Briefing

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Policy pointers

Undertaking a stringent 'direct access' accreditation process for funding gives institutions in developing countries the opportunity not only to access funds, but to strengthen national systems for the future.

With the direct access application as a catalyst, national institutions can improve and keep improving, creating a stronger foundation for future climate finance negotiations.

For institutional capacity building to be seen as an incentive to try the direct access route, it must be clearly integrated into the accreditation process and shown to encourage a positive cycle of application success.

Far-sighted governments will be best placed to harness the incentives that go beyond accessing finance, instead of relying on 'business as usual' international access channels.

The Green Climate Fund accreditation process: barrier or opportunity?

As the largest pot of climate funding available to developing countries, the Green Climate Fund (GCF) holds huge promise. As it enters into operation, national institutions, including government, can apply to access GCF's resources 'directly'. But the rigorous accreditation process appears a barrier to many, which coupled with unclear benefits is likely to undermine the zeal for direct access in developing countries. But experiences from another key climate fund, the Adaptation Fund, show that preparing for direct access has inherent co-benefits beyond accessing finance. The trials of accreditation may involve vital growing pains that also strengthen national institutions, and even improve country systems. Though cumbersome, the GCF direct access accreditation process presents an opportunity to improve a nation's future bargaining capacity to access climate finance 'at scale', creating a positive cycle of funding success.

The Green Climate Fund (GCF) was established by the UN Framework Convention on Climate Change (UNFCCC) as the largest climate finance fund in the post-2015 era. Launched in 2012, it aims to 'promote the paradigm shift towards low-emission and climate-resilient development pathways'[1] and has been evolving at speed, with key policy frameworks developed last year. To date, $10 billion has been pledged. The first funding decision is expected to be made in November 2015 before countries gather in Paris for a new historical climate agreement, in which GCF will be a key building block. This funding is clearly a good thing. But how it is distributed will determine how equitable those entities wishing to access the fund find it.

Hidden benefits of direct access

GCF resources will be channelled within developing countries through multilateral, regional, and national 'implementing entities'. Prior to that, prospective implementing entities must first undergo a rigorous accreditation process to demonstrate that they meet the fund's fiduciary standards, environmental and social safeguards, and gender policy (Box 1). An application for accreditation can be made through a 'direct access modality' or an 'international access modality;[2] in this briefing we focus on the effect of the former.

While the multi-tiered direct access accreditation process offers a robust procedure for distributing funds, it is burdensome for the national implementing entities (NIEs) of developing countries, which could be ministries, development banks or other public or private institutions. In many cases NIE applicants will have to make enormous efforts from the off: first, to understand the complex standards and requirements, then to collect the evidence to prove compliance. If gaps are found, NIEs will need to restructure institutional settings and operational frameworks, and nurture additional technical capacities. As a result, some governments are already put off form opting for direct access and are focusing instead on the conventional international access window. For those that remain in the direct access application process, some have limited buy-in, questioning whether the effort for accreditation is worthwhile if it is only for getting the money to the country, which happens equally well through international intermediaries.

National entities can improve their institutional capacities by taking the direct funding route

But rejection of the seemingly onerous direct access route may be short sighted. Experience from the Adaptation Fund (AF), a flagship multilateral climate fund and the first to offer a direct access approach at national level, shows that working to meet the direct access criteria creates a strong incentive for national institutions to invest in long-term institutional improvement. This not only increases their capacity to 'absorb' large-scale finance but enables them to bargain harder for other sources of climate finance in the future.

Here, we draw on a qualitative evaluation of AF's direct access modality to unpack the effects of application. We analyse the journeys of three NIEs accessing AF to show how national entities — from accredited NIEs to national government to downstream 'executing entities' — have improved their institutional capacities through participating in direct access, starting with accreditation. It is a story of short-term pain for the long-term gain.

Box 1. Getting accredited: what the Green Climate Fund requires

Accreditation. During this process a panel of experts independently review each application, looking at the track records of applicants — which may be national institutions — to determine whether they are capable of meeting the accreditation standards. Implementing entities must be accredited before they can access any GCF funding.

