The African Development Bank Group

The African Development Bank is a multilateral development finance institution owned by 54 African and 24 non-African countries. Its mission is to help reduce poverty, improve living conditions for Africans and mobilize resources for the continent's economic and social development. The Bank assists African countries individually and collectively to achieve sustainable economic development and social progress.

Contact:

CCCCsecretariat@afdb.org

www.afdb.org

Getting Africa ready for the Green Climate Fund

November 2012
This Report makes a series of recommendations that will facilitate access by African countries to the Green Climate Fund. It makes recommendations for the Green Climate Fund board, African nations and the African Development Bank (AfDB) that will increase the likelihood that African countries will be able to access significant flows of climate finance from this source, especially through ‘direct access’.

The Green Climate Fund represents a potential watershed moment for climate finance in Africa.

To date, the flows of climate finance of the continent have been inadequate in comparison to the continent’s needs: Africa is widely acknowledged as the region in the world most vulnerable to climate change, while its recent impressive economic growth has placed an increased focus on the resources required to ensure that emissions do not grow correspondingly. As well as the volumes of climate finance being inadequate, there has also been increasing concern about the ‘modality’ by which these resources are accessed with overlapping, sometimes conflicting, multilateral institutions all disbursing and implementing projects, with only limited degrees of national ownership. The Green Climate Fund may overcome both of these challenges:

- In terms of volume of resources, the Governing Instrument of the GCF notes the possibility of minimum allocations of funds to vulnerable regions for adaptation, including Africa. The existing evidence also suggests that explicit climate funds have generally been relatively supportive of Africa climate finance needs.

- In terms of the modalities for disbursing resources, the Governing Instrument of the GCF explicitly identifies that direct access will be a possibility. Direct access can be characterised as providing domestic institutions greater responsibility and accountability for flows of public climate finance raised from international sources.
There are two different forms of direct access both of which the GCF may allow. In the first form ‘standard direct access’, project implementation is undertaken by a national rather than international body (a ‘national implementing entity’ (NIE)). This is the model that has been adopted under the Adaptation Fund as well as a series of other non-climate multilateral funds such as the GAVI Alliance (formerly the Global Alliance for Vaccines and Immunisation). In this model, funding decisions, i.e. which projects/programmes receive how much money using which financial instruments, is made at the global level. By contrast, under ‘enhanced direct access’ such funding decisions are also devolved to the national levels through, for instance, the provision of resources to National Climate Fund (NCFs) who can then make individual funding decisions. The Governing Instrument of the GCF explicitly allows for the first while it invites the GCF Board to ‘consider additional modalities that further enhance direct access, including through funding entities’.

Both forms of direct access can do much to enhance country ownership of projects, although they also carry risks that need to be managed carefully.

Standard direct access, as practiced by the Adaptation Fund, has been widely considered a success as a result of providing greater country ownership through use of country systems, and it is hoped that it will also increase the speed of delivery and potentially improve the targeting of resources to local priorities. Enhanced direct access could compound these benefits as well as allow for the establishment of a specialised, expert funding vehicle within the country. However, as a new modality, such approaches also carry risks as procedures and processes to ensure that money is spent wisely may not always have been in place and demonstrated to work effectively for any sustained period of time. The accreditation process for allowing direct access under the GCF will need to carefully manage these opportunities and risks.

The existing experience of direct access demonstrates that many countries, including some in Africa, have had challenges in realising the opportunities provided by direct access.

In the case of the Adaptation Fund, African countries have faced various problems in meeting the criteria that have been set for bodies wishing to take advantage of direct access. These difficulties have included, for instance, demonstrating functionally independent internal auditing in accordance with internationally recognized standards, showing an ability to appraise projects (undertake cost-benefit analysis) or demonstrating an existing capacity for monitoring and independent evaluation. These are skills that have become well-honed in multilateral bodies over a large number of years. This opens up the exciting possibility that multilateral institutions could help promote their development mandates by supporting the growth of these capacities within national bodies.

Drawing on the experience of existing funds, there are a number of key steps that can be taken for African countries to maximise the possibilities offered by the GCF, especially through direct access.

These may be split between actions that might be taken by the GCF Board, those actions that African countries and governments may take, as well as ways in which the AfDB may facilitate these opportunities.
We identify seven potential actions for the GCF Board.

1. **THE GCF SHOULD ACT QUICKLY TO PROVIDE RESOURCES TO SUPPORT DIRECT ACCESS.**
   
   The governing instrument of the GCF notes that, in contrast to the Adaptation Fund, resources from the GCF can be used to support capacity building needed for developing countries to use direct access. Opportunities to access these resources might be fast-tracked while more difficult design aspects of the GCF are reviewed.

2. **CONSIDER A MORE FLEXIBLE APPROACH IN COUNTRIES WHERE FIDUCIARY RISKS CURRENTLY MAKE DIRECT ACCESS UNDULY RISKY.**
   
   In contrast to the largely binary approach of accreditation under the Adaptation Fund – where national bodies are either accredited or not – the GCF may consider models under which national bodies could partner with multilateral bodies to implement projects, providing invaluable on-the-ground training on some more challenging aspects of project implementation.

3. **FOR RELEVANT (ADAPTATION) SPENDING NEEDS, EXPLORE OPPORTUNITIES TO PROVIDE RESOURCES TO FUNDS THAT ALREADY ALLOW DIRECT ACCESS BY AFRICAN COUNTRIES, SUCH AS THE GLOBAL FUND.**
   
   Where climate change will increase the costs of meeting existing development priorities, and these priorities are already a focus of other multilateral initiatives that allow direct access - for example the prevention of malaria by the Global Fund - the GCF could provide additional support to such multilateral initiatives. This has the potential to both reduce transaction costs and provide a relatively easy way to promote direct access although it would need to be managed carefully to avoid overlapping responsibilities.

4. **ENSURE THAT, OVER TIME, A MINIMUM OF RESOURCES ARE ALLOCATED TO DIRECT ACCESS.**
   
   This would mimic the approach taken by the Adaptation Fund.

5. **PROVIDE A ‘PASSPORT’ FOR NIEs ALREADY ACCREDITED UNDER THE ADAPTATION FUND.**
   
   In order to minimise the transaction costs associated with accreditation process, bodies already accredited under the Adaptation Fund could be allowed automatic accreditation under the GCF, perhaps subject to a maximum cap in terms of project size.

6. **ENSURE THAT THE ACCREDITATION PROCESSES FOR (NEW) NIEs ARE QUICKLY DEVELOPED, TRANSPARENT, WELL-UNDERSTOOD AND PUBLICISED AND EFFICIENTLY EXECUTED.**
   
   This was a challenge for the Adaptation Fund in its early stages. The same transparency will also be important in relation to the project cycle process.

7. **ALLOW FOR APPLICATIONS FOR ACCREDITATION OF NIEs, AND PROJECT/PROGRAMME PROPOSALS, TO BE PROCESSED IN A RANGE OF LANGUAGES.**
   
   More than 40 per cent of Africa’s population live in countries where English is not an official language, including many in countries most vulnerable to the impacts of climate change. There is therefore a pressing need to allow direct access and project applications to be processed and evaluated in a range of languages.
We also identify three actions for African countries.

1. **PREPARE A CREDIBLE, ROBUST PIPELINE OF FUNDING OPPORTUNITIES (AND RELATED DOCUMENTATION).**

   Opportunistic proposals, with little evidence of how they link to the broader climate change actions and priorities of the country, are unlikely to be supported by the GCF, regardless of whether implemented through an NIE or otherwise.

2. **TAKE EARLY STEPS TO PREPARE THE INFRASTRUCTURE NEEDED TO ACCESS THE GCF.**

   In particular, the Governing Instrument of the GCF refers to the establishment of a Designated Authority who will be the focal point for interaction with the GCF. This body will be required regardless of whether direct access is pursued. It is striking that in the case of the equivalent body for the Adaptation Fund; only around half of African countries have created such a body. This will be the first stage of a process that African countries will need to remain committed to over the medium-term, if they wish to realise the benefits of access to the Green Fund, including through direct access.

3. **BUILD A CROSS-DEPARTMENTAL DIALOGUE, ON THE OPPORTUNITIES PROVIDED BY DIRECT ACCESS, ALSO ENGAGING WITH CIVIL SOCIETY AND THE PRIVATE SECTOR AND, AS APPROPRIATE, LINK THIS TO BROADER FISCAL REFORM PROCESSES.**

   Climate change finance can often be a controversial issue within countries. For example, different Ministries may claim responsibility for the issue or have different views on who may be an appropriate NIE; there may be disagreements between government and civil society over the appropriate priorities, while the private sector may feel marginalised from the discussion, despite the important role that it can play. Although there is no panacea for conflicts of opinion, a broad, transparent discussion on these topics across the country can help to identify key areas of consensus and areas where difficult decision will need to be made.
Finally, the African Development Bank can play an important role in enhancing direct access to the GCF by African countries.

1. **SUPPORT THE CAPACITY OF THE NIES BEFORE AND AFTER ACCREDITATION.**

   The AfDB can play an important role, potentially through its proposed Africa Green Facility (AGF), and possibly also with other multilateral partners, in overcoming the challenges faced by NIEs who wish to use direct access. This might focus, for instance, on sharing learning on how to develop a monitoring and evaluation framework or developing processes for internal audits. An often missed point is that this capacity building support may be required even after accreditation of a national body.

2. **INCREASE ITS ATTRACTIVENESS AS A MULTILATERAL IMPLEMENTING ENTITY (MIE) FOR AFRICAN PARTNERS.**

   In some African countries, direct access is unlikely to be feasible in the short-medium term so multilateral bodies will continue to play a key role in implementing projects. However, the AfDB needs to enhance its attractiveness as an MIE to its regional members. There are opportunities for it to learn from, and possibly partner with, other multilateral bodies that have been more successful in this regard, for example, UNDP.

3. **SUPPORT THE DEVELOPMENT OF AFRICA-SPECIFIC CLIMATE CHANGE AND/OR GREEN GROWTH ACTION PLANS.**

   These will be essential for credible applications to the GCF regardless of whether through direct access or through multilateral institutions. The work that the AfDB is already doing to support green growth in some countries (e.g. Sierra Leone, Mozambique) can provide an excellent platform for the development of the pipeline of projects discussed above. This could be a core role for the AGF that the African Development Bank wishes to help establish.

Many of these actions will also be important for supporting the emergence of enhanced direct access under the GCF but the difference in responsibilities held by national bodies under this model necessitates some subtle but important differences. Again, different actions can be identified for different bodies.

For the GCF Board, three possible actions can be identified.

1. **UNDERTAKE EARLY WORK TO IDENTIFY APPROPRIATE CRITERIA FOR ACCREDITING NATIONAL FUNDING ENTITIES.**

   The skills required to be a funding body are different from those required to be an implementing entity which should be reflected in the accreditation criteria for the respective roles. At the same time, enhanced direct access will necessarily make it more difficult for the GCF to monitor the behaviour and actions of any implementing entities that are chosen by the NCF. Rather than try to accredit and monitor every implementing entity that might be considered by an NCF, a hands-off approach where NCFs are only approved in countries where appropriate governance and transparency arrangements are in place is likely to be preferable.

2. **DETERMINE THE APPROPRIATE RELATIONSHIP BETWEEN THE GCF AND NCFs.**

   The GCF will need to reach a decision on how it will oversee the activities of NCFs. The process of information flows from an NCF back to the GCF will also need to be established. This should take account of information required under the Biennial reports of non-Annex one countries.

