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# Additional Modalities that Further Enhance Direct Access, including through Funding Entities

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**GCF/B.08/09**  
October 2014

**Meeting of the Board**  
14-17 October 2014  
Bridgetown, Barbados  
Agenda item 8

## Recommended action by the Board

It is recommended that the Board:

- (a) Take note of the information presented in document GCF/B.08/09 *Additional Modalities that Further Enhance Direct Access, including through Funding Entities*;
- (b) Provide guidance on policy matters regarding the Green Climate Fund's direct access modalities; and
- (c) Adopt the draft decision presented in Annex I to this document.

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

### I. Introduction

1. The Governing Instrument (GI) established the direct access modality for recipient countries to access the Fund.<sup>1</sup> It states that access to Fund resources will be through national, regional and international implementing entities (IEs) accredited by the Board. Each country is free to determine the mode of access and these options may be used simultaneously.<sup>2</sup> Access is, therefore, typified on the basis of the type of entity used:

- (a) International access: through accredited IEs such as United Nations agencies, multi-lateral development banks, international financial institutions and regional institutions;
- (b) Direct access: through sub-national, national and regional IEs and intermediaries;<sup>3</sup> or
- (c) The GI also introduces the concept of financial intermediaries in the context of the Private Sector Facility, referring to local and private financial intermediaries that should participate in the Facility.<sup>4</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>5</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, inter alia, additional modalities that further enhance direct access, including through funding entities, with a view to enhancing country ownership of projects and programmes.<sup>6</sup> It is understood that this work is now being carried out under the guidance of the Accreditation Committee established through decision B.07/02.

4. To enhance country ownership of projects and programmes, the modalities are intended to accommodate a broad range of country conditions and circumstances, balanced with accountability mechanisms to ensure the effective delivery of funding. An important objective is also the devolution of funding decisions to in-country funding entities.

5. The present document is a follow-up to document GCF/B.06/15 and has been prepared in accordance with guidance received from the Board at its sixth meeting and recent inputs from the Accreditation Committee.

### II. Linkages with other documents

6. This document has actual or potential linkages with the following document:

- (a) *Simplified processes for the Approval of Proposals for Certain Activities, in Particular Small-scale Activities* (GCF/B.08/22). This document discusses potential scenarios for delegated decision-making authority over individual funding proposals. It refers to the concept of programme-based activities and reaffirms that an IE or intermediary would

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

<sup>2</sup> Governing Instrument, paragraph 45.

<sup>3</sup> Governing Instrument, paragraph 48.

<sup>4</sup> Governing Instrument, paragraph 43.

<sup>5</sup> Decision B.04/06, paragraph (g).

<sup>6</sup> Decision B.05/08, paragraphs (d) and (v).

have such authority for the allocation of funding to individual project proposals in the context of an approved programme.

### **III. Structure and examples of additional modalities that further enhance direct access, including through funding entities**

#### **3.1 General structure to further enhance direct access**

7. Direct access is presented in the GI 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 GI 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>7</sup>

8. Enhancing direct access is understood to mean the delegation of authority for approving individual activity proposals to the national level by accredited sub-national, national or regional IEs, which can also be understood as a funding entity.

9. The GI already recognizes the use of programmes by accredited entities; therefore a potential approach to further enhance direct access would have to take full advantage of this modality through frameworks of activities. Another potential area for enhancing direct access may include policy actions.

10. Modalities that aim to further enhance direct access could be undertaken by a wide range of potential accredited entities. A clear example of these can include national entities with capacity for intermediation with institutional capacities that correspond to the specialized fiduciary standards relating to grant award and funding allocation mechanisms.

11. Owing to the wide range of instruments the Fund may support to deliver finance, it is expected that the Fund's access modalities will develop and evolve in line with the operationalization of the Fund.

12. Current examples of devolved decision-making demonstrate the range of potential manifestations of enhancing direct access.

13. Following is a compilation of some examples of ongoing experiences that may serve as case studies for an operationalization of modalities that enhance direct access.

#### **3.2 Illustrative examples**

##### **3.2.1 Quantity performance instruments**

14. Quantity performance (QP) instruments are used to provide ex-post ('on delivery') funding for transactions of quantities, such as tonnes of carbon dioxide, kilowatt hours of renewable energy or hectares of forests, generally involving some form of 'forward' contract. Counterparties, volume and price could be determined competitively through auctions; alternatively, volume and price could be set through negotiation on a first-come first-served basis, or by using a standard formula. There are a number of existing experiments and conceptualizations of QP instruments, for example:

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<sup>7</sup> Governing Instrument, paragraph 47.

- (a) The Norwegian International Forest Climate Initiative, with the Brazilian Amazon Fund and the Guyana REDD+ Investment Fund as funding entities; and
  - (b) The Global Energy Transfer Feed-in Tariffs Program.
15. QP instruments have the potential for the greatest devolution of operational funding decisions: the funders, as quantity purchasers, do not need to take any particular decisions regarding the production of what they wish to purchase.

