



GREEN
CLIMATE
FUND

Additional Modalities that Further Enhance Direct Access: Terms of Reference for a Pilot Phase

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* The agenda item number may change as the final sequence of items in the provisional agenda is confirmed by the Co-Chairs.

Recommended action by the Board

It is recommended that the Board:

- (a) *Take note* of the information presented in document GCF/B.09/05 *Additional Modalities that Further Enhance Direct Access: Terms of Reference for a Pilot Phase*; and
- (b) *Adopt* the draft decision presented in Annex I to this document.

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Additional Modalities that Further Enhance Direct Access: Terms of Reference for a Pilot Phase

I. General mandate

1. The Board, by decision B.08/09:
 - (a) Requested the Secretariat, under the guidance of the Accreditation Committee and in consultation with relevant stakeholders, to prepare terms of reference (ToR) for modalities for the operationalization of a pilot phase that further enhances direct access, which will include relevant readiness support if requested by subnational, national and regional entities, for approval by the Board at its ninth meeting; these ToR will launch the pilot phase; and
 - (b) Clarified that the ToR 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 time frame of the pilot phase; and
 - (vi) The financial volume of the pilot phase.

II. Background

2. The Governing Instrument for the Green Climate Fund (the Fund) established the direct access modality for recipient countries to access the Fund.¹ It states that access to Fund resources will be through sub-national, 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.² Access is, therefore, categorized on the basis of the type of entity used, as follows:
 - (a) Direct access: through subnational, national and regional IEs.³ 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; or
 - (b) International access: through accredited international entities such as United Nations agencies, multilateral development banks, international financial institutions and regional institutions;⁴
3. Decision B.05/08 introduced the concept of financial intermediaries in the context of the private sector facility, referring to local financial intermediaries that should be accredited to intermediate the funds of the facility.⁵

¹ Governing Instrument, paragraph 47.

² Governing Instrument, paragraphs 45, 47 and 48.

³ Governing Instrument, paragraph 47.

⁴ Governing Instrument, paragraph 48.

⁵ Governing Instrument, paragraph 43.

4. The modalities referred to in paragraph 1 above are intended to accommodate a broad range of country conditions and circumstances, balanced with oversight mechanisms to ensure the effective delivery of funding, with a view to enhancing country ownership of projects and programmes.
5. This document is a follow-up to document GCF/B.08/09 and has been prepared with guidance received from the Board at its eighth meeting.

III. Linkages with other documents

6. This document has 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.07/02);
 - (b) *Guidelines for the Operationalization of the Fit-for-purpose Accreditation Approach* (GCF/B.08/02);
 - (c) *Investment Framework* (GCF/B.07/06);
 - (d) *Further Development of the Initial Investment Framework: Sub-Criteria and Methodology* (GCF/B.09/07);
 - (e) *Initial Results Management Framework of the Fund* (GCF/B.07/04);
 - (f) *Further Development of the Initial Results Management Framework* (GCF/B.08/07);
 - (g) *Use of Other Financial Instruments* (GCF/B.08/12);
 - (h) *Private Sector Facility: Working with Local Private Entities, Including Small and Medium-sized Enterprises* (GCF/B.09/12); and
 - (i) *Legal and Formal Arrangements with Accredited Entities* (GCF/B.09/03).

IV. Consultations

7. The Secretariat carried out consultations with the Accreditation Committee during the development of the draft ToR as contained in Annex II to this document.
8. The Secretariat also carried out consultations on the approach to take regarding the ToR with a number of key stakeholders, including prospective IEs or intermediaries, the Fund's active observers (civil society organizations and private-sector organizations), other non-governmental organizations and private-sector entities, and relevant stakeholders.

V. Approach to the terms of reference for the pilot phase to enhance direct access

5.1 Need for enhancing direct access and increasing country ownership

9. In this document, a "**pilot**" will designate in each participating country the framework of activities and institutional arrangements approved by the Fund under the enhanced direct access track. "**accredited entities**" and "**prospective accredited entities**" designate IEs or intermediaries which may implement the pilot. They can be public or private, subnational or national.