3. **EXPERIMENT WITH ENHANCED DIRECT ACCESS THROUGH DEVELOPING A SMALL GRANTS PROGRAMME.**

   This would allow some of the key procedural aspects associated with enhanced direct access to be trialled, without exposing substantial financial resources to an untested modality.
For African countries, a further two decisions/actions stand out.

1. **WHERE APPROPRIATE, INITIATE/ACCELERATE PROCESSES TO DESIGN A NATIONAL CLIMATE FUND.**

   African countries need to decide whether NCFs are appropriate to their context, taking into account the likelihood of them being capitalised with substantial amounts of resources. The report identifies a series of key questions that need to be addressed, as well as some of the key challenges that have been encountered in implementation to date.

2. **FURTHER IMPROVE THE BROADER GOVERNANCE ENVIRONMENT.**

   Under an NCF, following the argument above, it is likely that more attention will be placed on the broader governance arrangements in the country. If African countries wish to receive substantial resources for their NCF, then these arrangements will need to be of a high standard.

The African Development Bank can also facilitate the emergence of NCFs in Africa through a series of actions.

1. **SUPPORT THE CAPACITY-BUILDING EFFORTS OF COUNTRIES WISHING TO ESTABLISH NCFs.**

   Many of the skills needed to establish a successful NCF e.g. the need to undertake financial due-diligence, are core skills of the African Development Bank. This can be transferred to prospective NCFs, possibly through the proposed AGF.

2. **PROVIDE TRUSTEE ARRANGEMENTS TO INTERESTED NCFs.**

   In a number of national climate funds, trustee facilities have been provided by external multilateral bodies. The AfDB could perform this role for NCFs, building on its experience for other African trust funds e.g. African Water Facility Special Fund.

3. **ACT AS A FUNDING PARTNER ALONGSIDE NCFs.**

   NCFs can represent an important new partner for the AfDB by providing a further source of climate finance with which its own resources can be blended.
Contents

1 Introduction 11
2 The current state of climate finance in Africa and the GCF 14
3 Direct access 21
4 How to improve ‘standard’ direct access 24
5 Moving towards enhanced direct access 44

Appendix 53
References 54
List of tables

Table 1. Official languages of African countries 38

List of figures

Figure 1. Africa’s access to adaptation finance from dedicated climate funds. 16
Figure 2. Africa’s access to mitigation finance from dedicated climate funds 17
Figure 3. Different models for accessing international climate funds 23
Figure 4. Access Modalities to the Adaptation Fund 26
Figure 5. Countries with accredited NIEs 28
Figure 6. Adaptation Fund support by region and implementing entity 29
Figure 7. Disbursement channels for Global Fund’s resources 31
Figure 8. African countries with English as an official language 38
Figure 9. Organisation of the Kenya Climate Change Action Plan 40
Figure 10. African countries with a Designated Authority for the Adaptation Fund 41
Figure 11. The performance of African countries relative to IDA-eligible countries 50
Figure 12. Africa’s population weighted CPR: 2006 to 2011 51

List of boxes

Box 1. Examples of accreditation of NIE’s under the Adaptation Fund 27
Box 2. Kenya’s Climate Change Action Plan 39
Box 3. Decisions, challenges and opportunities for National Climate Funds 49
Acknowledgements

This report has benefitted from valuable and helpful contributions of several people. We would particularly like to acknowledge the strong collaboration between the African Development Bank and Vivid Economics. Special recognition is made of the contributions of the following individuals:

John Ward, Sam Fankhauser and Philip Gradwell
*Vivid Economics*

Anthony Nyong
*AfDB*

Balgis Osman-Elasha
*AfDB (Task Manager)*

Others who have made valuable and helpful contributions include:

Frank Sperling
*AfDB*

Uzoamaka Nwamarah
*AfDB*

Yogesh K. Vyas
*AfDB*

Simon Mizrahi
*AfDB*

Mandy Barnett
*South African National Biodiversity Institute*

Yasemin Biro
*Global Environment Facility*

Alexander Froede
*GiZ*

Su-Lin Garbett Shiels
*DFID and Adaptation Fund Board member*

Déthié Soumare Ndiaye
*Centre de Suivi Ecologique (Senegal)*

Maurice Otieno
*National Environment Management Authority (Kenya)*

Guido Schmidt-Traub
*Sustainable Development Solutions Network*

Bakhuti Shengalia
*GAVI*

Mertyn Van Voore
*UNEP*
1 Introduction

The Green Climate Fund provides an opportunity to redress the current neglect of Africa’s climate financing needs.
To date, climate finance flows in Africa have represented an insignificant fraction of the amount that the Continent will require, given its acute vulnerability to climate change. At the same time, the means of accessing and disbursing these resources has, on occasion, not been fully consistent with the needs and expectations of African countries. The Green Climate Fund, as announced at COP 17, can, if designed well, make a substantial change to these patterns by increasing flows of climate finance into African countries in a manner that supports country-ownership.

The emergence of the Green Climate Fund provides a great opportunity for Africa.
To realise the potential benefits that the Green Climate Fund might bring to climate finance in Africa preparatory work has to start now.

For the GCF to realise this potential, and represent a genuine watershed in climate finance flows within Africa, there is a need for engagement by a large number of stakeholders including the Green Climate Fund Board (and, its secretariat, when established), African governments and multilateral institutions. In terms of the latter, the role of the African Development Bank, as the predominant international financial institution with an explicit focus on the Continent, could prove to be pivotal. Work by these stakeholders will need to begin immediately.

This report focuses on the actions needed to ensure that African country access to the Green Climate Fund promotes country ownership of climate finance.

In particular it examines the concept of ‘direct access’, the idea that developing country (African) institutions can and should play a decisive role in determining when, where and how projects/programmes are implemented while ensuring that the scarce financial resources provided by developed countries are used to maximum effect. It explores both what lessons can be drawn from the existing use of such modalities, as well as how the concept might evolve as the Green Climate Fund is established. It identifies a series of key priority actions for those designing the Green Climate Fund, African countries and existing institutions with expertise in climate change and climate finance on the continent – most notably the African Development Bank – that might ensure that the benefits associated with direct access can be maximised, and the risks minimised.

The remainder of the report is structured as follows:

- Section 2 outlines the current state of climate finance flows in Africa.
- Section 3 discusses the concept of ‘direct access’ and its different versions.
- Section 4 explores the most common existing form of direct access – labelled ‘standard direct access’ – and draws out the key findings and lessons that can be taken from this experience for the Green Climate Fund.
- Section 5 looks at how a new form of direct access – labelled ‘enhanced direct access’ – may be facilitated by the Green Climate Fund, the opportunities that this provides for African countries, and the actions that need to be taken to maximise the benefits (and minimise the risks) associated with this modality.
The current state of climate finance in Africa and the GCF

The Green Climate Fund provides an opportunity to redress the current neglect of Africa’s climate financing needs.
2.1 Current climate finance flows in Africa

The financial resources required to combat climate change in Africa are considerable.

It is well recognised that Africa is the continent most vulnerable to the impacts of climate change. Earlier studies, based on Integrated Assessment Models such as the Regional Integrated model of Climate and the Economy (RICE) suggest that damages from climate change, relative to population and GDP, will be higher in Africa than in any other region in the world. Breaking these impacts into specific sectors or components further illustrates these vulnerabilities: recent studies into health, agriculture and water all demonstrate that Africa is often more vulnerable to climate change along these dimensions than any other region (Vivid Economics; African Development Bank 2012a). At the same time, Africa’s rapid economic growth is increasing the importance of mitigation activity.

Given Africa’s low levels of emissions, adaptation represents its greatest challenge and could require between US$20 billion and US$30 billion per annum over the next ten to twenty years.

Previous work (Vivid Economics; African Development Bank 2012a) reviewed a wide range of estimates of the cost of adaptation in Africa, both top-down and bottom-up including, for example, World Bank (2010) and Fankhauser and Schmidt-Traub (2010), and concluded that the bulk of evidence pointed towards a requirement in the region of US$20 -30 billion per annum in the period to 2020-2030. Some estimates place the estimate as high as US$60 billion a year. This is required for a range of activities including building adaptive capacity, making infrastructure investments more climate resilient and improving water supplies.

The need to ensure that Africa’s recent impressive economic growth does not move it on to a high emissions trajectory will also require substantial financial resources.

For instance, a forthcoming report (Vivid Economics; African Development Bank 2012b) reviewing a range of different sources of evidence suggests that the investment cost of mitigation in Africa is likely to be between $10 billion and $50 billion per annum over the next twenty years, with costs increasing over time as greater mitigation is required.

To date, Africa has not received financial resources for climate finance from its multilateral and bilateral development partners that are in any way commensurate with likely future needs.

One report (Climate Policy Initiative 2011) estimates that Africa received only US$435 million of multilateral climate finance in 2009/10, a mere 4 per cent of the total of such flows. Climate finance flows from bilateral development partners have traditionally been more important in Africa but even these flows summed to around just US$2.5 billion in Sub-Saharan Africa in 2009/10 (with a further US$3.5 billion flowing to the Middle East and North Africa).

Dedicated climate funds have proliferated in recent years, but remain relatively small in global terms.

As well as conventional bilateral and multilateral flows of support, an increasing amount of climate finance resources are being channelled through dedicated climate funds e.g. the Global Environment Facility, the (GEF-administered) Special Climate Change Fund etc. Despite the attention that these receive, they remain surprisingly insignificant in the global landscape of climate finance. Climate Policy Initiative (2011) estimates that such flows only accounted for around 1 to 3 per cent of global climate finance flows.
However, such funds appear to place more emphasis on Africa. In aggregate, these funds have approved around 2.9 billion of climate finance to Africa. While this is low in absolute terms, in relative terms they appear to be more supportive of Africa’s needs. This is shown in Figure 1 and Figure 2. They plot the percentage of disbursements of adaptation and mitigation finance from these funds to different developing countries against the percentage of developing country emissions that each country is responsible for (for mitigation finance) and a measure of climate vulnerability (for adaptation finance). Countries that are receiving disbursements from these funds broadly in line with their emissions/climate vulnerability would be on the dotted 45 degree line; those that have received proportionately less than might be expected given their emissions or climate vulnerability are below the 45 degree line. Figure 1 shows that dedicated climate funds are placing more emphasis on supporting African countries, even while their absolute contribution to climate finance remains small. Figure 2 shows that mitigation finance for African countries is broadly in line with their share of Non-Annex 1 emissions.

Figure 1.
Africa’s access to adaptation finance from dedicated climate funds

Note: Vulnerability indicated aid as per (Wheeler 2011), adaptation finance is for approved projects only; note logarithmic scale on both x and y axis

Source: Adapted from Overseas Development Institute (2012) and Wheeler (2011)

---

1 As this is a cumulative number it cannot be directly compared with the annual flows reported in the previous paragraph. However, the fact that this cumulative number is lower than the estimated annual flows from bilateral sources to Africa illustrates how the absolute significance of these funds for supporting climate finance remains low.
Although the gross flow of money is important, the arrangements for implementing any projects and programmes can also determine its legitimacy and effectiveness: in this regard, the current paradigm of climate finance may sometimes fail to match Africa’s needs.