Accreditation criteria and standards. Implementing entities seeking GCF accreditation, including through the direct access modality, will be assessed against three basic criteria: fiduciary principles and standards, environmental and social safeguards, and gender policy.

Accreditation process. GCF's accreditation process has three main stages: (Stage I) no-objection by the national designated authority and readiness building; (Stage II) accreditation review and decision; (Stage III) final legal arrangements.

Fit-for-purpose mechanism: GCF applies an innovative 'fit-for-purpose' accreditation approach: a multi-tiered mechanism where the accreditation criteria applied to particular applicants is based on the scale, nature, and level of risks of its proposed activities.

Finding patterns

Looking at NIEs that have successfully completed AF direct access accreditation process shows that applicants either deliberately upgrade capacities to meet required standards, or that they improve non-NIE functions as a by-product of the process (eg general institutional procedures that indirectly facilitate NIE work — such as clear documentation — get better). Here, we use the case studies of three NIEs, from Kenya, Rwanda and Senegal, to collectively illustrate how the incentive to build capacity created by the accreditation process plays out.

Through analysing the journeys taken by Kenya's National Environment Management Authority (NEMA), Rwanda's Ministry of Natural Resources (MINIRENA) and Senegal's Centre de Suivi Ecologique (CSE), we have identified three main categories of long-term institutional benefit, which we have termed 'ripples' (Figure 1):

- Ripple I is about **better internal control**: the NIE applicant strengthens its internal framework of policies and operations during the accreditation process
- Ripple II is where the accredited NIE builds its **project development capacities** to be more programmatic and inclusive
- In Ripple III, the project implementation stages see the effects of institutional development **effects are expected to radiate to project partners downstream** (from NIEs to the executing entities) through strengthened monitoring and evaluation.

Effects of Ripple I (application)

Better institutional co-ordination and structural re-organisation. The application process pushes NIE applicants to reassess their operational framework and to enhance their overall internal control mechanism. In both Kenya and Rwanda it helped applicant NIEs develop better organisational structures with more clearly defined responsibilities.

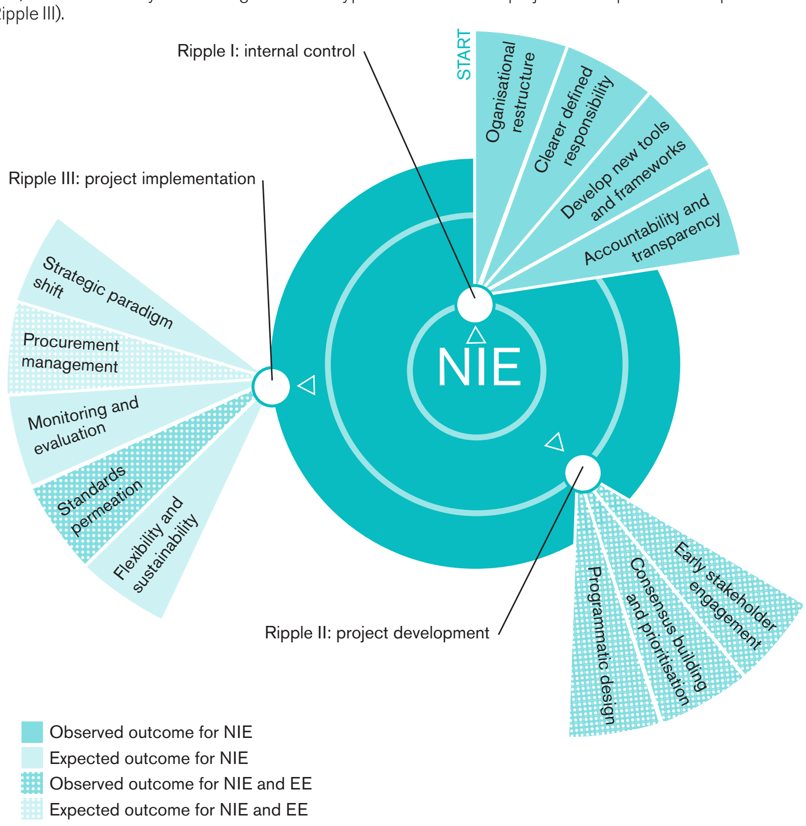
Before applying for accreditation, NEMA had six departments that operated as separate units, with little internal co-ordination. The road to accreditation pushed the organisation to re-evaluate its original functions, reduce unclear and duplicated responsibilities, and enhance co-ordination among different units to ensure that they jointly deliver the Authority's mandate. In Rwanda, this effect scaled-up beyond one single NIE organisation to the entire government; the Government of Rwanda broke up MINIRENA's NIE-related functions and commissioned relevant government entities to jointly perform them, under a central co-ordination mechanism. This mechanism covers ten ministries, eight sectors and two districts and has transformed the level of collaboration and mutual accountability among multi-level of government and stakeholders.

