

Green Climate Fund

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# Additional Modalities That Further Enhance Direct Access, Including Through Funding Entities

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**GCF/B.06/15**

11 February 2014

**Meeting of the Board**

19-21 February 2014

Bali, Indonesia

Agenda item 15

### **Recommended action by the Board**

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.06/15 *Additional Modalities That Further Enhance Direct Access, Including Through Funding Entities*;
- (b) Provides guidance on policy matters regarding the Fund's direct access modalities; and
- (c) Adopts the draft decision presented in Annex I to this document.

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## **Additional Modalities That Further Enhance Direct Access, Including Through Funding Entities**

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### **I. Introduction**

1. The Governing Instrument established the direct access modality for recipient countries to access the Fund.<sup>1</sup>
2. At its June 2013 meeting, the Board decided to consider at its first meeting in 2014 additional modalities that further enhance direct access, including through funding entities, with a view to enhancing country ownership of projects and programmes.<sup>2</sup>
3. Furthermore, at its October 2013 meeting, the Board requested a team of four Board members/alternate members to oversee the development by the Secretariat of the guiding framework for the Fund's accreditation process, for consideration by the Board no later than at its second meeting in 2014. The team is also expected to oversee the development by the Secretariat of, inter alia, additional modalities that further enhance direct access, including through funding entities, with a view to enhancing country ownership of projects and programmes, for consideration by the Board at its first meeting in 2014. The team of four Board members will also include four senior international experts to be nominated by the Executive Director.<sup>3</sup>

#### **1.1 Scope of the document**

4. This document discusses an operational understanding of implementing entities (IEs) and intermediaries, from the perspective of both international and direct access, and how such understanding may allow for additional modalities that further enhance direct access, including through funding entities, with a view to enhancing country ownership of projects and programmes.
5. According to the approach taken, entities may be distinguished on the basis of the specialized institutional capacities they have accredited, or are interested in accrediting, with the Fund. The fundamental set of specialized institutional capacities refers to the management and oversight of project or programme implementation. Accreditation of additional sets of specialized institutional capacities will enable performance of additional functions.
6. On this basis, the document proposes that IEs be regarded as those entities that have been able to accredit, in addition to the basic fiduciary standards, the specialized fiduciary standards relating to the management and oversight of project or programme implementation.
7. Additional institutional capacities would enable the entity to be accredited also in relation to intermediation functions and thus, be classified as an intermediary. An intermediary would therefore be able to act as both an IE, in cases where it intends to perform management and oversight of the implementation process of a grant-funded project or programme on behalf of the Fund; and as an intermediary, in cases where it intends to perform intermediation functions, such as allocation of grants within the criteria of an approved project or programme, and/or intermediation of reimbursable loans.

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<sup>1</sup> Governing Instrument, paragraph 47.

<sup>2</sup> Decision B.04/06, paragraph (g).

<sup>3</sup> Decision B.05/08, paragraph (d) (v).

8. Funding entities are recognized as a special case of intermediaries, when these refer to accredited public sub-national, national or regional entities with decision-making authority over activities within the context of a project or programme in an approved funding proposal.
9. A particular case of funding entities is also suggested under direct access, in line with the understanding outlined above: the use of national budgets and public financial systems through ministries of finance or national treasuries for policy intervention programmes.
10. This document builds on relevant previous documents relating to access modalities and direct access, particularly documents GCF/B.04/05 and GCF/B.05/08.
11. An informal consultative discussion, convened by the Secretariat on 5 December 2013, engaged a number of relevant think-tanks and technical experts with expertise in this field, including the representatives of the Center for Global Studies, Climate Policy Initiative, E3G, German Watch, Overseas Development Institute, Oxford Institute for Energy Studies, the United Nations Framework Convention on Climate Change (UNFCCC) secretariat and the World Resources Institute. This conversation provided a significant number of important inputs and insights to inform the development of this document, in addition to those obtained from the review of relevant literature.

