consolidate the lessons learned, allowing scalability and mainstreaming.

3. The pilot phase will be evaluated and lessons learned will lead to potential scaling up. The evaluation timing will be set for assessing mid-term outcomes (two to three years) and longer term impacts and lessons to be learned (five years or more).

### **II. Steps of the pilot phase**

4. Enhancing direct access is necessary mainly because decision-making on the specific projects and programmes to be funded will be made at the national or subnational level,<sup>1</sup> and such direct access is a means by which to increase the level of country ownership<sup>2</sup> 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. At the same time, mechanisms will be set up to increase national oversight and multi-stakeholder engagement at the country level.

5. The following steps will be conducted in the pilot phase:
- (a) A call for pilot proposals by the Secretariat;
  - (b) The selection and nomination of a prospective accredited entity (e.g. subnational, national or regional entity) through a consultative process by the national designated authority (NDA) or focal point under the direct access modality;
  - (c) If not already accredited, application by the prospective entity for accreditation. Access to Fund resources will be through accredited entities. As such, nominated entities must be accredited by the Fund prior to the submission of their pilot proposals to the Board;

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<sup>1</sup> United Nations Development Programme/Overseas Development Institute. 2011. *Direct Access to Climate Finance: Experiences and Lessons Learned*.

<sup>2</sup> Müller B, 2014. *Enhancing Direct Access and Country Ownership*.

- (d) The process will follow the accreditation framework, including decisions related to fit-for-purpose and fast-tracking;
- (e) Submission of a proposal developed by the accredited entity (or by the prospective accredited entity), in consultation with the NDA or focal point, to the Fund for approval. Unlike the traditional direct access modality, there will be no submission of individual projects or programmes to the Fund because decision-making for the funding of specific pilot activities will be devolved to the country level;
- (f) The assessment of each individual pilot proposal received will follow the Fund's initial approval process;
- (g) Legal arrangements between the Fund and the accredited entity for the Fund-approved pilot; and
- (h) Decision-making by the entity on the specific pilot activities under the Fund-approved pilot, in consultation with the NDA or focal point, the institution fulfilling the oversight function, and various stakeholders in the multi-stakeholder engagement process.

### **III. Role of NDAs and focal points**

6. The NDA or focal point will have a strong role in the pilot, in consultation with relevant national stakeholders, by:
- (a) Communicating the country's strategic frameworks within which prospective entities will develop pilot proposals;
  - (b) Inviting and selecting subnational, national and regional entities, from the public and private sectors, to propose pilot proposals for consideration by the Fund;
  - (c) Nominating the selected entities for accreditation by the Fund; and
  - (d) Participating in the appraisal of the pilot proposals and subsequently in the monitoring and evaluation of the country pilot in accordance with the Fund's relevant guidelines.

### **IV. National oversight and steering function and multi-stakeholder engagement**

7. Countries participating in the enhancing direct access pilot phase are required to exercise oversight on the activities to ensure transparency. For this purpose, it is recommended that countries identify an existing institution that will fulfil this role.
8. Oversight and steering activities may include:
- (a) A provision of regular strategic guidance regarding the country pilot(s) to the accredited entities;
  - (b) Review of reporting by the accredited entity;
  - (c) Periodic field visits; and
  - (d) Regular communication with relevant stakeholders and the Fund.
9. The oversight function should include the NDA or focal point and representatives of relevant stakeholders, such as government, the private sector, academia or civil society organizations, and women's organizations.
10. In the elaboration and implementation of the country pilot, countries are expected to consider the criteria included in the Fund's initial best-practice options for country coordination

and multi-stakeholder engagement, as set out in Annex XIV to decision B.08/10 and the priorities identified in the countries' climate strategies and action plans.

11. Readiness funding could be provided to support the strengthening or establishment of such processes.
12. Prior to their implementation, details of individual projects or programmes will be made accessible to the public via the websites of the NDA or focal point, and the accredited entity.
13. The Secretariat will provide guidance on the set up and operations of these processes.

## **V. Type of entities to be involved in implementation**

14. NDAs or focal points can nominate an entity for the implementation of the country pilot, such as a public sector institution (development bank, national fund, etc.) or private sector entity (commercial bank, investment fund, etc.) and non-governmental organizations operating at the regional, national or subnational levels.

15. In order to ensure the inclusion of a wide range of stakeholders, the selected entity will work with various types of local actors, especially those addressing the needs of vulnerable communities and gender aspects, which may include 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).

16. Interested countries can include a request for readiness support in their pilot proposals, particularly to provide support in multi-stakeholder engagement and the strengthening of oversight mechanisms to enhance accountability and transparency.

## **VI. Accreditation and the Fund's standards**

17. Entities will have to be accredited before being able to fund activities with the Fund's resources. They will have to demonstrate compliance with the Fund's standards in the accreditation process, which includes the assessment of entities' capabilities, competencies and track records in having and undertaking financial, environmental and social risk mitigation measures. These include the basic fiduciary standards and relevant specialized fiduciary standards for project management, grant award and/or funding allocation mechanisms on-lending and/or blending (for loans, equity, and/or guarantees)<sup>3</sup> through the Fund's accreditation process, and the Fund's environmental and social safeguards<sup>4</sup> and Gender Policy.<sup>5</sup> Accredited entities will be accountable for the financial management of activities under the pilot in accordance with the Fund's policies. Compliance with the Fund's standards and safeguards will be assessed in accordance with the Fund's monitoring and accountability framework and its processes and procedures.