Historically, climate finance has been channelled through the same routes as development aid. In other words there is extensive involvement of either (or on some occasions, both) bilateral aid agencies and development banks e.g. KfW, UK DFID and multilateral organisations e.g. World Bank, UN agencies. A number of challenges associated with the use of these channels may have contributed to a decline in the effectiveness of the (limited) resources allocated to Africa through these channels.
‘FRAGMENTATION OF THIS SORT THREATENS TO REDUCE THE OVERALL EFFECTIVENESS OF CLIMATE FINANCE, BECAUSE AS TRANSACTION COSTS INCREASE, RECIPIENT COUNTRY OWNERSHIP LAGS, AND ALIGNMENT WITH COUNTRY DEVELOPMENT OBJECTIVES BECOMES MORE DIFFICULT. EACH NEW SOURCE OF FINANCE, WHETHER FOR DEVELOPMENT OR CLIMATE CHANGE, CARRIES WITH IT A SET OF COSTS. THESE INCLUDE TRANSACTION COSTS (WHICH RISE IN AGGREGATE AS THE NUMBER OF FUNDING SOURCES INCREASES), INEFFICIENT ALLOCATION (PARTICULARLY IF FUNDS ARE NARROWLY DEFINED) AND LIMITATIONS ON SCALING-UP.’

There have been a number of incremental reforms within the climate finance landscape in recent years that are aimed at overcoming these problems.

These include, at a global level, the establishment of new climate funds with governance provisions and operating modalities that aim to promote developing country ownership (e.g. the Adaptation Fund) and the establishment of national climate funds (e.g. such as those in Bangladesh, Indonesia and Brazil) that aim to allow for enhanced coherence and strategic planning in the climate activities financed within the country. The former are discussed more fully in section 4; the latter in section 5.
2.2 The opportunity provided by the GCF

The 17th Conference of the Parties in Durban approved the proposed governing instrument of the Green Climate Fund. This provided the go-ahead for a new multilateral climate fund (Green Climate Fund) which aims to:

‘PROMOTE THE PARADIGM SHIFT TOWARDS LOW-EMISSION AND CLIMATE-RESILIENT DEVELOPMENT PATHWAYS BY PROVIDING SUPPORT TO DEVELOPING COUNTRIES TO LIMIT OR REDUCE THEIR GREENHOUSE GAS EMISSIONS AND TO ADAPT TO THE IMPACTS OF CLIMATE CHANGE, TAKING INTO ACCOUNT THE NEEDS OF THOSE DEVELOPING COUNTRIES PARTICULARLY VULNERABLE TO THE ADVERSE EFFECTS OF CLIMATE CHANGE.’

In the course of meeting these objectives, the Fund has ambitions to evolve to become ‘the main global fund for climate change finance’ (Green Climate Fund 2012). The first meeting of the GCF board took place in Geneva, Switzerland in August 2012 and the second in Songdo, Republic of Korea in October where this location was also selected as the location for the Fund.

The remit of the GCF gives hope that impediments to Africa’s full engagement with the climate finance architecture may be overcome.

There are two aspects that are particularly important.
First, the need to prioritise allocations of adaptation finance towards Africa, and other particularly vulnerable countries and regions, is explicitly recognised. Despite the well-established vulnerability of Africa to the impacts of climate change, as discussed above, both the aggregate flows of adaptation finance and its geographic distribution have often been inappropriate and inadequate. Apparently conscious of this, the Governing Instrument of the Board states that (Green Climate Fund 2012):

‘IN ALLOCATING RESOURCES FOR ADAPTATION, THE BOARD WILL TAKE INTO ACCOUNT THE URGENT AND IMMEDIATE NEEDS OF DEVELOPING COUNTRIES THAT ARE PARTICULARLY VULNERABLE TO THE ADVERSE EFFECTS OF CLIMATE CHANGE, INCLUDING LDCs, SIDS AND AFRICAN STATES, USING MINIMUM ALLOCATION FLOORS FOR THESE COUNTRIES AS APPROPRIATE...’

Second, the GCF explicitly aims to change the paradigm by which climate finance resources are channelled and disbursed. It explicitly endorses a country-driven approach stating that (Green Climate Fund 2012):

‘THE FUND WILL PROVIDE SIMPLIFIED AND IMPROVED ACCESS TO FUNDING, INCLUDING DIRECT ACCESS, Basing ITS ACTIVITIES ON A COUNTRY-DRIVEN APPROACH AND WILL ENCOURAGE THE DEVELOPMENT OF STAKEHOLDERS, INCLUDING VULNERABLE GROUPS AND ADDRESSING GENDER ASPECTS.’

This provides an opportunity to consolidate and build on some of the existing trends within the climate finance architecture so as to ensure genuine developing country ownership of the transition to a low-carbon, climate resilient development pathway.
3 Direct access

There are at least two main concepts of direct access
Discussions on international climate finance have increasingly focussed on the concept of direct access.

Broadly understood, direct access can be characterised as providing domestic institutions greater responsibility and accountability for flows of public climate finance raised from international sources. By enhancing the involvement of national institutions in these processes, greater legitimacy regarding climate finance can be secured, and so some of the problems identified may be overcome. As other authors have noted, writing about the Adaptation Fund approach to direct access specifically, (Brown, Bird, and Schalatek 2010):

‘THE LOGIC BEHIND THIS APPROACH IS TO INCREASE THE LEVEL OF COUNTRY OWNERSHIP, OVERSIGHT, AND INVOLVEMENT IN ADAPTATION ACTIVITIES, AND TO CREATE STRONGER ACCOUNTABILITY OF THE RECIPIENT COUNTRY… IT IS EXPECTED THAT DIRECT ACCESS CAN HELP ENSURE PROPER RELIANCE ON AND HARMONIZATION WITH NATIONAL SYSTEMS, PLANS AND PRIORITIES; CAN HELP INCREASE THE SPEED OF DELIVERY OF DESIRED OUTCOMES; CUT TRANSACTION COSTS BY ‘DOMESTICATING’ CORE ACTIVITIES AND POTENTIALLY ACHIEVE BETTER TARGETING OF LOCAL PRIORITIES.’

In thinking about direct access, it is helpful to recognise different activities associated with the flows of international climate finance.

Using the framework developed by UNDP/ODI (UNDP/ODI 2011), there are three main components associated with the management and disbursement of international public climate finance.

- **Funding**
  This involves determining who receives what forms of financial support in line with strategies and policies that it has developed. Whoever performs this role is responsible to development partners on the effective use of the resources they provide.

- **Implementation**
  This role involves identifying, proposing and overseeing the effective implementation of projects or programmes.

- **Execution**
  This involves the day-to-day utilisation of resources within approved projects and programmes.

Although the components are distinct, the same institution may or may not perform more than one component.

The skills and expertise associated with these components are different. For instance, decisions over determining which projects/programmes are eligible to receive funding in light of a given strategy requires different skills (and people with a different relationship with other domestic decision makers) to the skills required to effectively develop a project concept or to ensure that a project runs to time and budget. That said, in some instances, the same body might perform more than one role if the skill set of its personnel are sufficiently broad.

---

2 For instance, the National Environment Fund in Benin acts as a fund manager in relation to determining which projects should be approved from domestic resources; but it does so as an implementing entity under the Adaptation Fund.
The distribution of these activities between national and international bodies leads to different definitions of direct access.

Conventionally, both the funding and the implementation roles have been undertaken by international bodies – for instance the Global Environment Fund (GEF) might act as a fund manager and the projects it approves would be implemented by international bodies such as the African Development Bank – leaving just the execution role to be performed by domestic organisations. However, as discussed in further detail below, the Adaptation Fund has pioneered the development of national bodies undertaking the implementation role as well, leaving just the funding role to be determined by an international body (the Adaptation Fund, in this instance). This is labelled as ‘standard direct access’ in this paper. An even more radical departure from the status quo would involve institutions in developing countries taking responsibility for which projects/programmes are funded. Following (Müller 2011), this is referred to as ‘enhanced direct access’ in the remainder of the paper. These different models are summarised in Figure 3.

Figure 3.
Different models for accessing international climate funds

The Green Climate Fund will allow for standard direct access.

It will also consider ‘enhanced direct access’.

The governing instrument of the GCF explicitly mentions that ‘recipient countries will nominate competent subnational, national and regional implementing [emphasis added] entities for accreditation to receive funding’ (Green Climate Fund 2012). This builds on the existing experience of standard direct access within the Adaptation Fund which, as discussed below, has broadly been considered a success in enhancing country ownership. It is intriguing that it also offers the possible use of subnational implementing entities which is a modality not discussed in the Adaptation Fund operational procedures.
4 How to improve ‘standard’ direct access

Drawing lessons from the Adaptation Fund and further afield
This chapter considers the existing experiences with ‘standard direct access’, drawing both from the climate finance architecture and further afield and draws out lessons to enhance the effectiveness of African countries wishing to use this form of access in relation to the Green Climate Fund.

Section 3.1 examines existing practice; section 3.2 considers the implications and possible next steps for, respectively, the GCF, African countries and the African Development Bank.

4.1 Existing models of direct access

4.1.1 Adaptation Fund

The Adaptation Fund experience is the most visible example of standard direct access within the existing climate finance architecture. This model involves each developing country government nominating a ‘Designated Authority’ that acts as the country’s official counterpoint to the Adaptation Fund Board. The DA has two main roles:

- It must endorse any applications made by an institution within that country to become a National Implementing Entity (NIE) or any application by a Regional Implementing Entity (RIE) that would look to operate within that country. Multilateral implementing entities (MIEs) i.e. multilateral institutions and regional development banks do not require endorsement by individual DAs.

- The DA must also endorse any project proposals that would involve activity within their country. DAs may choose whether any project will be implemented by an NIE, RIE or MIE.

The different modalities for access to resources under the Adaptation Fund are shown in Figure 4.
In order to ensure that funds disbursed to implementing entities are managed efficiently, bodies must show that they fulfil a variety of criteria that are designed to limit the fiduciary risks of the Adaptation Fund. These criteria relate to financial integrity and management; institutional capacity; transparency and self-investigative powers. A full list of the criteria and what evidence may be considered in relation to these criteria are provided in the Appendix. All implementing entities – multinational, regional and national – are required to satisfy these criteria. Accreditation lasts for a period of five years with the possibility of renewal although the Adaptation Fund also reserves the right to review and evaluate the performance of an implementing entity and withdraw accreditation in the event that it provides false statements or information (Adaptation Fund Board, n.d.).

There are a number of further features of the Adaptation Fund of note. These include:

- the Adaptation Fund may grant conditional accreditation whereby additional conditions may be placed on NIEs implementing particular projects if there are residual concerns about some aspects of their performance in relation to the criteria;

- due to its limited funds, the Adaptation Fund has placed a (temporary) cap of US$10 million on the amount of support it can provide per country;
There is a cap on the total amount of funding from the Adaptation Fund that can flow through MIEs which amounts to 50 per cent of total funds allocated plus total funds available for funding; project formulation grants are available to support the development of projects by NIEs but not by MIEs.

Box 1. Examples of accreditation of NIE's under the Adaptation Fund

Senegal’s Centre de Suivi Ecologique (CSE) is an independent body subordinate to the Ministry of the Environment and Environmental Protection. It was accredited as an NIE in March 2010 conditional on improving reporting and on additional due diligence by the Adaptation Fund Board if it dealt with projects of more than US$1 million. Reports indicate that the key factors accounting for its successful accreditation include that civil society was included early in the process, which enabled identification of suitable projects to fund; its steering committees at the project, regional and national levels; Senegal’s active involvement in the international climate change negotiations and CSE’s good reputation as a transparent organisation.