10. Enhanced direct access is needed mainly because the **decision-making** on the specific projects and programmes to be funded will be made at the national or subnational level,⁶ and such direct access is a means to increase the level of **country ownership**⁷ over those projects and programmes. This implies that the screening, assessment and selection of specific pilot activities would be made at the national or subnational level. At the same time, mechanisms will be set up to increase **oversight** and **multi-stakeholder** engagement at the country level. For that purpose, the preferred approach will be to use existing country systems and institutions.

11. The main differences between the traditional direct access and the enhanced direct access are as follows. In the traditional direct access track, the steps in the process are:

- (a) Nomination of a prospective accredited entity by the national designated authority (NDA) or focal point (FP);
- (b) Application of the entity for accreditation; and
- (c) Submission by the accredited entity of individual projects or programmes for financing by the Fund.

12. In the enhanced direct access track, the following steps will be conducted:

- (a) Selection of a prospective accredited entity through a **competitive** or **consultative** process by the NDA or FP;
- (b) Application of the prospective accredited entity for accreditation (if not already accredited); **and at the same time**
- (c) Submission of a **proposal** developed by the prospective accredited entity in consultation with the NDA. Unlike the traditional direct access track, there will be no submission of individual project or programmes because decision-making for funding of specific pilot activities will be devolved at the **country level**.

The proposal will describe:

- (i) The **scope of activities** that will be considered for financing in conformity with the Fund's eight result areas;
- (ii) The **approval process** of specific pilot activities set up in conformity with the Fund's investment framework and results management framework; and
- (iii) The **institutional arrangements** set up to ensure oversight and multi-stakeholder engagement.

13. The Board will consider the pilot proposal together with recommendations for funding by the Secretariat, the Accreditation Panel and the Technical Advisory Panel. The implementation of the pilot will include devolved decision-making for funding specific activities at the country level, an **oversight** body with NDA involvement and **multi-stakeholder engagement**. Readiness and preparatory support can be requested to assist in these aspects. This will aim not only at supporting the pilot but also at building the robustness of existing institutions and processes in a sustainable manner, thereby contributing to increased country ownership.

⁶ United Nations Development Programme/Overseas Development Institute, 2011, Direct Access to Climate Finance: Experiences and Lessons Learned.

⁷ Müller B, 2014, Enhancing Direct Access and Country Ownership.