## II. Linkages with other documents

12. This document has actual or potential linkages with the following documents:
  - (a) *Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards* (GCF/B.06/09). The decision on additional modalities that further enhance direct access, including through funding entities, will feed into the definition of the necessary specialized fiduciary standards to be required from each category and the overall development of the accreditation process;
  - (b) *Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding* (GCF/B.06/08). The decision on additional modalities that further enhance direct access, including through funding entities, may feed into the final elaboration of the initial approval process.

## III. Operational understanding of the Fund's access modalities

### 3.1 Provisions of the Governing Instrument

13. The Governing Instrument states that access to Fund resources will be through national, regional and international IEs accredited by the Board. Each country is free to determine the mode of access and these options may be used simultaneously<sup>4</sup>.
14. Direct access is presented in the Governing Instrument as access to Fund resources by recipient countries through competent sub-national, national and regional IEs, which are accredited by the Fund for this purpose. Furthermore, the Governing Instrument also mandates 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<sup>5</sup>. This provision in the Governing Instrument clearly points to enhancing country ownership of projects and programmes.

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<sup>4</sup> Governing Instrument, paragraph 45.

<sup>5</sup> Governing Instrument, paragraph 47.

15. International access is set out in the Governing Instrument as access through accredited international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions.<sup>6</sup>

16. The Governing Instrument also introduces the concept of financial intermediaries in the context of the Private Sector Facility (PSF), referring to local financial intermediaries that should participate in the Facility, among other private sector actors.<sup>7</sup> The reference is made to *local* and *private* financial intermediaries.

### 3.2 Further guidance by the Board on the understanding of access modalities

17. On the basis of these provisions of the Governing Instrument, subsequent decisions taken by the Board seem to distinguish between two categories of entities that may channel resources from the Fund to recipient countries: *intermediaries* and *IEs*.

18. It is proposed that the operational understanding of intermediaries refers to both international and direct access modalities, and beyond the context of the PSF, to include both public and private intermediaries.

19. The first time the term intermediaries was introduced by the Board was at its March 2013 meeting through decision B.01-13/06, in the context of the development of the business model framework of the Fund. In this decision, the Board noted convergence that the Fund should commence as a fund that operates through accredited national, regional and international intermediaries and IEs.

20. A number of other decisions were taken by the Board at its June 2013 meeting, also referring to intermediaries and IEs as two distinct categories of entities, and therefore modes of access for recipient countries.

21. Decision B.04/05 on country ownership, for instance, mentions that a national designated authority (NDA) or focal point will seek to ensure consistency of funding proposals from sub-national, national, regional and international intermediaries and IEs with national plans and strategies. This decision clearly assumes that funding proposals may be submitted through two types of entities: intermediaries and IEs, under both access modalities (international and direct access).

22. The Governing Instrument and these subsequent Board decisions imply, therefore, that the fundamental criterion for determining the access modality is the type of entity used to access the Fund. It becomes important to understand, from an operational point of view, the institutional capacities that distinguish intermediaries from IEs, which will in turn provide a better understanding of the possibility of additional modalities, including through funding entities.

### 3.3 Implications for the operationalization of the Fund's access modalities

23. The provisions of the Governing Instrument, as well as the subsequent decisions taken by the Board, define the type of access modalities on the basis of the type of entity through which access is pursued.

24. At one level, the jurisdiction of the entity used for accessing resources determines whether it is international or direct access. Jurisdiction is understood as the geographic scope of

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<sup>6</sup> Governing Instrument, paragraph 48.

<sup>7</sup> Governing Instrument, paragraph 43.

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the mandate for the entity to operate. If it is sub-national, national or regional, it will correspond to direct access. If international, it will refer to international access.

25. At a next level, entities may be distinguished as intermediaries or IEs. Both categories of entities may relate to international or direct access modalities, depending on the geographic scope of their jurisdiction, as explained above.

26. Section 3.4 proposes an operational understanding of IEs and intermediaries based on the specialized institutional capacities that these entities have accredited with the Fund in addition to those required for project/programme management and oversight.