The Planning Institute of Jamaica (PIOJ) is an established government institution with more than 50 years as the national planning office. It was accredited as an NIE in September 2010. The maturity of the PIOJ, its responsibility for long term planning across a range of sectors, its established auditing practices and its experience with development finance and project management contributed to its successful accreditation.

While the CSE and the PIOJ are very different institutions they achieved accreditation for similar reasons. Both had previous involvement in development finance, mature and documented methods for project management, wide engagement with stakeholders and reputations as accountable, transparent and trustworthy institutions.

Despite these advantages, both found it difficult to provide enough evidence of fiduciary compliance and to find enough human resources. Furthermore, both have experienced some delay in accessing finance after accreditation. For the CSE this was because it had to improve its ability to absorb larger volumes of funds effectively. For the PIOJ this was because accessing adaptation funding had to compete with other priorities in this large institution.

Source: Adapted from CDKN (2012a)

To date, African countries have been relatively successful at getting NIEs accredited.

Latin America and Caribbean region. Jordan is the only country from the Middle East region with an NIE while only India within Asia has an accredited body. In addition, the West African Development Bank (covering Benin, Burkina Faso, Cote d’Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo) is the only institution that has successfully applied to become an RIE.

---

3 As of August 2012, this cap was effectively binding with only US$3.6 million available to support projects implemented by MIEs compared to US$112.8 million available to support projects by NIEs or RIEs (Adaptation Fund 2012).
However, many African countries have had difficulties in meeting the requirements set by the Accreditation Panel of the Adaptation Fund.

Discussions with stakeholders and existing literature (e.g. (CDKN 2012; ADAPT Asia-Pacific 2012; GIZ 2012a)) suggest that although there are differences across institutions and countries, the requirements that NIE’s have found most difficult to comply with include:

- identifying an institution with a sufficient track record and reputation to provide evidence that standards can, in practice, be upheld;
- demonstrating functionally independent internal auditing in accordance with internationally recognized standards;
- demonstrating a proven ‘in-house’ ability to appraise activities i.e. cost-benefit analysis;
- demonstrating an existing capacity for monitoring and independent evaluation, especially as standard methodologies for monitoring and evaluating adaptation projects have yet to be developed which makes developing countries reluctant to spend resources on training.

It is important to stress that, as relevant, the Adaptation Fund board requires evidence of this capacity existing ‘in-house’ from previous projects.

Like other regions, however, African countries have had difficulties in using NIEs to get projects approved and implemented.

Figure 6 shows that only 16 per cent of funding approved by the Adaptation Fund Board for Africa has flowed through African NIEs, with the proportion rising slightly if projects in the pipeline that have had their concepts endorsed by the Adaptation Fund are included. Nonetheless, this is a higher percentage for African NIEs than in Asia, the Middle East and the Pacific where all funded projects (and all endorsed concepts), involve MIE implementation. Both in absolute and relative terms, Latin America is the region that has been most successful in utilising direct access: almost US$20 million has flowed through NIEs, amounting to over 40 per cent of the funds approved for the region.
There has also been a notable difference in the extent to which different MIEs are being chosen to implement Adaptation Fund projects in Africa (and the world).

Three organisations account for all of the US$ 50 million of approved projects that are to be implemented in Africa: UNDP (40 per cent); UNEP (30 per cent) and World Food Programme (30 per cent). UNDP has also been particularly successful at being chosen to implement projects at a global level. This suggests that some institutions have been much more pro-active in considering how adaptation activities can be incorporated into their baseline activities than others.

4.1.2 GEF accreditation of new project agencies pilot

The Global Environment Facility (GEF) has begun a pilot to identify new implementing partners, including national and regional bodies.

In May 2011, the GEF Council decided to implement the ‘GEF-5 Pilot on Broadening the GEF Partnership’. This involves identifying ten new institutions to act as implementing partners (GEF Project Agencies) for GEF projects. These new institutions could include national institutions, regional organisations, non-governmental organisations, United Nation’s programs and specialised agencies and other international organisations. It was agreed to accredit at least five national institutions and that these should have priority over other forms of organisation.

Accreditation under the pilot consists of two stages of which stage 1 was completed in June 2012.

Stage 1 assesses the applicants’ ‘value-added to the GEF partnership’ looking in particular at the organisations relevance to the GEF mandate, demonstration of environmental or climate change adaptation results, capacity to leverage co-financing and institutional efficiency. A series of applications passed Stage 1 in June 2012 (Global Environment Facility 2012). Stage 2 involves an independent Accreditation Panel reviewing the level of compliance with the GEF’s minimum fiduciary standards. At this stage there will be four possible outcomes for an agency: full approval; further review (which will allow an agency an additional six months to improve certain processes); conditional approval (which will allow an agency up to a year to implement social and environmental safeguards); and outright rejection.

![Figure 6. Adaptation Fund support by region and implementing entity](image-url)
One of the five national institutions approved that passed through Stage 1 is an African institution: the Development Bank of South Africa.

The other approved national institutions are from China, Brazil, Peru and Russia. In addition, the West African Development Bank (Banque Ouest Africaine de Développement) was also approved, but the Observatoire du Sahara et du Sahel was not approved. It is also noteworthy that the National Research and Innovation Agency (ANII) of Uruguay was not approved, despite being accredited as an NIE under the Adaptation Fund (Global Environment Facility 2012).

4.1.3 Global Alliance for Vaccines and Immunisation

The Global Alliance for Vaccines and Immunisation (GAVI) uses a very simple direct access model when providing cash-based support in country.

Put broadly, GAVI provides two types of support: vaccine support (assisting in financing the procurement of vaccines) and health-system related support. In relation to the second of these roles, one of its key modes of operation is to provide cash for immunisation services support (ISS) and Health System Strengthening (HSS) support. For these programmes, the default model involves the Ministry of Health submitting proposals that have been endorsed by the Ministry of Finance and a country co-ordinating body. If the proposal is successful then the funds are disbursed directly to the Ministry of Health. Only in cases where this arrangement is considered to carry too much risk to GAVI, as indicated through a country financial management assessment (FMA), are alternative approaches taken. These involve either strengthening measures or disbursement through a GAVI partner organisation i.e. WHO, UNICEF, World Bank.

Since 2009, FMAs have been required before a country can receive cash funding for certain types of new programmes or for countries deemed to be ‘higher risk’ for financial management.

The intention is ‘to guide both the country and GAVI in identifying the best financing mechanism for GAVI support, as well as additional fiduciary assistance activities that may be needed to address perceived risks’ (GAVI Alliance 2009).

An independent evaluation of GAVI specifically noted that this approach has been relatively light-touch.

The evaluation concludes that this light touch approach is a ‘reasonable position to take in terms of balancing risks and increased burden’ (CEPA LLP 2010).

It notes, however, that there would be merit in harmonising the approach with those taken by other donors as well as providing technical assistance to countries to undertake the FMA on time.

4.1.4 Global Fund to fight Aids, Tuberculosis and Malaria (GFATM)

The Global Fund offers a further model of direct access to multilateral funds.

Under this model, a country co-ordinating mechanism (CCM) - consisting of government agencies, the private sector, civil society and international development partners – put forward proposals for funding. As part of this process, it also nominates a principal recipient to receive funding directly that may be either a government ministry or a civil society organisation, although the UNDP can play a role as an interim principal recipient for countries that have high risk and low-capacity. The PR is responsible for project implementation according to country fiduciary standards. Local Funding Agents (LFAs) are contracted to undertake the due diligence and financial monitoring.
When the UNDP acts as an interim PR it is mandated to support the development of an in-country principal recipient. This is designed to support a steady transition towards all disbursement and implementation going through national principal recipients.

Direct access arrangements in the Global Fund are much more prevalent than has been achieved in the Adaptation Fund to date. Figure 7 shows that the bulk of resources from the Global Fund have flowed through national governments acting as the principal recipient, with multilateral organisation accounting for a much smaller proportion. In Sub-Saharan Africa, 72 per cent of the US$9.5 billion that has been disbursed has involved government departments acting as the Principal Recipient.

![Disbursement channels by region for the Global Fund's resources](image)

The model of using multilateral organisations to build capacity in national organisations also appears to have been effective in the Global Fund’s African operations. Between Rounds 1 and 10, there have been more than ten countries from Sub-Saharan Africa that have transitioned from having the UNDP as a principal recipient to have a national government organisation as a principal recipient.

---

5 However it should be noted that the Adaptation Fund is relatively new and direct access under the Adaptation Fund is a new practice in climate financing, so the use of the modality would be expected to be relatively low at this stage.
‘THE ALMOST COMPLETE DEFERENCE TO CCMs AND PRs IN PLACES WITH LOW CAPACITY CAN MEAN THAT LOCAL IMPLEMENTERS WANDER THROUGH THE LIFE OF THEIR GRANTS WITH LITTLE GUIDANCE FROM THE GLOBAL FUND, PERFORMING POORLY, UNTIL A CRISIS...’

In combination with a range of other factors, this led to the Global Fund cancelling its eleventh round of grant making. Some of the insights from this experience with the Global Fund are brought out in the implications section below.

However, these challenges have not led independent assessors to conclude that there should be an increased use of multilateral organisations within the Global Fund.

Indeed, the High Level Independent Review Panel Report (High Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund 2011) reaffirms that:

4.2 Potential actions for the GCF, African governments and the AfDB

Building on the existing models of ‘standard’ direct access, this section outlines a series of potential actions to enhance the use of this approach by African countries accessing the Green Climate Fund.

It looks, in turn, at the Green Climate Fund, African countries and then the African Development Bank.

4.2.1 Green Climate Fund

1. **THE GCF SHOULD ACT QUICKLY TO PROVIDE RESOURCES TO SUPPORT DIRECT ACCESS**

There is a need to act quickly to implement the provisions in the Governing Instrument of the Green Climate Fund to provide financial resources to support (African) countries in using the direct access arrangements of the fund. The Governing Instrument of the GCF (Green Climate Fund 2012) states that:

‘THE FUND WILL PROVIDE RESOURCES FOR READINESS AND PREPARATORY ACTIVITIES AND TECHNICAL ASSISTANCE, SUCH AS THE PREPARATION OR STRENGTHENING OF LOW-EMISSION DEVELOPMENT STRATEGIES OR PLANS, NAMAs, NAPs, NAPAs AND FOR IN-COUNTRY INSTITUTIONAL STRENGTHENING, INCLUDING THE STRENGTHENING OF CAPACITIES FOR COUNTRY COORDINATION AND TO MEET FIDUCIARY PRINCIPLES AND STANDARDS AND ENVIRONMENTAL AND SOCIAL SAFEGUARDS, IN ORDER TO ENABLE COUNTRIES TO DIRECTLY ACCESS THE FUND.’
This provision is welcome in light of the challenges that African countries have had in accessing the Adaptation Fund where similar support is not provided.

The Adaptation Fund has explicitly stated that it did not wish to provide funding support to facilitate direct access in terms of strengthening the capacity of a (prospective) NIE, for fear that it would distract its limited funds from their primary focus on financing adaptation activity. A number of African countries have found that the limitation on the resources to support these activities have impeded development towards accreditation of NIEs. Other bodies have, on occasion, stepped in to provide this support, e.g. GIZ, UNEP, UNDP. Such bodies often note that the advantages provided by this support extend beyond the narrow institution that is supported and rather support governance reform across the public sector (GIZ 2012b).

