ACT

ACTION ON CLIMATE TODAY

The Green Climate Fund (GCF) is set to become the most important global institution for transferring climate funding from developed to developing countries. The GCF's principles and modalities seek to empower developing countries to gain direct access to funds, which should enable greater national ownership of climate mitigation and adaptation strategies and projects. Direct access involves many challenges from institutional, governance and fiduciary perspectives, as the experience of the Kyoto Protocol Adaptation Fund has shown. Nonetheless, progress is being made in several countries, often with the support of international programmes which assist developing countries to become 'climate finance ready'.

About the series
The ACT on knowledge series focuses on key emerging issues related to climate change and how they affect South Asia. Each leaflet synthesises existing knowledge on a topic and aims to stimulate discussion. Suggestions for further reading are provided at the end. Please see the full list of topics at **www.actiononclimate.today**

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ON KNOWLEDGE: **10**

Climate finance readiness: accessing international funds

Volume, sources and types of climate finance

Climate finance refers to funds channelled by national, regional and international entities for climate change mitigation and adaptation. Under the United Nations Framework Convention on Climate Change (UNFCCC), developed countries are committed to mobilising US$100 billion a year by 2020 to support climate mitigation and adaptation in developing countries; this amount is likely to increase after 2020. However, in 2013, the amount that was actually transferred to developing countries was US$34 billion, much less than the UNFCCC goal, and not enough to meet those countries' needs.[1]

Overall, the volume, sources, and types of climate finance have all increased significantly in recent years. While this proliferation of funding bodies presents various options for developing countries in accessing funding, it also makes for a confusing and complex climate finance landscape.

The GCF looks to provide a focal point for international climate finance. With an agenda linked explicitly to transformation, this new institution presents great opportunities for developing countries, but also challenges.

Direct access to global climate funds

There are three types of institution involved when international public finance is transferred from a global fund to a developing country:

- An international fund manager or strategic oversight body
- A national implementing entity (NIE), sometimes referred to as an accredited entity, responsible for overseeing the development and approval of projects and programmes, and for monitoring their results
- Executing bodies, which actually undertake projects and programmes.

The division of responsibilities between the international fund and the NIE differs depending on the type of access.

Multilateral access
Fund oversight, management and implementation are done by the multilateral institution, which uses its own financial systems to manage the funding flows.

Photo: Regien Paassen / Shutterstock.com

[1] Buchner et al. (2014).

Direct access

The international fund transfers funds directly to an NIE, while retaining oversight and management control. The funded mitigation and adaptation initiatives are driven by the country concerned, rather than by an international institution.

Enhanced direct access

All three functions, including oversight and management, are delegated to the country receiving the funds, although the international institution still retains some oversight. This option is a long-term aspiration, except in countries with advanced institutional capabilities, strong political leadership and fiduciary standards.

Lessons from the Kyoto Protocol Adaptation Fund

The Kyoto Protocol Adaptation Fund (AF) has pioneered direct access, and has recently financed two very large projects in India. The NIE is the National Bank for Agriculture and Rural Development. So far this is the only institution in any Action on Climate Today (ACT) country which has been approved as an NIE under the AF.

Developing countries wishing to gain direct access to climate finance (including through the GCF) can learn from the AF's experience. Some NIEs have struggled to the meet the Fund's requirements, which include fulfilling certain fiduciary standards, demonstrating high standards of project management and compliance with the AF's Environmental and Social Policy. Lessons for addressing such challenges, and building effective strategies for obtaining accreditation, have also emerged. They include building close working relationships with the AF Secretariat, making sure that the accreditation process is an integral part of the NIE's business, and preparing for both accreditation and project implementation well in advance.

The Green Climate Fund: a fresh approach

The GCF aims to facilitate a paradigm shift towards low-emission and climate-resilient sustainable development. It will fund initiatives proposed by both the public and private sectors in developing countries, seeking synergies between climate and development goals, and taking a socially inclusive and gender-sensitive approach.

Priority investment areas

GCF finance will be allocated equally between adaptation and mitigation goals. In Asia, the GCF plans to concentrate on four investment priorities, which are shown in Table 1.

Fund architecture and accreditation

National Designated Authorities (NDAs) will liaise between the GCF and countries or projects. NDAs nominate National Implementing Entities (NIEs) and put forward funding proposals to the GCF Board. They have to show how these proposals fit in with national climate change strategies and plans. Unlike the AF, the GCF has no limit on the number of NIEs per country that can be accredited for direct access. Figure 1 shows the GCF's structure.

Table 1: GCF potential investment priorities and expected results

Potential investment priority	Areas where results are expected
Climate-compatible cities	Transport (M) Buildings, cities, industries and appliances (M) Livelihoods of people and communities (A) Infrastructure and built environment (A)
Sustainable climate-smart agriculture	Forestry and land use (M) Livelihoods of people and communities (A) Food and water security and health (A) Ecosystems and ecosystem services (A)
Scaling up finance for forests and climate change	Forestry and land use (M) Food, water and health (A) Ecosystems and ecosystem services (A)
Transforming energy generation and access	Energy generation and access (M)

M – mitigation. A – adaptation.

Source: adapted from Green Climate Fund (2015a).