27. It is necessary to clarify that the accreditation process is intended to be applied to the institutional capacities that the entity is capable of, or interested in accrediting, and that this process may progress over time as the entity develops or decides to accredit additional capacities that will relate to the corresponding specialized fiduciary standards of the Fund.

### 3.4 Proposed operational understanding of implementing entities and intermediaries

#### 3.4.1 Implementing entities

28. By definition, the role of an IE relates to the management and oversight of the project implementation, which include the origination and preparation of a funding proposal and subsequent management of the necessary stages of the implementation process until its conclusion (project management) on behalf of the provider of funds (the Fund), with due reporting obligations.

29. Implementing entities typically perform this function by transferring funds from the funding source (the Fund), to all relevant and necessary executing entities. In some instances, this is also conceptualized as a devolution of the implementation function to the IE by the Fund<sup>8</sup>.

30. Therefore, an IE can be understood, from an operational point of view, as a legal entity, public or private in nature, duly accredited with the Fund, whose accredited institutional capacities enable it to submit funding proposals in relation to specific projects or programmes to be funded by the Fund, with the explicit role of managing the approved project and programme cycle from preparation to conclusion.

31. Given the focus on project/programme implementation in their role, IEs are expected to channel only grants from the Fund and will be entitled to collect a fee for the services provided, in accordance with the terms and conditions to be applied by the Fund.

32. Implementing entities can only carry out their role within the jurisdiction for which they have been accredited: sub-national, national and regional, or international, as applicable.

33. With regard to the role of project and programme implementation, the responsibilities of an IE will include management, financial, administrative, monitoring and evaluation and reporting duties necessary for a successful full implementation of the approved funding proposal and in accordance with relevant operational guidelines of the Fund.

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<sup>8</sup> See document GCF/B.04/05.

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### 3.4.2 Intermediaries

34. The guidance provided by the Board, as discussed in Section 3.2, puts the concept of intermediaries in a broader context. Intermediaries, therefore, can be understood as referring to sub-national, national, regional or international *public and private entities* with accredited capacities for intermediation.

35. Intermediaries are regarded as those accredited sub-national, national, regional or international entities that have been able to accredit additional specialized capacities that enable them to intermediate grants and/or loans. These additional capacities for intermediation may be accredited at the outset or in a gradual manner as the institution evolves.

36. This effectively enables intermediaries to perform as both IEs and intermediaries.

37. According to this understanding, the scope of the role of intermediaries refers to a broader range of responsibilities than those of IEs, stemming from their capacities of intermediation, which may include one or more of the following:

- (a) Grant award mechanisms;
- (b) On-lending and capacity to undertake due diligence thereof;
- (c) Financial blending;
- (d) Financial structuring, including for guarantees;
- (e) Insurance mechanisms relevant for climate change;
- (f) Origination of financial structured products for financial engineering; and
- (g) Other, to be defined as they become relevant and appropriate.

38. As in the case of IEs, intermediaries can only carry out their role within the jurisdiction for which they have been accredited: sub-national, national, regional, or international, as applicable.

### 3.4.3 Key additional considerations

39. It is important to emphasize in this context the following key considerations for the operational understanding of intermediaries:

- (a) Intermediaries can perform also as IEs – they are also accredited for project/programme management and oversight capacities, including those relating to monitoring and evaluation and reporting duties;
- (b) Intermediaries can be both public or private entities – this type of entity is not restricted to private entities working under the PSF;
- (c) Intermediaries is a broad concept not limited to banking institutions – a broad range of public or private entities may qualify, depending on their capacity to meet the required relevant fiduciary standards and accreditation criteria to perform as intermediaries;
- (d) Intermediaries apply to both direct and international access modalities, depending on the geographic scope of their jurisdiction (sub-national, national, regional or international);
- (e) Intermediaries, both public and private, can submit funding proposals in relation to specific projects as well as programmes.