Provision of these resources could be fast-tracked while the remaining details around the Green Climate Fund are finalised. Without this support, it will be difficult for the GCF to deliver on its objectives of promoting country-ownership. Therefore, the arrangements for accessing these resources should be a priority for the GCF, while some of the more difficult and complex issues around other aspects of its design such as the private sector facility, are finalised. That said, there will be a number of issues that will need to be resolved prior to providing these resources so that (African) countries have a good understanding of what the GCF envisages a country ready for direct access looks like e.g. policies and guidelines for programming and project cycle, access modalities, and fiduciary standards.

These resources could focus not just on the process up until accreditation but also on helping develop a project pipeline and raising awareness of the GCF, and its requirements, after the NIE has been accredited.

A number of African countries noted in relation to the Adaptation Fund that there is a presumption that successful accreditation marks the end of the process of achieving direct access; while in reality this only marks the beginning. The selection of projects and making finance applications has proved difficult and when conditional accreditation has been granted, such as in the case of Senegal’s Centre de Suivi Ecologique (CSE), meeting the conditions has not always been easy (CDKN 2012). Resources could be usefully provided to overcome such challenges and create awareness about the advantages of direct access and support national stakeholders in understanding the content and format of any proposals. The GCF’s adoption and expansion of the project formulation grants (PFGs) offered by the Adaptation Fund6, with a special focus on their use by NIEs, may help address this process.

2. CONSIDER A MORE FLEXIBLE APPROACH IN COUNTRIES WHERE FIDUCIARY RISKS CURRENTLY MAKE DIRECT ACCESS UNDULY RISKY

The GCF could adopt a more flexible approach to determining implementation modalities.

The recent experience with the Global Fund demonstrates clearly the balance that needs to be struck between promoting country ownership and ensuring that resources are spent to maximum effect. However, aside from the use of conditional accreditation, the current practice of the Adaptation Fund involves a binary approach to direct access: either a country/ NIE is considered to be appropriate to receive funds or it is not. By contrast, a more flexible approach to direct access might consist of some of the following elements:

- Within a project/programme, NIEs and MIEs adopting shared responsibility for project implementation. This could allow, for instance, NIEs which were unable to provide evidence of in-house capacity on, for example, monitoring and evaluation or project appraisal to work in partnership with MIEs to fulfil these functions.

- This sharing of responsibilities might be determined in consultation with developing countries, drawing on the approach adopted by GAVI for its CEM.

- An explicit requirement that any MIEs would be monitored against their performance in building capacity and infrastructure that would allow NIEs to fulfil this role in future (as recently proposed in relation to the Global Fund).

---

6 These are offered to help NIE’s develop specific projects and not to support general capacity building of a (prospective) NIE.
3. EXPLORE POSSIBILITIES FOR THE GCF TO PROVIDE RESOURCES TO OTHER GLOBAL FUNDS THAT ALREADY ALLOW DIRECT ACCESS FOR AFRICAN COUNTRIES

It is well-known that many adaptation activities are, from an operational perspective, difficult to distinguish from development activities.

Lord Stern has referred to adaptation as ‘development in a more hostile climate’ (Stern 2009). As an example, climate change is likely to spread the geographic reach of vector borne diseases such as malaria in regions like East Africa. This will require more resources to be spent on preventative measures such as bed nets. The distribution of bed nets already forms an important part of the portfolio of activities of other funds, such as the GFATM.

For some of these activities that will become more widespread and costly as a result of climate change, African countries can already directly access the funds to support baseline development activity. Sections 4.1.3 and 4.1.4 describe the direct access arrangements in place for GAVI and the Global Fund respectively.

There could be a number of advantages in the GCF providing support to other global funds whose resources will become more stretched as a result of climate change, and which African countries are already able to directly access.

In the malaria example cited above, having one financial modality to support the distribution of bed nets in relation to the baseline geographic incidence of malaria and a separate financial modality for the same activity in relation to the increased incidence of malaria resulting from climate change would be perverse and risks creating substantial transaction costs and duplication of activity. The GCF providing funds to other multilateral bodies such as the Global Fund could both avoid these risks and simultaneously be a quick and easy way to allow direct access by African countries to a proportion of the GCF’s resources.

There would need to be a clear allocation of responsibilities and mutual trust between the respective multilateral bodies to avoid creating a different set of transaction costs.

The risk from this arrangement would be that it would be unclear who would be responsible for funds distributed from one multilateral body to the other; for instance, there could be a proliferation of overlapping monitoring and evaluation regimes. This could substantially reduce the effectiveness of each dollar of GCF resources. It should be possible to overcome these challenges but this will require close cooperation between the different bodies and potentially allowing for different procedures to be followed in relation to funds allocated in this manner compared to other ‘conventional’ projects.

Note that in this example although it is operationally unnecessary to distinguish between baseline development activity and adaptation activity, it is relatively straightforward to identify the incremental costs of the adaptation activity.
4. ENSURE THAT, OVER TIME, A MINIMUM OF RESOURCES ARE ALLOCATED TO DIRECT ACCESS

The experience of the Adaptation Fund shows that even when direct access is possible, there is a tendency towards using multilateral implementing entities.

To date, around 85 per cent of the funds that the Adaptation Fund Board has provided to African projects have been provided through multilateral entities. These patterns seem to be largely explained by a preference among countries to use MIEs (often because they do not have an NIE) rather than a tendency of the Adaptation Fund to disproportionately reject proposals that might be implemented by NIEs. The same pattern has been seen in other regions of the world with the consequence that the Adaptation Fund’s cap on the amount of resources that can be implemented by MIEs is now, in practical terms, binding.

The GCF could achieve a more even balance between direct access and using multilateral entities in one of two (or both) ways:

- As with GAVI and the Global Fund, there could be a general presumption that the direct access modality is used and only when this is explicitly shown to be inappropriate would multilateral entities be considered.

- As with the Adaptation Fund, a cap could be placed on the proportion of funding provided to multilateral entities.

In order to fully capitalise on the existing experience and implementing capacity of MIEs, the latter approach may be preferable.

Depending on the resources available to the GCF, it may be unduly prescriptive to allocate the proportion of funding provided through a direct access within Africa itself.

If the total resources of the fund are relatively small (as they may be in the early stage) then this might result in a small number of large projects leading to any cap being breached and hence desirable projects/programmes not being funded.

5. PROVIDE A ‘PASSPORT’ FOR NIES ALREADY ACCREDITED UNDER THE ADAPTATION FUND

One of the key long-term potential benefits of the Green Climate Fund is that it may reduce the current fragmentation that characterises climate finance.

This fragmentation increases transaction costs through different sources of finance placing different requirements on countries. This is a well-acknowledged problem, as discussed in section 2.

To give an immediate demonstration of the benefits that could be delivered through greater streamlining, the Green Climate Fund could allow for automatic accreditation of those organisations that have already been accredited by the Adaptation Fund, or indeed possibly other funds.

This could apply at least until the accreditation period in relation to the Adaptation Fund expires. This may be accompanied with a limit on the project size that such ‘passport-ed’ NIEs could implement, recognising that the processes and procedures that the Adaptation Fund adopts are to assess fiduciary and other risks in relation to the implementation of relatively small projects.

This would be particularly valuable in the context of the limited resources of the Adaptation Fund and its US$10 million cap per country.

At the time of writing, there was only about US$7 million of Adaptation Fund income that had not been approved for projects or accounted for by overheads (Climate Funds Update). The decline in the price of CERs (the Adaptation Fund receives the bulk of its resources through a tax levied on the first international transfer of CERs) has resulted in substantially lower resources than might initially have been hoped. Consistent with this, as discussed above, the Adaptation Fund has placed a cap of US$10 million per country, which in many instances is equivalent to just one project. Hence, without such an arrangement there is a substantial risk that (African) countries may undertake the, often substantial, exercise, of accrediting an NIE, for the purposes of implementing just one project.

---

8 Indeed, the Adaptation Fund Board is yet to reject a project proposal from an NIE.
9 It may even be possible to extend this to other multilateral funds that allow direct access.
6. **ENSURE THAT THE ACCREDITATION PROCESSES FOR (NEW) NIEs ARE QUICKLY DEVELOPED, TRANSPARENT, WELL-UNDERSTOOD AND PUBLICISED, AND EFFICIENTLY EXECUTED.**

The GCF needs to make sure that the accreditation process it develops for (new) NIEs is well-understood and publicised. In order to maximise the interest and engagement of African countries, it is important that the GCF adopts clear and transparent rules for its accreditation process. This will need to be complemented by a thorough stakeholder engagement exercise to ensure that they are effectively disseminated.

In doing this, it can take on board some of the early challenges associated with the Adaptation Fund processes.

During the early stages of the Adaptation Fund, a significant number of challenges were identified by the Accreditation Panel that held back the accreditation of NIEs (Adaptation Fund Board 2010). Some of the most salient and potentially transferrable to the GCF include:

- a need for clearer guidance in relation to systems that need to be put in place to address gaps in the ability of prospective NIEs to meet the fiduciary standards;
- clarity in the supporting documentation that may be needed to demonstrate each of the fiduciary standards;
- the importance of allowing sufficient budget for field visits to potential NIEs.

Corroborating these findings, GIZ (2012) summarises early experience of the accreditation process and finds that candidates had a poor understanding of the scale and type of documentation required as well as the need to present a coherent case for how direct access would allow national climate change strategies to be implemented. As a result of these sorts of observations, the Adaptation Fund Board developed an online toolkit to provide more information about the accreditation process, how to select an NIE and the supporting documentation required10.

It is also important that the execution of any accreditation process is adequately resourced with the GCF.

It is insufficient that the accreditation process for NIEs is effective ‘on paper’, it is also crucial that it is implemented efficiently and effectively. It is clear from historical experience with the GEF how processes that are perceived as bureaucratic and time consuming can lead to disenchantment among developing country stakeholders, including those within Africa. This may require proportionately more resources devoted to the accreditation process than is currently the case with the Adaptation Fund board.

The same considerations will also apply to the guidelines underpinning the project cycle. This will help to promote African access to the GCF regardless of whether they choose to attempt to get an NIE accredited.

7. **ALLOW FOR NIE AND PROJECT/PROGRAMME APPLICATIONS TO BE PROCESSED IN A RANGE OF LANGUAGES, INCLUDING FRENCH**

In contrast to the Adaptation Fund, the GCF should allow for the accreditation process and project applications to be conducted in a variety of languages.

A number of commentators have been critical of the Adaptation Fund’s requirement that the accreditation process, including the provision of all evidence, be conducted in English (Kaloga 2012; ADAPT Asia-Pacific 2012; CDKN 2012). For countries where English is not the first language, this has been criticised for, at best, increasing the cost of the process through translation costs and, at worst, putting off some countries from even applying. This point was reinforced in a number of stakeholder interviews undertaken for this study.

More than forty per cent of the population of Africa live in countries where English is not an official language.

This language barrier may impede African access to the Adaptation Fund for, as Table 1 and Figure 8 show, more people live in countries where English is not an official language, or is an official language alongside another UN language11, than in countries where it is. It is noteworthy that there are 219 million people in Africa living in the countries which have been classed as the most vulnerable to climate change where English is not an official language12.