5.2 Pilot phase for operationalizing enhanced direct access

14. The pilot proposal, approval and implementation processes are set out in the figure below.

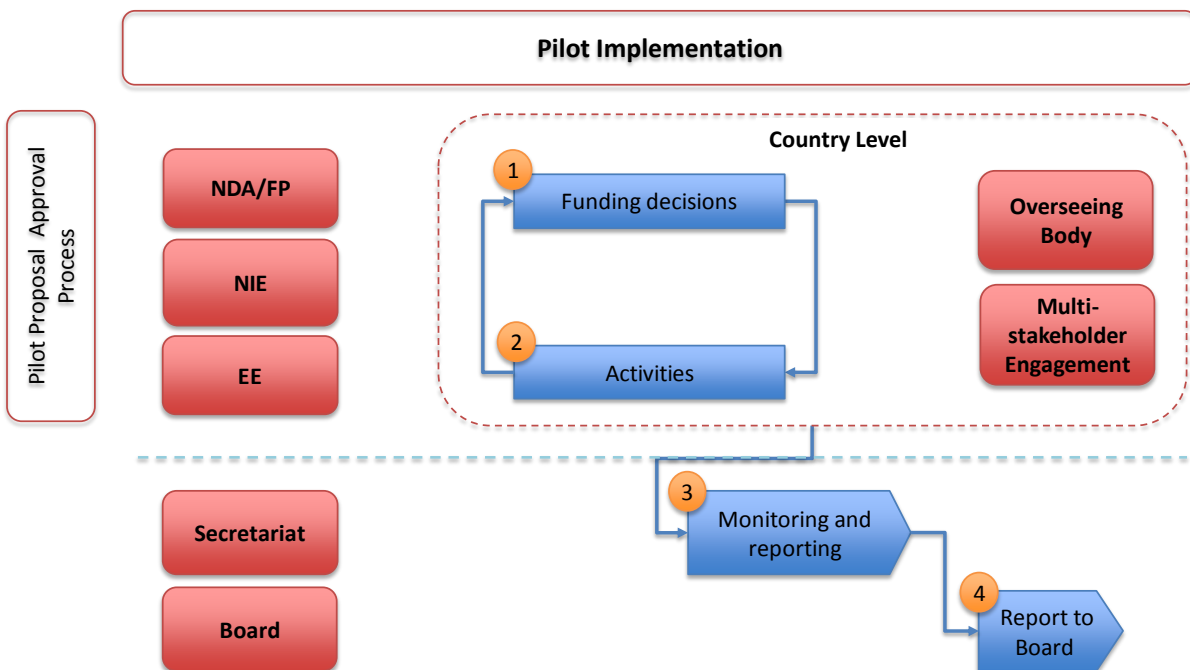
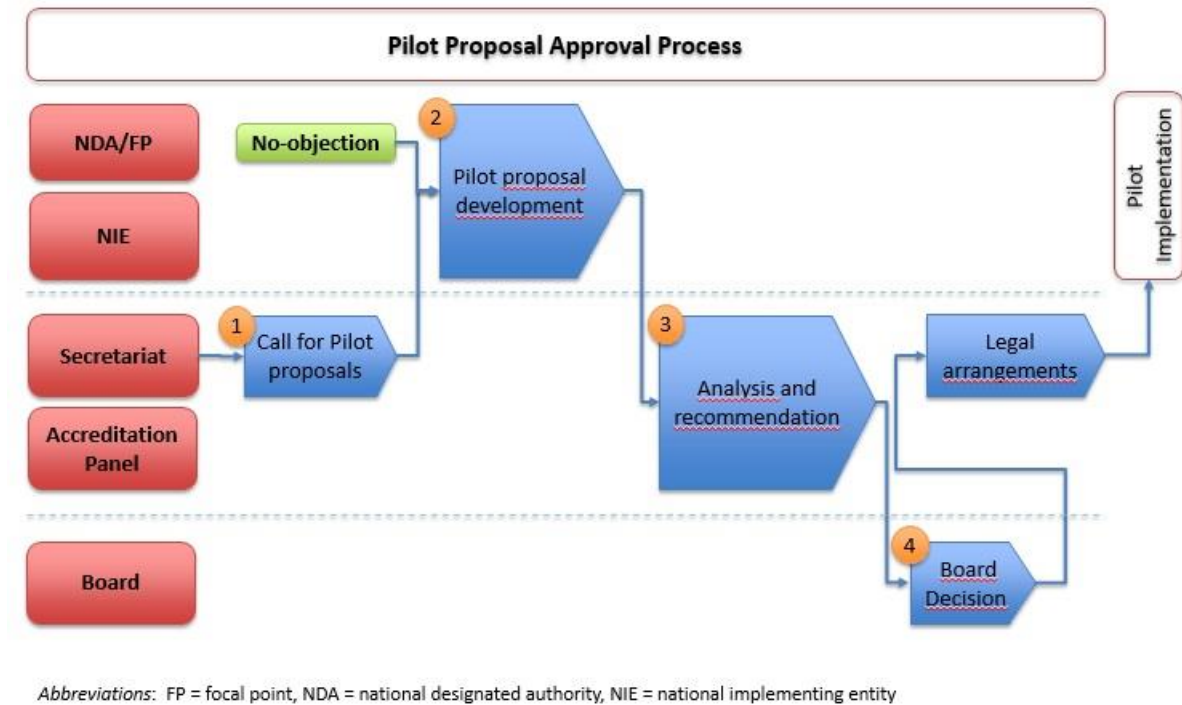


Figure 1: Enhancing direct access to the Green Climate Fund

15. There is existing experience with enhancing direct access to international climate finance from the Adaptation Fund, the Climate Investment Funds, Agence Française de

Développement, the Amazon Fund, etc. The range of activities include afforestation, clean energy and adaptation. The financial instruments being used include grants, loans, quantity performance instruments⁸ and credit lines. Some examples of such existing experience is detailed in Annex III to this document.