### 3.2.2 South African National Biodiversity Institute

16. Under direct access approach of the Adaptation Fund (AF), the South African National Biodiversity Institute is developing a small grants facility with an AF grant. Decision-making criteria are being developed and decisions are devolved to a national entity.

17. The South African Small Grants Facility (SGF) was designed to directly support vulnerable groups in defining and implementing effective adaptation strategies and making a direct contribution to climate-resilient development by linking the sound integration of scientific and local knowledge to municipal and national planning and policy processes. SGF, once fully approved, is expected to channel US\$ 2 million to at least 10 community-based projects (with a maximum project size of US\$ 100,000) in local municipalities in South Africa.

18. This approach responds directly to calls from civil society to bring the principle of direct access closer to vulnerable communities themselves, thus empowering them to determine how climate finance will be used, and building institutional capacity for the implementation of adaptation efforts at the local level.

19. The devolved nature of SGF is that these small investments will have a significant impact at the community level with regards to adaptation actions. The governance structure ensures that the decision-making and project selection process is robust enough. The AF Board will not be involved in deciding allocation at such a small scale.

### 3.2.3 Kecamatan Development Program, Indonesia

20. The Kecamatan ('sub-district') Development Program (KDP) was launched in Indonesia in 1998 to address rural poverty and improve local governance. 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. These funds were used to provide 'block grants' to sub-districts consisting of 20–50 villages for small-scale infrastructure, social and economic activities. There were two forms of block grants: one to support investment proposals made by villages and selected by consensus in inter-village decision meetings, and a second to support participatory planning processes to develop these proposals.

21. At the sub-national level, development plans under KDP were prepared through a participatory process that typically lasts between four to six months. Villagers could propose virtually any investment they would like, from infrastructure provision to small-scale economic activities, and negotiate amongst themselves which proposals to submit. Each village could submit up to two proposals to the Kecamatan council. The requirement that villagers compete for KDP resources promoted the development of high-quality project proposals. The Kecamatan council agreed which village proposal to accept, and this decision could not be overruled through other authorities. Funds were then directly released from the provincial branch of the national treasury to a bank account held by the village.

## **IV. Operationalizing modalities that further enhance direct access**

### **4.1 Implementing a pilot phase**

22. Given that there are many potential manifestations of enhancing direct access at the country level, a pilot phase would allow for an effective operationalization of modalities with the potential to enhance direct access. At the same time it would offer the Fund the opportunity to gain experience and additional insights on how to enhance direct access further, including through funding entities. This may also inform the evolving definition and scope of the modality. Generally, the pilot phase may build on the experience of existing approaches already operational in many countries, and make full use of existing operational approaches such as programmes in the context of grant award/funding allocation mechanisms.

23. Therefore, the pilot phase could be restricted solely to grants in its initial phase, and only through entities that have already demonstrated compliance with the Fund's fiduciary standards, particularly the specialized fiduciary standard for grant award and funding allocation mechanisms.

## **V. Next steps and further considerations**

24. Given the diverse range of potential modalities and their underlying complexity, a process to further analyse and define these modalities may be needed. Such a process, including defining the range of additional modalities and relevant requisite capacities and requirements, may be overseen by the Investment Committee. In consultation and collaboration with the Accreditation Committee, the Investment Committee would develop additional modalities that enhance direct access, including through funding entities, in order to enhance country ownership of projects and programmes.

25. It will also be important to recognize the role of the National Designated Authority or focal point in providing no-objection for the framework of activities when being submitted to the Fund's Board for approval. However, the accredited entity will not require no-objection for each funding decision.

26. Further considerations to be elaborated for the operationalization of such a pilot phase may include:

- (a) Measures to incentivize and operationalize frameworks of activities under the direct access modality of the Fund;
- (b) The scope and eligibility for participation in the pilot phase;
- (c) Linkages to the Fund's readiness work programme to build national capacities for modalities that further enhance direct access;
- (d) Oversight and mitigation of any relevant operational and financial risks; and
- (e) Accommodating different needs, capacities and circumstances in recipient countries.

## Annex I: Draft decision of the Board

The Board, having considered document GCF/B.08/09 *Additional Modalities that Further Enhance Direct Access, Including through Funding Entities*:

- (a) Decides to launch a pilot phase on modalities that further enhances direct access, including through funding entities;
  - (b) Decides that the first stage of this pilot phase will aim to incentivize programme-based funding proposals under the Fund's mitigation and adaptation windows from entities accredited under the Fund's specialized fiduciary standards relating to 'grant award/funding allocation mechanisms'; and
  - (c) Requests the Secretariat, under the guidance of the Accreditation Committee and the Investment Committee, and in consultation with the Risk Management Committee, to prepare terms of reference for the prompt operationalization of the pilot phase. This will include relevant readiness support to potential intermediaries who can promptly become engaged, for endorsement by the Board at its ninth meeting.
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