---

10 This is available at http://www.adaptation-fund.org/NIE/toolkit/EN/review.html
11 Only including officially recognised UN languages.
12 Based on the vulnerability assessment provided by (Barr, Fankhauser, and Hamilton 2010).
Table 1.
Official languages of African countries

<table>
<thead>
<tr>
<th></th>
<th>Only Arabic</th>
<th>Only French</th>
<th>&gt;1 UN language, excluding English</th>
<th>Only English</th>
<th>&gt;1 UN language, including English</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of countries (and %)</td>
<td>8 (15%)</td>
<td>16 (31%)</td>
<td>4 (8%)</td>
<td>18 (35%)</td>
<td>6 (12%)</td>
</tr>
<tr>
<td>Total population of these countries (and %)</td>
<td>181 million (16%)</td>
<td>215 million (22%)</td>
<td>14 million (1%)</td>
<td>407 million (41%)</td>
<td>166 million (17%)</td>
</tr>
</tbody>
</table>

Note: No countries in Africa have Chinese (Mandarin) or Russian as an official language. Some countries have more than one (but none have more than two) UN languages as official languages. While a country may have a UN language as an official language this does not imply that it is always widely spoken. Percentages may not sum due to rounding.

Source: Vivid Economics, based on CIA and The World Bank

Figure 8.
African countries with English as an official language

Source: Vivid Economics, based on CIA
4.2.2 African countries

1. PREPARE CREDIBLE, ROBUST PIPELINE OF FUNDING OPPORTUNITIES (AND RELATED DOCUMENTATION)

The single most important action that African countries can undertake to increase their readiness for the Green Climate Fund is to develop a credible pipeline of funding opportunities. These funding opportunities will be most credible when placed in the context of an overall low-carbon growth strategy, if they demonstrate substantial climate related benefits (either mitigation or increased climate resilience) and at the same time, ideally, deliver on broader development objectives.

Accurate, robust costing data will also be required. These may be identified through one or a series of documents including a low-carbon development plan; Nationally Appropriate Mitigation Actions (NAMAs); and National Adaptation Plans13.

There are a number of models from across the continent to build on. While the GCF Governing Instrument notes that funding may be made available to support these activities, there are already many examples from across the continent. A number of African countries that have developed low-carbon development plans include Ethiopia, Kenya and South Africa; there are at least fifteen examples of NAMAs that have been developed across seven African countries (Ecofys); and more than 30 countries have submitted NAPAs. These provide a range of useful experiences: a recent example of an innovative process in Kenya is described in more detail in Box 2.

Box 2

Kenya’s Climate Change Action Plan

In mid-2011, the Government of Kenya embarked on the creation of a climate change action plan to implement its National Climate Change Response Strategy. The KCCAP aims to provide a coherent package of actions to place Kenya on a low-carbon, climate resilient growth path. Working with a range of development partners, the Ministry of Environment established a multi-sectoral, cross-departmental Task Force that has overseen the work of eight technical subcomponents:

- low carbon climate resilient development
- enabling policy and regulatory framework
- adaptation
- mitigation
- technology action plan
- national performance and benefit measurement framework
- knowledge management and capacity development
- climate finance

Each of these subcomponents has been supported by a Thematic Working Group consisting of representatives from the government, civil society and the private sector.

13 These build on National Adaptation Programmes of Adaptation.
The intention is that by addressing each of these issues simultaneously, the overlaps between the different components can be tackled, and the opportunities for coordination maximised. Another feature of the Action Plan has been the extensive consultation process: there have been four national consultation workshops as well as 9 county consultation workshops.

The Plan is now entering its concluding phase with a series of Validation workshops for each of the subcomponents as well as for the Action Plan itself. Further information on the process is available from the Action Plan’s website: www.kccap.info

Pan-African institutions such as the African Development Bank can have an important role to play in assisting with these initiatives and in building a repository of information from which best-practice may be identified. This is described more fully below.

2. TAKE EARLY STEPS TO PREPARE THE INFRASTRUCTURE NEEDED TO ACCESS THE GCF

The GCF will require the establishment of a National Designated Authority.

This body will be asked to ‘recommend to the Board funding proposals in the context of national climate strategies and plans … [and] … be consulted on other funding proposals for consideration prior to submission to the Fund, to ensure consistency with national climate strategies and plans’ (Green Climate Fund 2012). A current consequence of the fragmented approach to climate finance is that multiple sources of funding support numerous initiatives across different actors both within and outside government. This may lead to a situation where there are conflicting in-country priorities. As such, taking early action to identify who might perform this role, and who may be represented upon it, would be a valuable step for African countries to take.

It is striking only just over half of African countries do not currently have the equivalent body – a Designated Authority – in relation to the Adaptation Fund (Adaptation Fund Board). This is shown in Figure 10.
The Designated Authority may be one and the same body as the climate change fund (discussed in the following section). However, to avoid conflicts of interest, the NDA should be clearly separate from, and have separate members to, any implementing entity that might ultimately receive GCF resources.

Additional work will be required at a later date to identify an appropriate NIE, support the accreditation process and make successful applications.

The experience of the Adaptation Fund shows that the entire process that culminates in the successful implementation of a direct access project can be time and resource intensive: the difficulties in achieving accreditation have been well documented (UNDP/ODI 2011) while it also now becoming clear that the process of making project applications should not be underestimated. African governments therefore will need to remain committed to direct access over the medium term if they are to realise its benefits.

3. BUILD A CROSS-DEPARTMENTAL DIALOGUE, ON THE OPPORTUNITIES PROVIDED BY DIRECT ACCESS, ALSO ENGAGING WITH CIVIL SOCIETY AND THE PRIVATE SECTOR, AND, AS APPROPRIATE, LINK THIS TO BROADER FISCAL REFORM PROCESSES

National discussions on climate change finance (generally), and opportunities from direct access (specifically), sometimes do not attract sufficient cross departmental attention, nor engage as much as might be desirable with civil society and the private sector.

For instance, within government, it is often unclear whether access to climate change finance is the responsibility of the Ministry of Environment, the body normally responsible for climate change, or the Finance Ministry, responsible for the overall fiscal framework. This has the potential to result in confusion, or, worse, institutional deadlock. In the specific case of direct access, for instance, there may be limited awareness within the Ministry of Finance about the...
additional resources available from climate finance. In other cases, there may be disagreements about which body may be the best implementing entity or the NIE may not be integrated with national adaptation strategies, which has been a barrier to accreditation to the Adaptation Fund for some countries (GIZ 2012b). In a similar way, without consultation with civil society there may be differences in understanding about, for instance, priorities for reducing vulnerability to climate change (which might inform the appropriate NIE). Engagement with civil society can also accelerate the selection of projects and the award of funding, as was the case with Senegal’s CSE US$8.6 million project on adapting to coastal erosion (CDKN 2012). Limited dialogue with the private sector will make it difficult to direct private sector investment towards climate-related priorities. Greater dialogue between these and other ministries can help to overcome these problems. Communication in the accreditation process, perhaps through the creation of an explicit forum, may help to achieve wider aims of building strong institutions and bringing those with the best skills across ministries and civil society and the private sector together. It is also likely to lead to greater ‘national ownership’ of any resulting accredited NIE. These efforts could be co-ordinated by the Designated Authority for the GCF.

4.2.3 The African Development Bank

The African Development Bank can play a key role improving African access to the Green Climate Fund. On the one hand, its capacity to channel resources for development, making use of existing scaleable processes, and its existing relationships with both public (i.e. ministries of finance) and private sector stakeholders all point to a valuable pool of resources and experience that should be capitalised upon. On the other hand, it will plausibly have a greater sense of local ownership than other bodies with similar capacity. Given this, there are three specific roles where the AfDB could play a key role:

- supporting the development of National Implementing Entities before and after accreditation
- play a role as a multilateral implementing entity
- supporting the development of Africa specific green growth/climate change action plans

These are explored further below.

1. SUPPORT THE CAPACITY OF THE NIEs BEFORE AND AFTER ACCREDITATION

The African Development Bank could play a crucial partnership role in advancing the development of NIEs across Africa.

The project implementation skills and capacity at the Bank’s disposal can be transferred to African NIEs. At least three distinct roles might be envisaged.

- First, the African Development Bank can support the identification of potential NIEs and assist with the process of accreditation. Its focus could be on those regional member countries that have so far been less effective at accessing the international climate finance architecture, for example, countries without an NIE under the Adaptation Fund. This support would build on – and might even involve partnering with - similar initiatives from other multilateral organisations e.g. UNEP, to help build capacity within prospective NIEs. It would likely target on building capacity in some areas which have proved to be most challenging for prospective NIEs e.g. developing internal audit functions.

- Second, even where African countries have successfully accredited NIEs, the AfDB may play a key partnership role working alongside these NIEs. As discussed above, the GCF may consider the development of more flexible modalities rather than either using an NIE or an MIE. For instance, MIEs such as the African Development Bank might work with NIEs on project implementation in cases where, for instance, NIEs only have experience in implementing smaller projects. In this model, for instance, certain functions associated with project implementation such as monitoring and evaluation or project appraisal (i.e. cost-benefit analysis) could be carried out by the African Development Bank. Through ‘learning-by-doing’ the AfDB could develop capacity in these national bodies. Other implementation activities e.g. management of contractors, disbursement of funds could be undertaken by the national body from the start. An alternative form of support that might be provided to accredited NIEs would be to provide technical assistance in project selection activities.
A third role would be to act as a facilitator in information exchange and sharing of best-practice between different NIEs, and between NIEs and those in the process of applying, across Africa for example through organising conferences, field visits and so on.

Any or all of these roles might be performed by the proposed new Africa Green Facility (AGF).

2. ENHANCE ITS ATTRACTIVENESS AS A MIE FOR AFRICAN PARTNERS

Second, in a number of instances, the Bank will still have a crucial role to play as a multilateral implementing entity which it will need to perform more pro-actively than to-date.

If Africa is to be successful in gaining access to a substantial proportion of climate finance flows through the GCF, then those providing climate finance are going to want to have confidence in the implementing entities. In some countries, this will necessitate multilateral implementing entities in the near-medium term. The AfDB is a possible implementing entity for many of its regional members, but the UNDP, UNEP and the WFP have been the institutions favoured by African governments. The most likely explanation for this is that the Bank has not engaged sufficiently with its regional member countries on the advantages of it acting as an implementing entity. It may also wish to consider what lessons it can take from these bodies in integrating climate change adaptation (in particular) into its day-to-day activities.

Despite the diversity, there are a number of challenges associated with dealing with climate change that are common to many countries on the continent, and which differ, at least in severity, with climate change challenges elsewhere in the world. Examples of these challenges are the predominance of emissions from agriculture and land-use change and the existing adaptation deficit in many countries. Many of these will necessitate an African-specific solution. Following its recent decision to integrate green growth into its long-term strategic planning, the AfDB is already assisting countries in responding to these challenges; placing a particular emphasis on sustainable infrastructure, efficient and sustainable management of natural capital and building resilience. This has led to initiatives in, among others, Sierra Leone and Mozambique, with planned developments in other member countries as well. By building on this progress to date, the African Development Bank has the potential to become both a trusted partner with African governments as they develop their national climate change/green growth plans, as well as, vitally, a repository of information and forum for sharing best practice on these issues within Africa.

This role may be fulfilled by the proposed Africa Green Facility which intends to build this as a core area of expertise.