16. There have also been experiences with enhancing direct access beyond international climate finance in the health and general development aid programmes using loans and grants, such as those of the Global Fund to Fight AIDS, Tuberculosis and Malaria, the European Commission, the World Bank and others which offer valuable lessons learned. Some examples of such experience and lessons learned are set out in Annex IV to this document.

5.3 Decision-making on pilot proposals devolved to the country level

17. If decision-making is to be delegated to the national or subnational level, the pilot phase will be based on the ToR, which will be communicated to countries via their NDA or FP and will also be available on the Fund's website and other media. Countries will be invited to submit proposals of pilots to the Fund, as indicated in Annex II to this document. Countries can choose a variety of entities for the implementation of the pilot, such as public-sector institutions (development banks, national funds, etc.) and private-sector entities (commercial banks, investment funds, leasing companies, etc.), operating at the national or subnational level. Selected entities will need to be accredited through the Fund's accreditation process by demonstrating compliance with the Fund's basic fiduciary standards, as well as relevant specialized fiduciary standards for project management, grant award and allocation mechanisms, and on-lending or blending.⁹

18. The Fund's investment framework puts the emphasis on addressing the needs of recipients. To ensure the inclusion of a wide range of stakeholders, prospective accredited entities are invited to work with different types of local actors, especially those that address the needs of vulnerable communities: public institutions, subnational government bodies, non-governmental organizations, community-based organizations and private enterprises, especially small and medium-sized enterprises. Enhancing direct access by small and medium-sized enterprises is considered important¹⁰ as these entities contribute to 45 per cent of employment and 33 per cent of the gross domestic product of developing countries.¹¹ Access to finance is also one of the two major obstacles¹² to businesses in developing countries.

19. It should be noted that an entity selected to implement a pilot under the enhanced direct access approach is also eligible to submit individual projects or programmes for financing by the Fund under the traditional direct access track.

5.4 Instruments and activities under the pilot

20. Fund resources may be deployed in the form of the following financial instruments in the pilot: grants, loans, equity and guarantees.¹³

⁸ Used for payments ex post or on delivery through a forward contract for quantities of greenhouse gas emission mitigation, clean energy generation, forest area coverage, etc. Examples include REDD-plus and feed-in-tariff payments.

⁹ The Fund's basic and specialized fiduciary standards were adopted by decision B.07/02.

¹⁰ See document GCF/B.09/12, to be considered by the Board.

¹¹ International Finance Corporation and McKinsey & Company, 2010, Two Trillion and Counting.

¹² The other one being access to electricity.

¹³ The Board, by decision B.08/12, decided that the Fund will work through accredited implementing entities and intermediaries, who may deploy the resources in approved projects and programmes by using financial instruments, focusing on grants, concessional loans, equity and guarantees.

21. Adaptation and mitigation activities that meet the eight results areas of the Fund may be supported in the pilots.¹⁴ The endorsement of the pilot proposal by the NDA or FP will serve to ensure that the activities are aligned with the national strategic frameworks, policies and priorities on climate change. The approval process and selection criteria used by the country in the pilot will have to be consistent with the broad requirements specified in the ToR (refer to Annex II to this document), including the Fund's Investment Framework and Results Management Framework.
22. Countries participating in the pilot are invited to establish or use an existing oversight body with the involvement of the NDA to ensure that governance standards, including accountability standards, are met and to ensure transparency and multi-stakeholder engagement in the decision-making process. Participating institutions will follow the Board guidance on best practice options for country coordination and stakeholder engagement.¹⁵ Readiness funding could be provided to support the strengthening of these aspects.