40. Under this operational understanding, funding proposals relating to programmes effectively devolve the decision-making authority over individual funding decisions for projects or activities that are comprised within the approved programme to the accredited entity acting

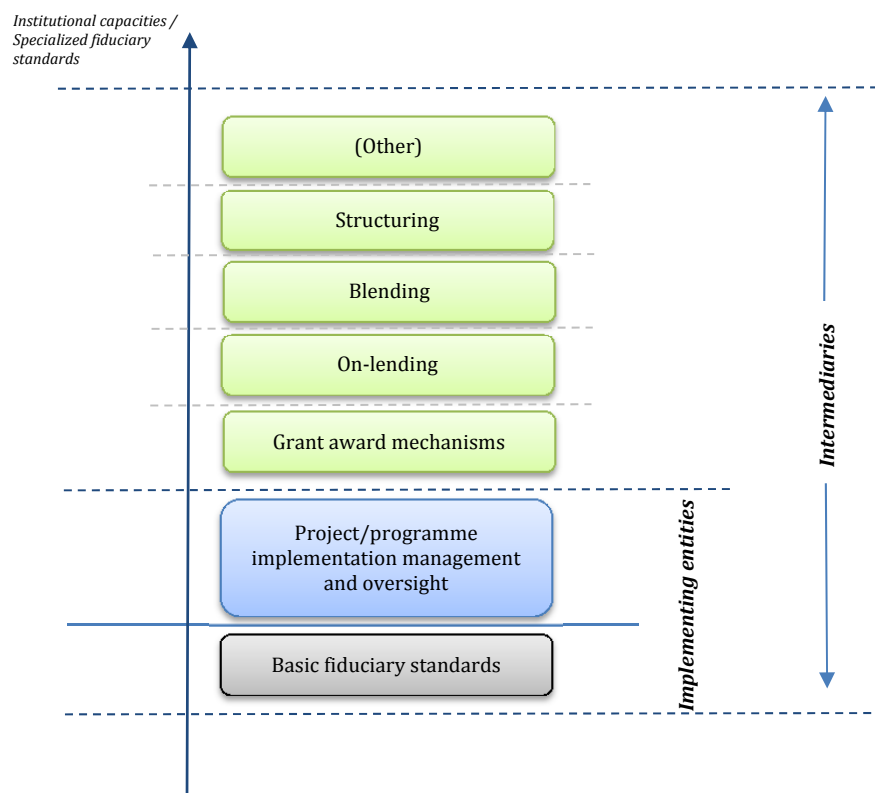
as an intermediary (sub-national, national, regional or international). Such devolution of decision-making authority should be understood as delegated responsibility with due provisions for accountability, in accordance with the Fund's fiduciary standards and terms and conditions, as, in fact, for any other accredited entity.

41. An operational understanding of an intermediary, consequently, will refer to the concept of a legal entity (sub-national, national, regional or international) duly accredited with the Fund for the preparation, submission and implementation, upon approval, of funding proposals for financial intermediation relating to projects or programmes to achieve mitigation and/or adaptation results, which may include, among others, grant award mechanisms, on-lending, financial blending, financial structuring (including guarantees), insurance mechanisms relevant for climate change and origination of structured financial products.

42. Intermediaries may be public or private sub-national, national, regional or international entities able to channel grants and concessional loans from the Fund.

43. The following diagram attempts to facilitate understanding of the proposed approach from the perspective of the required institutional capacities.

**Figure 1: Intermediaries and implementing entities according to accredited capacities**



#### IV. Further considerations on enhancing country ownership of projects and programmes under direct access

44. The proposed operational understanding of intermediaries and IEs allows for enhanced opportunities for country ownership of projects and programmes by recipient countries, particularly under the Fund's direct access modality.



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45. This can be achieved especially in a scenario where a public intermediary takes responsibility of an approved programme, where the funding decisions on individual eligible projects or activities are delegated to the sub-national, national or regional entity in question.
46. As this example illustrates, such modalities under direct access effectively enhance country ownership through decision-making capacity over funding for specific projects or activities within the scope of an approved programme.
47. Key conditions for effectively enhancing country ownership under direct access require, therefore, an operational understanding of intermediaries that allows for:
- (a) Participation of sub-national, national and regional public and private entities;
  - (b) Use of grants and/or concessional loans;
  - (c) Funding proposals that may relate to projects, but particularly to programmes.
48. Furthermore, programmes should have a broad operational understanding encompassing not only sets and/or bundles of projects, but also frameworks of activities and even policy intervention programmes that may take advantage of national public financial systems and budgets that meet the Fund's fiduciary requirements.