3. SUPPORT THE DEVELOPMENT OF AFRICA SPECIFIC GREEN GROWTH AND/OR CLIMATE CHANGE ACTION PLANS

Third, the African Development Bank can play a greater role in promoting green growth and climate change action plans among its member countries.

Following its recent decision to integrate green growth into its long-term strategic planning, the AfDB is already assisting countries in responding to these challenges; placing a particular emphasis on sustainable infrastructure, efficient and sustainable management of natural capital and building resilience. This has led to initiatives in, among others, Sierra Leone and Mozambique, with planned developments in other member countries as well. By building on this progress to date, the African Development Bank has the potential to become both a trusted partner with African governments as they develop their national climate change/green growth plans, as well as, vitally, a repository of information and forum for sharing best practice on these issues within Africa.

This role may be fulfilled by the proposed Africa Green Facility which intends to build this as a core area of expertise.
Moving towards enhanced direct access
An emerging modality for allocating climate finance
5.1 The emergence of national climate funds

In recent years, the concept of national climate funds (NCFs) has become increasingly prominent.

The key feature of such bodies is that funding decisions in other words which projects and programmes to fund, using which financial instruments and to what extent, are taken at a national level by national bodies. Although a definitive list of such funds is difficult to acquire, GIZ (2012a) reports at least 30 that are either in operation or being developed around the world. Within Africa, Ethiopia, Kenya and Rwanda are all at various stages of the development of such funds. Bangladesh, Indonesia and Thailand all provide examples of operational national climate funds.

The resources for these bodies have typically come from a combination of bilateral and domestic sources.

For example, the Bangladesh Climate Change Resilience Fund is resourced with funds from the UK, Denmark, EU, Sweden and Switzerland, while the Indonesia Climate Change Trust Fund has been receiving money from UK, Australia and Sweden. On occasion, such as with Thailand Energy Efficiency Revolving Fund and the Brazil National Climate Change Fund, domestic resources complement those from international partners. To our knowledge, there are no examples of NCFs that have received resources from multilateral institutions.

NCFs hold out the prospect of many advantages for African countries.

The potential advantages of NCFs can be compared to two paradigmatic alternatives (1) what might be labelled the status quo in which funding decisions are largely made on a project-by-project basis by development partners; and (2) an alternative whereby all funds are routed through national government systems.

• Compared to the status quo, an NCF offers greater opportunities for alignment with national priorities (the ‘ownership’ principle). As noted by the UNDP (United Nations Development Programme 2011), ‘national climate funds are consistent with several principles for the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action’. (Gomez-echeverri 2010), more stridently states that:

‘THERE IS A GRADUAL RECOGNITION THAT THE CURRENT SITUATION OF FINANCIAL SUPPORT FOR CLIMATE CHANGE ACTION IN DEVELOPING COUNTRIES – CHARACTERISED BY A LARGE NUMBER OF INTERNATIONAL FUNDS WITH COMPLEX ADMINISTRATIVE PROCESSES, MINIMAL TRANSPARENCY OR ACCOUNTABILITY, AND CONFLICTING MANDATES THAT DO NOT ALWAYS ADDRESS OR RESPOND TO DEVELOPING COUNTRY CONCERNS OR PRIORITIES – IS UNTENABLE. CONSEQUENTLY, WE SEE A GRADUAL ACCEPTANCE THAT MORE NEEDS TO BE DONE IN TERMS OF SHIFTING THE RESPONSIBILITY FOR MANAGING AND DISBURSING THE FUNDS TO DEVELOPING COUNTRIES...’.
- Compared to the latter, an NCF would have more clarity of purpose and allow the development of expertise and transparency on the specific challenges associated with climate change financing. This expertise, in turn, can allow it to operate in ways that would be atypical for a line ministry, such as providing a wide range of financing instruments and entering into contracts with a wider range of beneficiaries. In addition, by explicitly creating a separate body there is likely to be greater focus on the transparency of its decision making and associated financial flows, making it easier to demonstrate the additionality of climate finance.

These opportunities carry with them risks. Once again, these risks can be contrasted with the alternatives of the status quo approach (development-partner led initiatives) and with the alternative of channelling funds through existing government systems.

- NCFs risk ignoring the expertise and track record of existing organisations. Existing institutions already possess significant capacity to channel resources, and can make use of existing scaleable processes (often including well-developed social and environmental safeguards) as well as the existing relationships between their staff and both public (i.e. ministries of finance) and private sector stakeholders to disburse significant amounts of climate finance cost-effectively. By contrast, most NCFs will be new organisations without an established track record of efficient disbursement.

- Compared to budgetary support, there is a risk that creating a separate modality for financing climate change investments prevents the ‘mainstreaming’ of climate change within line ministries and hence that climate change will continue to be treated as an exceptional issue.

Many of these risks can be avoided with careful design.

In particular, these risks suggest that national climate funds need to be developed in a way that takes advantage of the lessons learnt from existing institutions and from best practice in terms of safeguards and standards etc. It is also likely to be necessary for them to be developed in close partnership with key ministries so as to ensure that there are close links with existing government ministries, strategies, personnel and procedures (see below).

Notwithstanding the challenges, the emergence of NCFs and the recognition that these may potentially receive funding from the GCF, offers many opportunities for African countries.

Below we adopt the same structure as for the direct access section chapter, considering possible actions for the GCF, countries and the African Development Bank that would allow Africa to realise the potential advantages that such funds offer in accessing climate finance.
5.2 Potential actions to promote enhanced direct access in Africa

5.2.1 Green Climate Fund

As no multilateral body in the climate finance area has, to date, delegated funding decisions to national bodies, the GCF will be breaking new ground.

To innovate in this way will require some important decisions to be reached on some challenging issues. Two of the most important areas will be on:

- determining accreditation criteria for NCFs (and the oversight that the GCF might have over any implementing entities chosen by the national funding entity);

- identifying the appropriate relationship between the GCF and NCFs

In addition, the GCF could pilot the concept of enhanced direct access through providing an opportunity for funding entities to manage a small grants programme. These are discussed further below.

1. UNDERTAKE EARLY WORK TO IDENTIFY APPROPRIATE CRITERIA FOR ACCREDITING NATIONAL FUNDING ENTITIES

The skills and competencies required for acting as a funding entity are different from, although share some overlaps with, those required for being an implementing entity; these should be reflected in any accreditation criteria.

The defining characteristic of a funding entity is that it makes decisions over which projects to support, to what extent, and using which financial instruments. This suggests
a certain set of skills are required to ensure that money is spent wisely, that may not have so much attention attached to them in the case of implementing entities, such as:

- the ability to undertake financial due diligence on prospective projects;
- the existence of a resource allocation framework, and the ability to manage scarce resources in a manner consistent with this framework;
- the ability to assess potential projects and programmes for compliance with social and environmental safeguards;\(^{14}\)
- especially in the event that instruments other than grants are provided, the ability to manage inflows and outflows of financial resources so as to ensure financial sustainability;
- evidence of insulation from political demands so that funds are allocated on the basis of maximum effectiveness.

That said, there are a number of other skills/competencies required by NIEs that will also be required by any NCF such as the ability to handle financial mismanagement/a zero tolerance policy on fraud; monitoring and evaluation competencies; the ability to prepare financial statements; and the existence of an appropriate internal control framework. This overlap highlights the possibility that one body could perform both funding and implementing functions (although processes would need to be in place to avoid conflicts of interest in this case).

At the same time, in order to avoid placing unnecessary burdens on national climate funds, it will be important to eliminate those criteria that are not necessary for being an effective funding entity.

For instance, the accreditation assessment criteria for the Adaptation Fund (see Annex) include criteria related to project preparation and approval and project implementation planning. It is not clear that a funding entity would require these competencies.

In addition, broader (national) economic and governance criteria, above and beyond those that measure the competence of the individual NCF, will be relevant.

As any National Climate Fund will not, ultimately, be responsible for the spending of GCF resources, ensuring the competence of that body will not guarantee that those resources are spent wisely. It is possible that in the distribution of financial resources to individual projects and processes, there would be an opportunity for fiduciary risks to arise. There would appear to be two broad approaches available to overcome these risks:

- A ‘hands-off’ approach whereby the GCF makes a judgement based on an overall assessment of the governance of the country. This could be drawn from a series of quantitative and qualitative indicators such as, for instance, used in the Ibrahim Index in Africa or Country Performance and Institutional Assessments (CPIA), the worldwide governance indicators (WGI), the International Country Risk Guide (ICRG), the Corruption Perception Index (CPI). Each of these measures slightly different factors but they all contribute to, or are correlated with, the ability of a country to manage financial inflows effectively.
- A ‘detailed approach’ whereby the GCF seeks to gain assurance from the body responsible for each individual project that might be supported by the NCF.

Of these, the former approach seems much more practical. This is the (implicit) approach that existing bilateral development partners have taken in relation to climate funds they have supported\(^{15}\). Furthermore, the time and resource implications associated with accreditation of implementing entities under the Adaptation Fund and GEF suggest that this is the only approach that would have any chance of allowing the rapid progression of this modality and its potential advantages.

2. DETERMINE THE APPROPRIATE RELATIONSHIP BETWEEN THE GCF AND NCFs

The GCF will need to work with stakeholders to identify the appropriate relationship between itself and any NCFs it supports.

---

\(^{14}\) It is noteworthy that the GEF accreditation criteria for implementing entities include criteria related to this.

\(^{15}\) In the sense that they have tended to support NCFs in countries that would score well against the criteria above. This is often coupled with representation on the board of these bodies, see below.
Two of the most important facets of this relationship will be:

- the appropriate role for GCF representatives in the decision-making processes of any NCF;
- the appropriate flow of information from any NCF to the GCF on any projects that it has supported using GCF resources.

To date, development partners who have supported NCFs have typically assumed a (minority) position on their decision making boards.

For instance, in the BCCRF, the World Bank has an observer status on the governing council while there are two representatives, of which one has a vote, from development partners on the Management Committee (9 members in total). Likewise, the management forum of the ICCTF has one development partner representative. This position has allowed development partners to make a contribution to determining the strategic direction and policy decisions of each Fund.

While the modality of enhanced direct access is still in its infancy, there may be merit in replicating these arrangements.

This will lend confidence both to the GCF, and its ultimate contributors, that there will be strong levels of accountability and scrutiny regarding any resources that flow through this modality. There would, however, be resource implications that would need to be accounted for. One option would be for the relevant regional representatives (and their alternatives) on the GCF board to also be responsible for sitting on the Board of the NCFs supported by the GCF in their region.

The information that the GCF requests from NCFs to monitor the effectiveness of its support might be co-ordinated with any future guidance in relation to the provision of information under the Biennial update reports.

The GCF will have a legitimate interest in monitoring the effectiveness of any projects or programmes it supports through an NCF. This would partly be achieved in the event that a GCF representative was on the board of the relevant NCF but it is likely that more systematic flows of information may be required by the GCF Board and its supporting secretariat. At the same time, overly onerous data requirements risk distracting NCFs from their primary function. As the GCF strives to seek this balance, it may be helpful to ensure that the information it requires is consistent with, and supports the delivery of, the information that will be required under Biennial update reports (about which further guidance will follow in the future). The GCF may wish to work closely with the UNFCCC to ensure this consistency.

3. EXPERIMENT WITH ENHANCED DIRECT ACCESS THROUGH DEVELOPING A SMALL GRANTS PROGRAMME

The GCF could pilot the concept of enhanced direct access by developing a small grants programme.