5.5 Mechanism for reviewing the outcomes of the pilot

23. The perceived strengths of enhancing direct access are considered to be a higher level of country ownership, reduction in the management costs, increased local human and institutional capacity-building and possibly higher levels of financial leverage. The challenges are considered to be implementation risks from limited institutional capacity and track-record, weak public finance management systems and insufficient inclusion of stakeholders.
24. It is considered important that the pilot be accompanied by institutional capacity-building assistance and a review of its outcomes and components. The institutional capacity-building component should focus on strengthening risk management and financial management systems, environmental and social management systems, gender consideration and the exchange of global best practices, including South-South exchange. At the country level, this may cover governance standards.
25. The review, which will be carried out after the implementation of the first pilot phase, should assess the pilot phase design and implementation as well as identify lessons learned and consider changes.

5.6 Call for enhancing direct access pilot proposals

26. A call for enhancing direct access pilot proposals can be launched by the Fund following the approval by the Board of the ToR as contained in Annex II to this document. Countries may, through their NDAs, competitively select through an open and transparent selection process based on the quality of the pilot proposals a prospective accredited entity, which may then submit proposals of pilots. Proposals will be analysed and assessed through the Fund's Investment Framework and Results Management Framework. Following Board approval, the Fund will formalize the pilot proposal within the context of the legal arrangement with the accredited entity as considered in document GCF/B.09/03, *Legal and Formal Arrangements with Accredited Entities*.
27. Given the increased role of NDAs or FPs in the enhanced direct access approach, this may include specific obligations of the accredited entity vis-à-vis the NDA, validation and registration of the accredited entity's payment instructions, and may specify an additional legal arrangement between the NDA, the accredited entity and the Fund to set out the roles and responsibilities of the NDA under the pilot. It is proposed initially to select five (5) pilots with a

¹⁴ See document GCF/B.07/04.

¹⁵ Decision B.08/10, paragraph (d), and Annex XIV.

total of US\$ 100 million, and to have at least two (2) of the pilots in small island developing States, the least developed countries and African States. The call for proposals will conclude once the budgetary allocations have been utilized. Each of the pilots will be implemented over two (2) years following approval by the Board.

28. Their implementation will be monitored by the Secretariat and regularly reported back to the Board under the report of activities of the Secretariat. Following completion of the five pilots, a specific report with lessons learned and recommendations for the scale-up phase will be submitted to the Board.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.09/05 *Additional Modalities that Further Enhance Direct Access: Terms of Reference for a Pilot Phase*:

- (a) Approves the terms of reference for a pilot phase enhancing direct access to the Green Climate Fund as contained in Annex II to this document;
- (b) Requests the Secretariat, in consultation with the Accreditation Committee, to launch a Request for Proposal to countries through their national designated authority or focal point and public media to competitively select subnational, national, public and private entities for the implementation of five (5) pilots with a total of US\$ 100 million, including at least two (2) pilots to be implemented in small island developing States, the least developed countries and African States;
- (c) Also requests the Secretariat, in consultation with the Accreditation Panel and the Technical Advisory Panel, to report back to the Board at its eleventh meeting on the outcome of this Request for Proposal with recommendations on entities to be selected for the implementation of the pilots.

Annex II: 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, public and private entities to the Fund. This will include devolved decision-making to such entities, once accredited, and stronger local multi-stakeholder engagement. The pilot will offer the Fund an opportunity to gain experience and additional insights through such an approach.
2. The key features of the pilot will include stronger country involvement through the national designated authority (NDA) or focal point (FP) in:
 - (a) Selecting prospective sub-national and national entities, public and private entities to apply for accreditation;
 - (b) Developing pilot proposals to be implemented by such entities for Board consideration; and
 - (c) Making decisions on the funding activities within the context of pilot proposals approved by the Board.
3. In addition, the pilot phase can also be used to draw up lessons learned with regard to: promoting the paradigm shift towards low-emission and climate-resilient development pathways; country coordination and multi-stakeholder engagement, replication and sustainability; governance standards; and targeted readiness support.
4. The pilot phase may be evaluated to identify ways to further enhance country ownership and multi-stakeholder inclusion.