18. Compliance with the Fund's specialized fiduciary standards on grant award and/or funding allocation mechanisms, and on-lending and/or blending<sup>6</sup> may be required depending on the nature of the activities to be undertaken.

19. Readiness support can be provided to assist entities through the accreditation process.

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<sup>3</sup> Annex II to decision B.07/02.

<sup>4</sup> Annex III to decision B.07/02.

<sup>5</sup> Annex XIII to decision B.09/11.

<sup>6</sup> Annex III to decision B.07/02.

## VII. Type of activities to be considered

20. The country pilots can include both adaptation and mitigation activities that will contribute to one or more of the Fund's result areas. A gender-sensitive approach in developing the activities of the pilots is recommended in accordance to the Fund's Gender Action Plan. A significant share of small-scale activities should directly support communities or SMEs through, for example, small-scale grants or extended lines of credit.

21. The entities nominated by the NDA or focal point for accreditation will work 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, which may include public institutions, non-governmental organizations and private enterprises, especially SMEs.

22. Depending on the type of accreditation of the selected entity and its capacity, Fund resources may be deployed in the form of the following financial instruments in the pilot: grants, loans, equity and guarantees.<sup>7</sup>

## VIII. Indicative content of proposals

23. The proposals should contain the following contents at a minimum:

- (a) Background and contact information (including the name of institution or organization proposing the activities, contact information of key person(s), etc.);
- (b) A description of the consultation and selection process facilitated by the NDA or focal point of the nominated direct access accredited entity;
- (c) A description of the proposed scope of activities, including objectives, type, sectors, size and geographic locations. The pilot's specific objectives and goals should be aligned with the Fund's results management framework;<sup>8</sup>
- (d) A description of the approval process and selection criteria for the activities, which should be consistent with the Fund's initial investment framework and proposal approval process;<sup>9</sup>
- (e) A composition of the decision-making body that will be housed and managed by the entity. The decision-making body should include civil society, the private sector and other relevant stakeholders, and should be sensitive to gender considerations;
- (f) A composition of the oversight function, which may include representatives from organizations such as those indicated in Chapter IV of these terms of reference(TOR);
- (g) A composition of those with involvement in the multi-stakeholder engagement process. Guidance provided in Chapter IV of this TOR may be referenced;
- (h) A time frame of implementation, including start date and duration;
- (i) The funding amount to be requested, including the financial instrument (e.g. grant, loan, equity, guarantee);
- (j) Risk assessment and management, including assumptions, factors, ratings, and mitigation measures; and

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<sup>7</sup> The Board, by decision B.08/12, decided that the Fund will work through accredited entities, who may deploy the resources in approved projects and programmes, by using financial instruments, focusing on grants, concessional loans, equity and guarantees.

<sup>8</sup> Document GCF/B.07/04.

<sup>9</sup> Document GCF/B.07/06.

- (k) Monitoring and evaluation, including logical frameworks, methods, criteria, information to be reported, frequency, responsibilities, means of verification and evaluation plans.
24. Accredited entities are encouraged in the development of their pilot proposals to adopt gender-sensitive and participatory approaches in planning, and monitoring and evaluation so as to assure that the needs of communities are appropriately addressed.

## **IX. Monitoring, evaluation and timeline of the pilot phase**

25. Each of the pilots will report to the Secretariat on the progress of the implementation on an annual basis and when specifically requested.
26. The Secretariat will report to the Board on an annual basis, detailing the progress of the pilot phase based on the reports provided by the accredited entity and NDA or focal point.<sup>10</sup> This will follow the guidance on monitoring, reporting and evaluation initially described in Section 6.2 of the Fund's results management framework.<sup>11</sup> The monitoring will also follow the initial monitoring and accountability framework for accredited entities of the Fund.<sup>12</sup>
27. Each country pilot will be reviewed by the Fund two years after its approval, and will be evaluated after five years to assess its impact, effectiveness and lessons learned on potential scalability.
28. The overall pilot phase will be evaluated after five years.
29. The monitoring, reporting and evaluation system for the overall pilot phase will be aligned with the standards of the Fund's results management framework and will be regularly reviewed for improvement once lessons from implementation are made available. This is aligned with the decisions of the fifth meeting of the Board<sup>13</sup> that recognize that the Fund is a continuously learning institution and will maintain the flexibility to refine its results management framework and indicators.
30. Target groups of projects or programmes and other relevant stakeholders, such as government, the private sector, academia or civil society, will actively participate in monitoring the pilots.

## **X. Financial volume of the pilot phase**

31. The pilot phase will initially aim to provide up to US\$ 200 million for at least 10 pilots, including at least 4 pilots to be implemented in small island developing States, the least developed countries and African States. The proposals will be selected on the basis of the Fund's initial proposal approval process, investment framework and results management framework and will be approved by the Board.

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<sup>10</sup> As indicated in decision B.08/10, Annex XIII, Chapter II.

<sup>11</sup> Document GCF/B.07/04.

<sup>12</sup> Progress report provided in document GCF/B.10/Inf.10.

<sup>13</sup> Decision B.05/03, paragraph (h).