This would provide a funding entity with resources which they could then allocate to particular small projects according to criteria developed by the funding entity, rather than the GCF. This would allow some of the key procedural aspects associated with enhanced direct access to be trialled, without exposing substantial financial resources to an untested modality and restricting the complexity of the instruments provided by the funding entity to grants.

5.2.2 African countries

1. WHERE APPROPRIATE, INITIATE/ ACCELERATE PROCESSES TO DESIGN A NATIONAL CLIMATE FUND

African countries wishing to take advantage of this new modality will need to establish a National Climate Fund.

This is a political decision that will need to be taken in light of the domestic situation and, bearing in mind the factors discussed elsewhere in this paper, the likelihood of successful mobilisation of resources from the GCF and elsewhere. Box 3 highlights some of the key issues that need to be considered when designing an NCF, as well as some of the most important challenges that are likely to emerge.

---

16 UNFCCC (2011) states that ‘Non-Annex I Parties should also provide updated information on financial resources, technology transfer, capacity-building and technical support received from the Global Environment Facility (GEF), Annex II Parties and other developed country Parties, the Green Climate Fund and multilaterals institutions for activities relating to climate change.’
2. FURTHER IMPROVE GOVERNANCE ARRANGEMENTS

Strong and robust governance processes will be essential for the GCF, and other development partners to support an NCF. As discussed above, for an NCF to be effective and spend money wisely, it is not sufficient that its fiduciary standards are strong and robust; it is necessary that its resources are disbursed in a broader environment where there is strong governance and transparent decision making.

Contrary to expectations, the bulk of the population of Africa live in countries where this performance is comparable with other countries at a similar stage of development. Figure 11 shows the Country Performance Rankings of IDA-eligible countries, which measures performance against four criteria: economic management, structural policies, policies for social inclusion and equity and governance. Countries are split into quintiles depending on their performance from which it can be seen that more than 50% of Africa’s population is in one of the top 3 quintiles. Figure 11 shows there has been a moderate improvement in African performance between 2006 and 2011.

Box 3.
Decisions, challenges and opportunities for National Climate Funds

A number of key decisions need to be made/issues need to be addressed when designing a National Climate Fund. Some of the most central will be:

- What should be the objectives of the fund and what is its relationship with any associated climate change action plan etc.?
- What ‘windows’ of support should there be? These may be linked to particular thematic areas (adaptation, mitigation, forestry); geographic areas; technologies; or types of implementing entities (public sector, private sector, CSOs).
- What financing instruments might the fund offer? Typically bodies start by just providing grants but greater cost-effectiveness may come through offering a wider palette of instruments e.g. risk capital, guarantees.
- What is the project cycle i.e. the processes by which applications are made and funding decisions reached?
- What are the appropriate governance arrangements for the fund and, in particular, the appropriate balance between government (often both central and local), civil society, private sector and development partners (see discussion above)?
- What are the institutional/corporate governance arrangements of the fund? Who will determine the strategic direction of the fund, who will be responsible for day-to-day decision making and how will technical experts be brought into the fund decision making process?
- Will there be an external Trustee for the Fund? Who should that be?
- What safeguards will the Fund introduce to guide its decision making?
- How will the Fund undertake monitoring and evaluation?

From the existing experience in establishing NCFs, a number of common challenges – and potential means of overcoming these challenges – are apparent. This list is drawn from (GIZ 2012b); (Frankfurt School UNEP Collaborating Centre, 2012) as well as the experience of the authors in helping to design national climate funds.

- Often engagement with the private sector and using fund resources in a way that will leverage further private sector investment has proven to be more difficult than providing (grant) resources to either the public sector or CSOs. Targeted support by development partners is likely to be valuable here.
- It is sometimes difficult for funds to effectively channel resources to the local level (especially rural and remote communities). Providing ‘wholesale’ finance to institutions that already have networks at the local level may partly overcome this problem.
- Establishing a results based management framework (both for individual projects and for the fund itself) has been identified as both vital for the fund’s success and yet also an area where capacity is often relatively weak. Once again, there is likely to be a role for development partners, including RDBs where such frameworks are already in place, to support these activities.
- Institutions that become NCFs may receive a quantity of funds many times greater than their budgets prior to becoming an NCF and as a result extra funds may not always be spent wisely. A gradual transition to full funding may be a solution but this must be balanced against the expectation of and need for high levels of funding.

---

17 And arguably in contrast to an NIE.
18 This is just one indicative metric which captures the broader governance arrangements within a country. The important aspect is that it captures the performance of a country not a specific institution. If the GCF was to adopt this approach it would need to decide what was the best set of metrics which captured this general argument.
Figure 11.
The performance of African countries relative to IDA-eligible countries

Source: Vivid Economics, based on World Bank (2012)

Figure 12.
Africa's population weighted CPR: 2006 to 2011

Note: 2006=100
Source: Vivid Economics, based on (The World Bank 2012)
3. **DEVELOP A NATIONAL CLIMATE CHANGE STRATEGY TO STIMULATE A PIPELINE OF FUNDING OPPORTUNITIES AND ASSIST WITH RESOURCE ALLOCATION**

If a National Climate Fund is to be established then an accompanying National Climate Change Strategy and/or Action Plan becomes even more important. As well as helping to identify priority projects, such a document can provide a strategic direction and coherence to guide the funding decisions of any Fund. It is unlikely that the development partners, including the GCF, will be willing to provide any substantial financial resources to an NCF when there is no such unifying document to help them understand what it is that they will be supporting. The document will be more compelling if it is incorporated into mainstream development plans, led by the Finance and Economy ministries, rather than a plan only endorsed by the Ministry of Environment.

5.2.3 **African Development Bank**

1. **SUPPORT THE CAPACITY-BUILDING EFFORTS OF COUNTRIES WISHING TO ESTABLISH NCFs**

There are a number of critical challenges that African countries will need to overcome in establishing an NCF. Box 3 lists a number of key challenges that existing experience suggests can impede the development of NCFs, including means of engaging (and leveraging) private sector capital, as well as establishing results based frameworks. These are all core areas of expertise for the African Development Bank. It may wish to consider vehicles or programmes explicitly aimed at sharing this experience with its regional members that have a particular interest in developing NCFs. The AGF could be a vehicle for providing this support while it may also wish to work alongside other development partners who have developed relations and have experience on these issues in particular countries.

2. **PROVIDE TRUSTEE ARRANGEMENTS TO INTERESTED NCFs**

A number of NCFs - as well as other non-climate change related funds – have found advantages in appointing an external trustee, at least on an interim basis. This can help provide the confidence to potential supporters that resources will be spent as designed, and, if designed well, can provide ‘hands-on’ capacity support within the relevant country. For instance, the World Bank is acting as a Trustee for the Bangladesh Climate Change Resilience Fund and the UNDP for the Indonesia Climate Change Trust Fund. Although these arrangements have been somewhat controversial, they have also proved pivotal in gaining financial support for the Fund from development partners. This could represent an important way for the AfDB to support the development of NCFs in Africa.

To date, the AfDB has not performed this role in relation to climate change funds, although it does in relation to, for example, the African Water Facility Special Fund and the African Public Health Emergency Fund.

3. **WORK AS A FUNDING PARTNER ALONGSIDE NCFs AND OTHER DEVELOPMENT PARTNERS**

Finally, NCFs may represent important funding partners for the AfDB in future years. Many larger climate change projects require multiple sources of finance in order to diversify the risks that would otherwise be faced by any one capital provider. NCFs can represent an important new partner for the AfDB by providing a further source of climate finance with which its own resources can be blended. It could well play a co-ordinating role with other development partners in this regard.
## Appendix:

Fiduciary risk management standards to be met by Implementing Entities under the Adaptation Fund

<table>
<thead>
<tr>
<th>Required competency required</th>
<th>Specific capability required</th>
<th>Illustrative means of verification</th>
</tr>
</thead>
</table>
| **Financial Management and Integrity** | Accurately and regularly record transactions and balances in a manner that adheres to broadly accepted good practices, and are audited periodically by an independent firm or organization. | • Production of reliable financial statements prepared in accordance with internationally recognized accounting standards.  
• Annual external audited accounts that are consistent with recognized international auditing standards.  
• Production of detailed departmental accounts.  
• Use of accounting packages that are recognised and familiar to accounting procedure in developing countries.  
• Demonstrate capability for functionally independent internal auditing in accordance with internationally recognized standards; such as International Standards on Auditing (ISA). |
| Managing and disbursing funds efficiently and with safeguards to recipients on a timely basis. | • A control framework that is documented with clearly defined roles for management, internal auditors, the governing body, and other personnel.  
• Financial projections demonstrating financial solvency.  
• Demonstration of proven payment / disbursement systems. |
| Produce forward-looking financial plans and budgets | • Evidence of preparation of corporate, project or departmental / ministry budgets.  
• Demonstration of ability to spend against budgets. |
| Legal status to contract with the Adaptation Fund and third parties. | • Demonstration of necessary legal personality in case it is not government department/institution.  
• Demonstrated legal capacity/authority and the ability to directly receive funds. |
| **Requisite Institutional Capacity** | Procurement procedures which provide for transparent practices, including competition | • Evidence of procurement policies and procedures at national levels consistent with recognized international practice (including dispute resolution procedures). |
| Capacity to undertake monitoring and evaluation | • Demonstration of existing capacities for monitoring and independent evaluation consistent with the requirements of the Adaptation Fund.  
• Evidence that a process or system, such as project-at-risk system, is in place to flag when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems. |
| Ability to identify, develop and appraise project | • Availability of / access to resources and track records of conducting appraisal activities.  
• Evidence of institutional system for balanced review of projects, particularly for quality-at-entry during design phase.  
• Risk assessment procedures are in place. |
| Competency to manage or oversee the execution of the project/ programme including ability to manage sub-recipients and to support project/programme delivery and implementation | • Understanding of and capacity to oversee the technical, financial, economic, social, environmental and legal aspects of the project and their implications.  
• Demonstrated competence to execute or oversee execution of projects / programmes of the same nature as intended project or programme. |
| **Transparency, self-investigative powers, and anti-corruption measures** | Competence to deal with financial mismanagement and other forms of malpractice | • Demonstration of capacity and procedures to deal with financial mismanagement and other forms of malpractice.  
• Evidence of an objective investigation function for allegations of fraud and corruption. |

Source: (Adaptation Fund Board 2012), Annex 2
References


Adaptation Fund Board. Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund.


CDKN. 2012. “Inside Stories on Climate Compatible Development” (September).


<table>
<thead>
<tr>
<th>Source</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>The World Bank.</td>
<td>“Population Data (SP.POP.TOTL).”</td>
</tr>
<tr>
<td></td>
<td>2010. Economics of Adaptation to Climate Change.</td>
</tr>
<tr>
<td></td>
<td>2012b. The Cost of Sustainable Development in Africa.</td>
</tr>
</tbody>
</table>
The African Development Bank Group

The African Development Bank is a multilateral development finance institution owned by 54 African and 24 non-African countries. Its mission is to help reduce poverty, improve living conditions for Africans and mobilize resources for the continent’s economic and social development. The Bank assists African countries individually and collectively to achieve sustainable economic development and social progress.

Contact: secretariat@afdb.org

www.afdb.org

Getting Africa ready for the Green Climate Fund

November 2012