II. Type of entities to be involved

5. Countries can choose a variety of entities for the implementation of the pilot, such as public-sector institutions (development banks, national funds, etc.), private-sector entities (commercial banks, investment funds, leasing companies, etc.), and operating at the national or subnational level.
6. To ensure the inclusion of a wide range of stakeholders, selected entities will work with different types of local actors, especially those that address the needs of vulnerable communities: local actors such as public institutions, local bodies, non-governmental organizations, community-based organizations and private enterprises, particularly small and medium-sized enterprises (SMEs).
7. Interested countries can include in their pilot proposals a request for readiness support, in particular to provide support in multi-stakeholder engagement and the strengthening of oversight mechanisms to enhance accountability and transparency.

III. Accreditation and the Fund's standards

8. Entities will be competitively selected to implement the pilot by a NDA/FP based on the quality of their pilot proposal. These 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. These include the basic fiduciary standards and relevant specialized fiduciary standards for project management and/or for grant award and/or funding

allocation mechanisms standards¹ through the Fund's accreditation process, as well as the Fund's Environmental and Social Safeguards (ESS).

9. Compliance with the Fund's specialized fiduciary standards on grant award and/or funding allocation mechanisms, and on-lending and/or blending² may be required depending on the nature of the activities to be undertaken.
10. Readiness support can be provided to assist entities through the accreditation process.

IV. Type of activities to be considered

11. The pilot can include both adaptation and mitigation activities that will contribute to one or more of the Fund's eight strategic results. A significant share of small-scale activities should directly support communities or SMEs.
12. Proposals of pilots will include a description of the approval process and selection criteria for the activities, which should be consistent with the Fund's Investment Framework³ and Results Management Framework.⁴
13. As such, the prospective entities selected by the NDA for accreditation will work with different types of local actors, particularly those that address the needs of vulnerable communities, and may include public institutions, non-governmental organizations and private enterprises, especially SMEs.
14. Countries participating in the pilot phase may establish governance standards for national-level devolved decision-making, including accountability standards and multi-stakeholder decision-making. Development of project proposals by prospective entities seeking accreditation will be done in consultation with local actors and will also involve strong multi-stakeholder consultation and engagement and will follow the Board guidance on best practice options for country coordination and stakeholder engagement.⁵ Readiness funding could be provided to support the strengthening of these aspects.

V. Monitoring and timeline of the pilot phase

15. Progress will be monitored throughout the implementation phase and reported **annually** to the Board by the Secretariat. The review will be carried out by the Secretariat and will evaluate the results achieved, draw up lessons learned and propose changes and improvements.
16. Each of the pilots will be implemented over two (2) years following approval by the Board.

VI. Financial volume of the pilot phase

17. The pilot phase will aim at selecting initially five (5) pilot proposals with a total of US\$ 100 million. The proposals will be selected on the basis of the Fund's Investment Framework and Result Management Framework and approved by the Board. At least two (2)

¹ The Fund's basic and specialized fiduciary standards were adopted by decision B.07/02.

² Ibid.

³ Document GCF/B.07/06.

⁴ Document GCF/B.07/04.

⁵ Decision B.08/10, paragraph (d), and Annex XIV.

pilots will be implemented in small island developing States, the least developed countries and African States.

18. The process will make good use of existing country systems and institutions. Readiness support can be provided to ensure accountability and transparency, as well as multi-stakeholder engagement. This support will aim not only at supporting the pilot phase but also at increasing the robustness of existing institutions and processes at the country level, thereby contributing to increased country ownership.