Innovative institutional learning tools. The second positive outcome is an institutional-level learning process, which is particularly evident in the example from Kenya. NEMA developed five new tools and frameworks during the accreditation process, seeking to improve its operation and effectiveness. These ranged from project evaluation to a monitoring and evaluation framework, partner competence assessment, vulnerability assessment, and contract handling. These learning outcomes resulted from a massive research of existing best practices developed by international organisations. It also requires remarkable creativity and innovation to place international practices into a Kenyan context and turn and use research to design functional tools and frameworks. This learning process has not only equipped NEMA with a better understanding of its business and operating environment but also a capacity for continuous learning.

Higher transparency and accountability. An upgraded level of accountability and transparency was observed in all three NIEs after accreditation. In Kenya, NEMA refined its flow charts and procedure manual for procurement to hold each individual in the procurement cycle accountable to his or her assigned tasks. It also introduced an enterprise resource planning system to improve the efficiency and transparency in transactions. In Rwanda, MINIRENA split its internal auditing function and made it answerable to a supreme ministry, to enhance auditing independence. In addition, this NIE now effectively taps the national system, such as the Ombudsman and Revenue Authority, to build the highest possible capacity for preventing and detecting fraud and corruption.

Figure 1. Institutional upgrading prompted by the direct access modality

We have designed a 'ripple framework' to show the evolving nature of institutional capacity building resulting from an application to a direct access modality. It illustrates that institutional transformation begins with improved internal control of the NIE itself (Ripple I), gradually spreading to 'downstream' executing entities (EEs) in the national system through extravert-type activities such as project development and implementation (Ripple III).



Effects of Ripple II (development)

Project development based on robust safeguards and inclusive stakeholder engagement. To comply with the environmental, social and gender policies of the AF direct access modality, the NIEs in all three countries nurtured their project development capacities. New procedures were put into place to ensure projects are inclusive and environmentally and socially responsible. For instance, Senegal's CSE has transformed the way it works with local stakeholders on projects in order to meet AF standards, moving from engagement with multi-level stakeholders only at implementation stage, to engaging stakeholders from the early stage of project design. The organisation's technical director described how, to include the views of local communities in the design of a coastal line protection project, his team conducted dozens of stakeholder consultations all along the coast — something which had never been done before.

Move away from project-based to a programmatic approach. Rwanda's MINIRENA created a textbook model for using funds in a programmatic rather than project-by-project manner, moving away from traditional approaches by 'synergising' across sectors. By creating a local steering committee and a technical advisory group, this NIE has been able to designate executive secretariats from eight sectors, including industry, forestry, agriculture, energy, health, infrastructure, transport, and waste management. This allows the NIE to ensure that inputs across sectors interlink, and result in outcomes that are greater than the sum of their parts. For example, MINIRENA integrated two different sectoral projects — the Rural Sector Support Project and the Gishwati Water and Land Management Project — into one larger programme, which will deliver a greater impact at scale.