#### 4.1 Additional modalities that further enhance direct access, including through funding entities

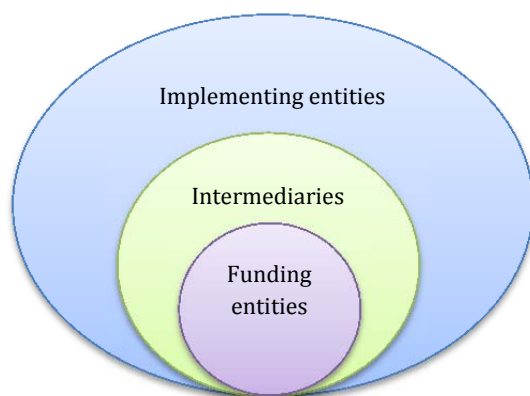
49. Based on the mandate given to the Board in the Governing Instrument, direct access may allow for additional modalities that enhance direct access with a view to enhancing country ownership of projects and programmes. This can be achieved through an expanded operational understanding of intermediaries, in particular when this category encompasses sub-national, national or regional entities, including both public and private, with delegated authority over funding decisions on individual eligible projects or activities within an approved programme.
50. *Funding entities* may be regarded, in this context, as a special case of accredited sub-national, national or regional intermediaries that are public in nature and intend to implement a project or programme where the decision-making authority is delegated to the intermediary (the funding entity, in this special case), as per the preceding paragraph.
51. Further enhancement of country ownership may also be envisaged if, under this special case of intermediaries that can be categorized as funding entities, a funding proposal relating to a project or programme refers to the use of national financial systems and budgets through national treasuries or ministries of finance for the implementation of a policy intervention programme.
52. In this case, the funding entity (that would intrinsically be an intermediary) would be the ministry of finance or national treasury. It would have to be duly accredited with the Fund, and the funding proposal would have to refer to a project or programme for climate change policy intervention using the national public financial system and budget.

## V. Conclusions

53. The proposed operational understanding of IEs, intermediaries and funding entities would imply that:
- (a) All accredited entities have capacities for project/programme implementation, which enable them to channel grants;

- (b) Intermediaries have additional capacities relating to intermediation with regard to grants and/or loans from the Fund, and can be public or private, as well as sub-national, national, regional or international entities;
  - (c) Funding entities are a special case of intermediaries where the sub-national, national or regional entity is public in nature and related to an approved project or programme with decision-making authority for funding decisions;
  - (d) Intermediaries (and thus, funding entities as well) may also perform as IEs.
54. Figure 2 describes the implications of this conclusion.

**Figure 2: Universe of accredited entities**



## VI. Next steps

55. Agreement on the operational understanding proposed in this document would allow for additional modalities focused on enhancing country ownership of projects and programmes under the direct access of the Fund.
56. This would also provide relevant guidance for the further elaboration of other related operational definitions necessary for the completion of the guiding framework for the Fund's accreditation process and the Fund's initial proposal approval process, including the criteria for programme and project funding.

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**Annex I: Draft decision of the Board**

The Board, having considered document GCF/B.06/15 *Additional Modalities That Further Enhance Direct Access, Including Through Funding Entities*:

- (a) Approves the operational understanding of the Fund's intermediaries and implementing entities, presented in document GCF/B.06/15, that allows for additional modalities that further enhance direct access, including through funding entities, with a view to enhancing country ownership of projects and programmes;
  - (b) Requests the Secretariat to incorporate this operational understanding in the final elaboration of the guiding framework for the Fund's accreditation process, the initial proposal approval process, including the criteria for programme and project funding, and other operational guidelines, as appropriate and necessary.
-