Annex III: Examples of existing experience with enhancing direct access to climate finance¹

Programme, country	Climate fund/ Finance facility	Institutional arrangement	Decision-making	Financing terms
South African Small Grants Facility for municipal-level planning process, South Africa ²	Adaptation Fund	National implementing entity – South African National Biodiversity Institute	National and municipal	US\$ 2 million grant and a minimum of 10 sub-grants with a maximum value of US\$ 100,000 each
Development Policy Loan for Himachal Pradesh for hydropower policy and institutional support, India ³	Clean Technology Fund, Climate Investment Funds	Multilateral implementing entity – World Bank	State level – Government of Himachal Pradesh	US\$ 100 million loan for budget support and grant to cover technical assistance
Amazon Fund, Brazil, to support payments for REDD-plus in the Brazilian Amazon ⁴	Government of Norway, Kreditanstalt für Wiederaufbau, Germany, Petrobras, Brazil	National development bank – Brazilian Development Bank	National – guidance and technical committees	US\$ 792.37 million grants, REDD-plus projects through Quantity Performance mechanism
Green credit line to support renewable energy and energy efficiency private-sector investments in South Africa ⁵	Agence Française de Développement	Three private banks – Amalgamated Banks of South Africa, Industrial Development Corporation and Nedbank	National – investment committees of the private banks	€ 120 million credit line and grants to lower the interest rates and for technical assistance
Programme of activities (PoA) ⁶	Clean development mechanism (CDM) of UNFCCC	PoA registered by the CDM Executive Board after validation. Component programme activities (CPAs) can be added subsequently	CPAs do not go through the full CDM project cycle and an unlimited number of CPAs can be added to a registered PoA	A total of 277 PoAs have been registered so far with a total of over 26.4 million certified emission reductions

¹ The table lists selected examples to provide an overview and is not intended to be comprehensive.

² See document GCF/B.08/09.

³ World Bank, 2012, Development Policy Loan to Promote Inclusive Green Growth and Sustainable Development in Himachal Pradesh.

⁴ See <<http://www.amazonfund.gov.br>>.

⁵ Agence Française de Développement, 2014, Note on Examples of modalities that could inspire enhanced direct access modalities of GCF. <http://www.afd.fr/lang/en/home>.

⁶ UNFCCC, <http://cdm.unfccc.int/ProgrammeOfActivities/index.html>.

Annex IV: Examples of enhancing direct access in development finance¹

Fund/Finance mechanism	Sector and activity	Institutional arrangement	Modalities	Lessons learned
Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) ²	Health –specific health issues	Principal Recipient (PR) overseen by Country Coordination Mechanism (CCM). Local Funding Agents (LFAs) [responsible for?] due diligence and financial monitoring	PR receives funding directly from Global Fund. CCM has limited oversight. LFAs appraisals and financial monitoring	CCM generally bypassed during implementation. Misuse of funds by some PRs. Not considered suitable for low-capacity countries
European Commission's MDG Contract for general budget support ³	Development – for policy and programmes	Direct support from the European Commission to the finance ministry of recipient country	Funds deployed through country's budgeting system. Six-year commitment with 70 per cent base component which will be disbursed on eligibility conditions being met and 30 per cent variable component to be disbursed based on performance	Not suitable for all countries as credibility of budgets and fiduciary management vary. Need for well-developed budget coding and tracking systems. Need for an international budget certification mechanism
World Bank's Program-for-Results ⁴	Several development sectors	Support from the World Bank to borrower governments	Funds supporting programme of expenditures. US\$ 3.3 billion in 20 investments ⁵	Main strengths considered as focus on results, use of government programme systems, institutional strengthening, etc.; and challenges include novelty of instrument, processing delays, etc.

¹ The table lists selected examples to provide an overview and is not intended to be comprehensive.

² See <<http://www.theglobalfund.org>>.

³ European Commission, 2008, The MDG Contract: An Approach for Long-term and More Predictable General Budget Support.

⁴ See <<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:23215867~pagePK:41367~piPK:51533~theSitePK:40941.00.html>>.

⁵ As at September 2014.