Better consensus-based prioritisation. In Kenya the project development process enabled NEMA to gain invaluable insights into consensus building and prioritisation. After an initial call for project proposals, NEMA received 193 from across the country. Thanks to its newly developed project evaluation framework and results framework, NEMA was able to confidently select 11 projects. Building consensus among counties that compete for first round project endorsement remained challenging, however. Staff therefore practised 'learning by doing' and being patient without subduing any ideas, becoming skilful at winning over counterparts with scientific evaluation outcomes. Institutionally, the drive for consensus forces NEMA to operate with full transparency, disclosing every criterion for project selection. Manager Wangare Kirumba admitted that this institutional capacity for consensus building would never have been gained if the funding application had taken the conventional international access route, in which multilateral agencies occupy the driving seat.

Effects of Ripple III (implementation)

Most of the NIEs accessing AF, including the three we have looked at here, are still at the infant stage of project implementation. However, it seems very likely that the systems put in place during accreditation are also likely to improve project implementation capacities, of both the NIEs themselves and of organisations that become involved 'downstream'.

Increased national ownership and control. Conventionally, national entities take instructions from multilateral development agencies. But under AF direct access, NIEs bear full responsibility for the overall management of projects and programmes for the first time, as well as for all financial, monitoring and reporting activities. This promotion in responsibility, to be the makers rather than followers of rules, will eventually build NIEs' capacities to be equivalent to those of large international development agencies. But it will take time and effort.

Better monitoring and guidance for downstream executing agencies. NIEs will also learn how to monitor and guide downstream executing entities — those that carry out project activities on the ground. This will include distinguishing between the responsibilities of implementing and executing entities; putting procedures in place to filter the AF's environmental and social safeguards down to all executing entities; co-ordinating and managing range of information and people; anticipating procurement needs early on in the project in order to avoid delays; and monitoring and evaluating project progress and impacts to report back to AF. In Senegal and Kenya, some positive signs have already emerged: CSE has produced a robust procedure manual to oversee its executing entities, Green Senegal and Dynamique-Femmes; and an executing entity in Kenya, KEFIRI, has expressed its confidence in NEMA's monitoring and evaluation framework.

We anticipate that greater NIE capacity for stakeholder engagement and reaching consensus-based decisions will deliver benefits at the implementation stage. NIEs will be able to actively engage all stakeholders for ad hoc decision-making, and rely on the social capital and trust that have been developed from previous consensus-building to resolve future conflicts. Both will considerably mitigate the risk of project delay and suspension.[3]

Conclusion

While achieving direct access to climate finance is challenging for developing countries, effort made can be rewarded far beyond the immediate funds received. By examining three entities accredited by AF, we can see that direct access incentivises institutional capacity building, from the implementing entity right downstream to the executing entity. That institutional strengthening can result in transformational shifts, proving the direct access modality to be more than a funding channel: it is a strategic opportunity for improving national organisations and country systems.

But, while AF captured the additional positive impacts of direct access as an afterthought, GCF acknowledges these co-benefits early on, and seeks to align incentives for capacity strengthening with the accreditation process as a whole. One example is its landmark 'readiness programme', which goes beyond facilitating processes for NIE accreditation and project development to provide support to strengthen the country-level decision makers in the GCF process. This alignment should add to nations' incentive for making the efforts required for direct access.

With the GFC now in the picture, climate finance is providing an unprecedentedly optimistic enabling environment for institutional transformation and improvement. Developing countries, especially the Least Developed Countries, need to be aware of this opportunity so they can put aside their hesitations and seek direct access to the GCF.

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Notes

[1] www.gcfund.org/about/the-fund.html / [2] In the international access modality, financial resources are channelled and managed by multi-lateral agencies; in the direct access modality, recipient countries can access funding through their national institutions, exerting stronger ownership. / [3] Rai, N, S Acharya, et al (2015). Political economy of international climate finance: Navigating decisions in PPCR and SREP. London, IIED. http://pubs.iied.org/10111IIED.html