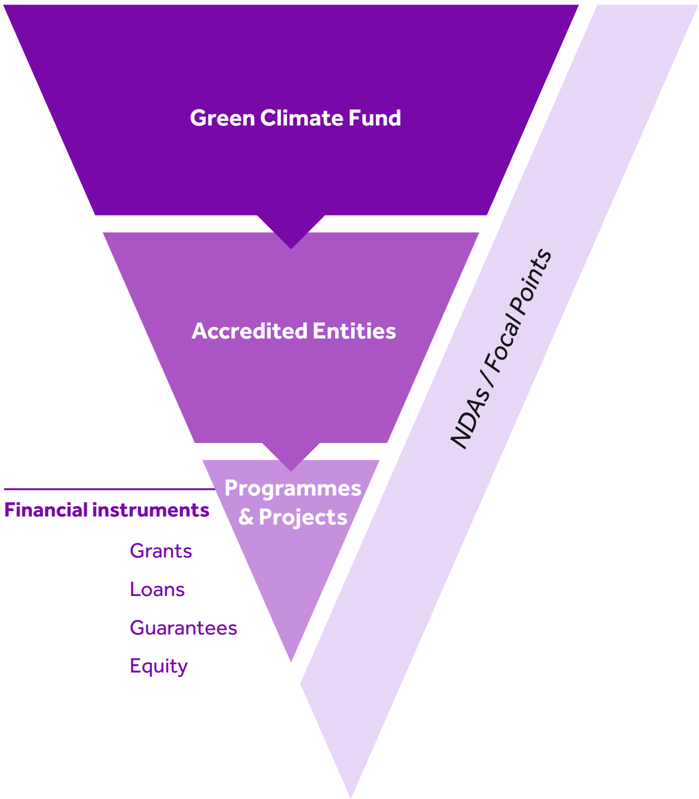

Figure 1: GCF architecture

Source: Green Climate Fund (2015b).

Box 1: Bangladesh's experience of GCF accreditation

In Bangladesh, the Economic Relations Division of the Ministry of Finance is the NDA for the GCF. Following a multi-stakeholder consultation, the NDA short-listed 14 national institutions for consideration as NIEs. The NDA then helped them to analyse their own strengths and weaknesses and decide what technical assistance they needed to make them ready for direct access.

The Senior Secretary of the NDA, Mr Mohammad Mejbahuddin, has said he is optimistic about the potential of the GCF to transform the development landscape in Bangladesh. He has described the challenges involved in the process of accreditation, highlighting in particular:[2]

- Improving the NIEs' capacities in environmental and social safeguards
- Raising fiduciary standards and enhancing project management capacities
- Designing bankable projects or programmes to put forward.

GCF offers direct access

The GCF will offer direct access, and enhanced direct access, to funding. However the Fund will still control major funding decisions, acting in a similar way to a development bank. It is possible that, as partnerships between the GCF and NIEs become stronger, the Fund will be able to relax some of these controls. In addition to direct access, the GCF will also provide access through intermediaries such as UN agencies and multilateral development banks.

As experiences with the AF confirm, achieving accreditation for direct access requires appropriate institutional capacities and national strategies, as well as high-quality programmes and project proposals. The NIEs need to meet basic fiduciary standards – the GCF has stated that it will take a flexible approach whereby standards depend on the scale of funding and the level of risk involved. The NIEs which are already accredited by the AF or the Global Environment Facility will be fast-tracked for GCF accreditation. The GCF accredited the first seven institutions in March 2015, and another three in July 2015.

Bangladesh's experience of the accreditation process is informative; see Box 1.

Support for country readiness

In order to access climate finance directly, countries need to be 'climate finance ready'. Various aspects of 'readiness' have been described above, including demonstrated compliance with fiduciary and other standards, and demonstrated effectiveness in all stages of the project cycle. Funded initiatives must be seen to be aligned with national development requirements and environmental and social policies need to be observed.

What kind of institutional architecture facilitates climate finance readiness? Initially, it seems likely that the majority of GCF funding will be provided through project and programme modalities that are similar to those currently applied by multilateral development banks. Another option is to set up National Climate Finance Institutions and National Climate Funds, which may be successful if there is strong political leadership and commitment to collaboration across sectors and if there is very sound financial management. (See ACT on knowledge 9: Climate finance readiness: domestic governance for more information.)

There are several programmes that can assist developing countries to become climate finance ready. These include the GCF readiness and support programme and the Deutsche Gesellschaft für Internationale Zusammenarbeit

[2] Mejbahuddin (2015).

GmbH (GIZ) and KfW Climate Finance Readiness Programme. The United Nations Environment Programme (UNEP) has a support programme for direct access to the AF; as AF and GCF requirements are similar. This support programme should also be helpful for GCF accreditation.

KEY MESSAGES

- The GCF is emerging as the main international climate finance institution
- Direct access to climate finance empowers developing countries, but it also poses challenges
- The degree of responsibility delegated to national institutions is likely to grow slowly
- The AF's experience provides useful guidance for countries working towards climate finance readiness
- Direct access to the GCF entails significant capacity improvements for NIEs and their staff and most projects and programmes will start with strong GCF involvement
- Accreditation is only one step towards engaging with the GCF; credible project proposals and the ongoing enhancement of domestic governance arrangements are also critical.

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